



Capability for a changing world

Capability for a changing world

At Babcock, we believe the long game is the only game that matters. This long-term perspective shapes everything we do. We set our sights across generations by building deep, enduring partnerships with our customers to understand their evolving requirements in a rapidly changing world. Through world-class engineering, we deliver the innovative capability our customers need today and into the future.

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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.

Enabling readiness

We sustain the entirety of the UK's nuclear submarine fleet, including the Continuous At Sea Deterrent – critical to the UK, through our long history of expertise in deep maintenance, through-life support and complex nuclear infrastructure.

Financial highlights

Revenue

£5,178m

2025: £4,831m

Statutory cash generated from operations

£447m

2025: £357m

Statutory operating profit

£305m

2025: £364m

Underlying free cash flow*

£262m

2025: £153m

Underlying operating profit*

£293m

2025: £363m

Net debt (excluding leases)*

£(23)m

2025: £(101)m

* Underlying operating profit, underlying free cash flow and net debt (excluding leases) are defined as Alternative Performance Measures; see below for more detail.

Adjustments between statutory and underlying

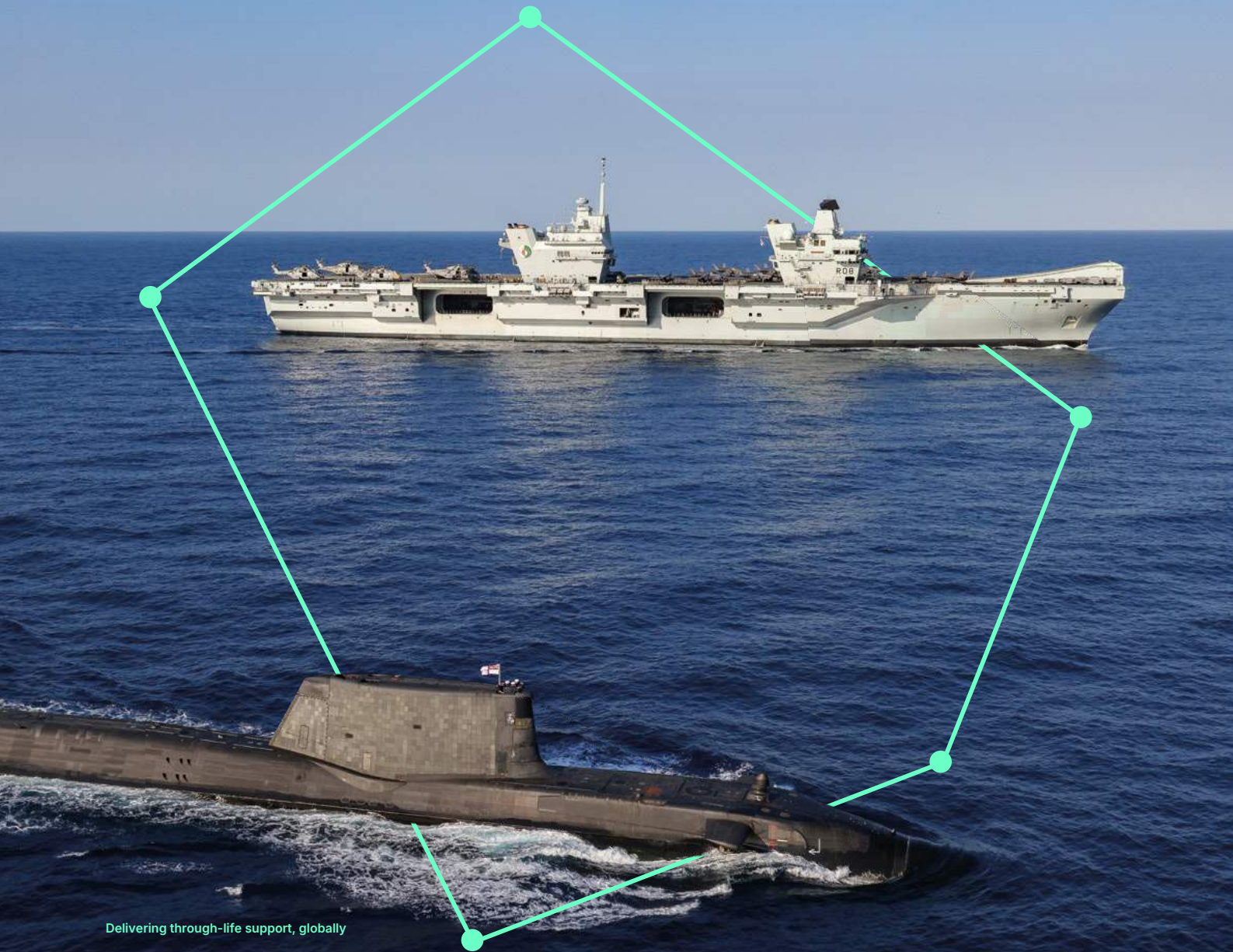
The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt and net debt excluding leases, to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance. The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the year ended 31 March 2025. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 46.

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At a glance

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

Babcock is a FTSE100 global defence company that designs, manufactures and supports complex defence and critical assets across land, sea, air, space, energy and security domains. We provide through-life engineering, specialist equipment, critical training and technology enabled solutions that enhance operational capability, availability and affordability, delivering lifetime engineering and strategic resilience for defence, nuclear and civil customers.



Delivering through-life support, globally

As a trusted partner to the UK Royal Navy, we shape solutions across through-life and fleet-time support, delivering services on the front line and across the globe, enabling our customers to deliver their mission.

UK MOD © Crown copyright

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, technology and systems integration, equipment support, 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.

Engineering support

Frontline support

Technical training

Systems & integration

Design, build & manufacture

Our footprint

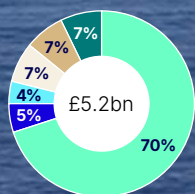
£5.2bn
FY26 revenue

74%
Defence

£9.8bn
FY26 contract backlog

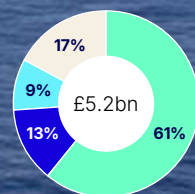
c.29,000
Employees

FY26 global revenue profile



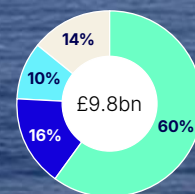
● UK ● AUS & NZ
● North America ● South Africa
● Europe ● ROW

FY26 revenue market split



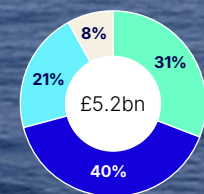
● Defence UK ● Defence International
● Civil UK ● Civil International

FY26 contract backlog market split



● Defence UK ● Defence International
● Civil UK ● Civil International

FY26 revenue by sector



● Marine ● Nuclear
● Land ● Aviation

What sets us apart: our capabilities

People

- Skilled workforce of around 29,000 delivering complex programmes
- Comprehensive skills agenda to support strategic growth framework

Engineering capability

- Engineering knowhow, deep technical competence, and experience
- Multi-domain capabilities embedded across the asset life-cycle

Assets and infrastructure

- Own and operate critical infrastructure supporting national capability
- Operate a range of customer owner critical assets
- Critical assets support with data led solutions

Credibility and reputation

- Trusted partner with unique understanding of customer requirements
- Proven ability to shape and deliver complex solutions in highly regulated sectors

Integration and collaboration

- Focused on partnerships, collaboration and alliances
- Long-term relationships with customer intimacy
- Critical integrator of complex supply chains

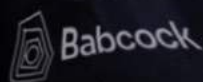
At a glance *(continued)*

Delivering through our four sectors

We deliver differentiated and complex programme support, product and training capabilities, in core markets critical to our customers. We do this through our four operating sectors, Marine, Nuclear, Land and Aviation. Our multi-domain expertise, strategic assets and long-standing customer relationships underpin delivery of complex, high-barrier programmes, providing trusted, lifetime engineering.

Engineering the future

Our people are our most important asset, and a key driver of Babcock's long-term strategy. We are strengthening our capabilities and building a robust pipeline of talent to support growth and delivery.

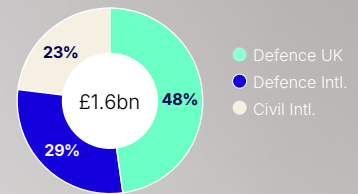




Our c.7,500-strong workforce delivers:

- Design, build and through-life support of warships
- Submarine and equipment through-life support
- Design and manufacture of weapons handling and launch systems for ships and submarines
- Design, build and support of secure military communications systems
- World-leading commercial liquid gas equipment systems
- See our Marine operational review on page 52

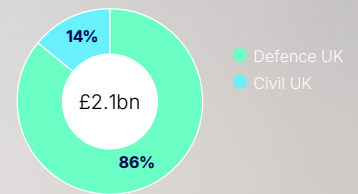
FY26 revenue profile



Our c.11,100-strong workforce delivers:

- Through-life complex engineering support to the entire UK submarine fleet
- Through-life management of critical national defence infrastructure: own and manage Devonport dockyard
- End-to-end engineering integration support for Atomic Weapons Establishment deterrent production
- UK civil nuclear new build, generation support and decommissioning projects
- Growing international nuclear services portfolio across defence and civil markets
- See our Nuclear operational review on page 56

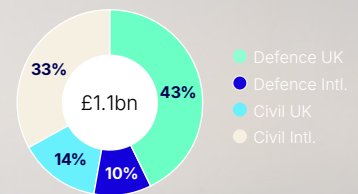
FY26 revenue profile



Our c.6,000-strong workforce delivers:

- Strategic asset management and through-life engineering support for complex military equipment
- Defence and security vehicle build and systems integration
- Individual and collective training, delivering operational readiness for customers with critical missions
- Engineering services in power generation and transport networks, and through-life support of mining equipment
- See our Land operational review on page 60

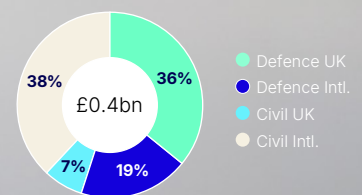
FY26 revenue profile



Our c.2,600-strong workforce delivers:

- End-to-end military flying training for UK's Royal Airforce, French Airforce and French Navy
- Through-life support of operational military flying assets
- Through-life support of operational military infrastructure
- Critical air operations for government programmes, saving lives and protecting communities
- See our Aviation operational review on page 64

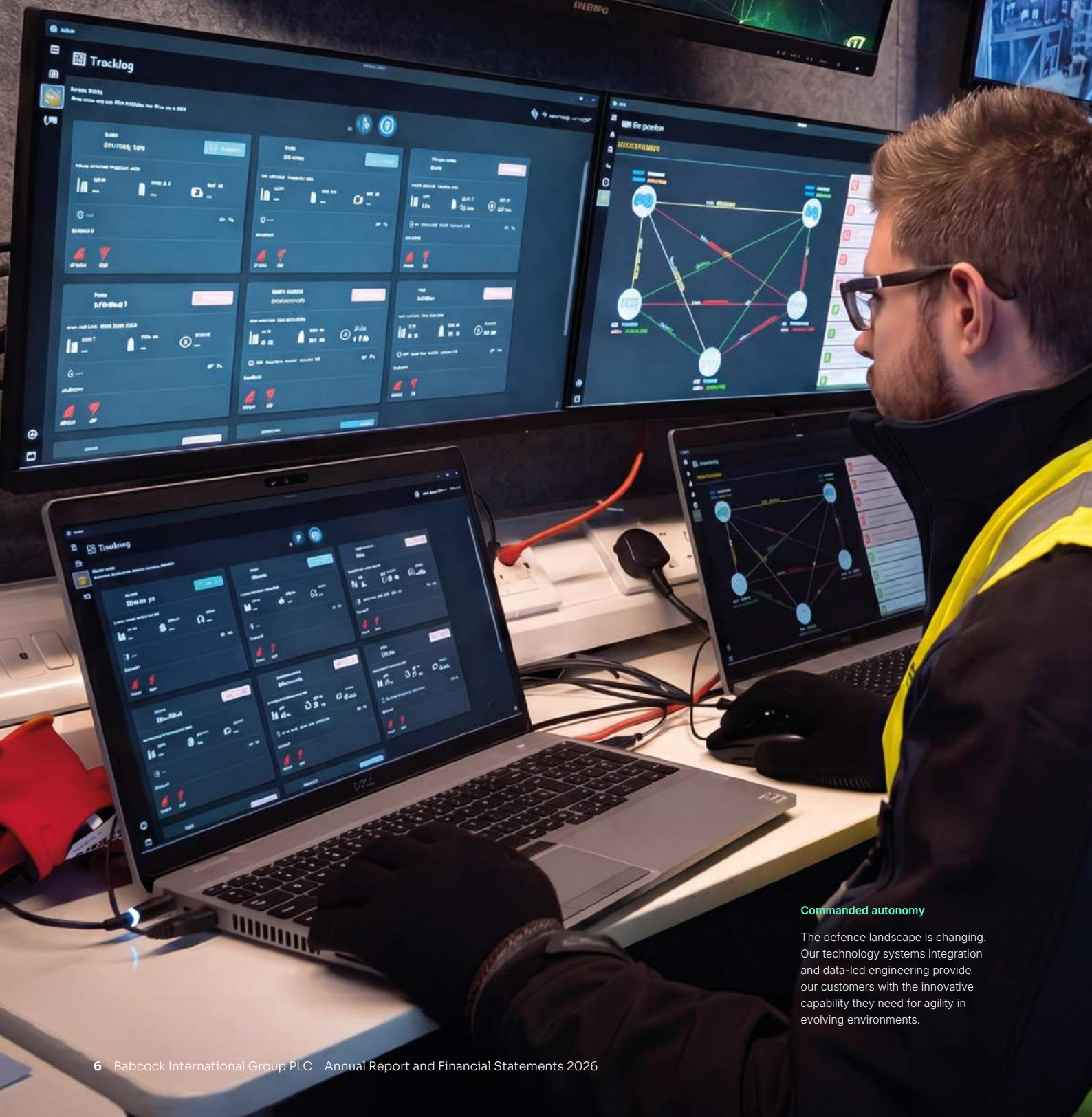
FY26 revenue profile



At a glance (continued)

Delivering lifetime engineering

We offer customers deeply pragmatic and integrated solutions, delivered in dynamic collaboration through strategic partnerships. A lifecycle of product and support, informed by decades-long operational asset knowledge resulting in long-term differentiators: capability, availability and affordability.



Commanded autonomy

The defence landscape is changing. Our technology systems integration and data-led engineering provide our customers with the innovative capability they need for agility in evolving environments.

Capability life-cycle: our end-to-end vision

Lifetime engineering

Delivering complex solutions for our defence and civil customers is about expertise, technical engineering, operational asset knowledge, and delivery excellence over decades. Typically, a capability or asset is procured for a specific and critical objective. Throughout the lifetime of the capability, there are many challenging factors that impact operational effectiveness, deviating from its original purpose or competitive advantage.

Where operational assets face wear and tear, we have the capability and technology to provide long-term repair and overhaul, from deep maintenance to front-line support, using predictive data and technology to maximise asset availability.

Where requirements change we have the expertise to deliver enhanced capability by integrating new technologies and best-in-class systems, improving readiness and overall operational effectiveness.

If operational gaps or readiness requires a further commission, we have unique infrastructure and engineering capability to life-extend complex assets while also integrating new systems and technologies.

And as obsolescence dictates a new solution, not only are we trusted to sustainably decommission, dismantle and dispose, but our operational asset knowledge, through-life engineering and strategic partnering, twinned with our strong product design, development, build and manufacture capabilities, enable us to collaborate and engineer the next generation, delivered with affordability, availability and capability for a lifetime.

Capability procured

Standard operating life

Extended life

End of life, follow on capability



Aligned with our customers' requirements

Babcock understands what it takes for assets to perform at their best for the longest. Our approach increases asset availability and reduces cost of ownership, maximising the value and utility of assets from beginning to end.

Investment case

Our compelling investment case

Babcock is a long-duration, high-visibility business with structural tailwinds in defence, nuclear and critical infrastructure. Following a strategic refocus on core markets, we have built a track record of stronger growth, improved profitability and growing shareholder returns. With a clear strategy, a disciplined operating model and a defined capital allocation framework, we are positioned to deliver long-term value for all our stakeholders.

1. Mission-critical defence and strategic resilience

- Mission-critical engineering expertise across defence and nuclear markets
- Own and operate critical infrastructure supporting national capabilities
- Largest UK-owned nuclear services company with a nuclear workforce of around 11,100 and specialist capabilities in a highly regulated market

Why it matters

Defence and energy resilience are national priorities; programmes are strategic, regulated and high-barrier, underpinning long-term demand and incumbency.

- See our new nuclear spread on page 16 and Market review on page 18

2. Differentiated capability in complex, lifetime engineering

- Lifetime engineering: decades of accumulated technical and engineering know-how from long-term through-life support and operational asset knowledge feeds into multi-domain capabilities embedded across the asset life-cycle
- Specialist capability in mission-critical and safety-critical infrastructure

Why it matters

Deep engineering capability supports repeat work and scope expansion. Provides: high barriers to entry, long term visibility and resilience against short-term volatility.

- See our Technology spread on page 22

3. Deep customer embed and long-term relationships

- Trusted partner with a unique understanding of customer requirements shaped, by long-term delivery
- A know-how business: complex engineering and delivery experience that reduces execution risk for customers
- Proven ability to shape solutions across requirements, delivery and sustainment

Why it matters

In regulated, high-consequence environments, pedigree wins – driving high risk of change, high visibility and durable competitive advantage

- Read more on alignment with customer requirements on page 6

Our capital allocation framework...

Priorities

1. Organic investment

Investment to support business operations and enhance growth potential

FY26 organic revenue growth

8%

2. Financial strength

Maintain strong balance sheet and investment-grade rating

Net debt/EBITDA (covenant basis)

0.2x

3. Ordinary dividend

Pay ordinary dividend

Full-year dividend per share

+15% 7.5p

4. Partnership-led model with supply-chain integration strength

- Strategic partnerships with leading global industry (eg, HII, Saab, PGZ)
- A critical integrator of complex supply chains – technology and supplier agnostic
- Increasingly positioned as a global government delivery partner across programmes

Why it matters

Partnerships expand addressable opportunity (e.g. AUKUS/AMR/SMR-type ecosystems), accelerate capability access and enhance participation in evolving defence and nuclear programmes.

- Read more on our strategic partnerships on page 30

5. Clear growth runway with improving returns

- Strong track record of revenue growth and underlying margin expansion
- Supportive market trends: defence modernisation, energy transition, and critical infrastructure investment
- £9.8 billion backlog supporting multi-year revenue visibility
- Further margin upside from mix improvement, delivery performance and efficiency (medium-term guidance: underlying operating margin ≥9%)

Why it matters

A growing pipeline plus execution discipline supports sustained growth, and margin expansion at attractive returns

- See our track record of growth and returns in our KPIs on page 32

6. Cash generative with disciplined capital allocation

- Low capital intensity model with strong free cash flow potential
- Medium-term underlying cash conversion guidance ≥80% supported by operating discipline
- Capital allocated to highest-return priorities: capability investment, selective M&A where value-accretive, and shareholder returns within clear balance sheet guardrails

Why it matters

Strong cash generation enables self-funded growth and consistent shareholder value creation, while preserving flexibility through the cycle.

- See our track record of cash generation in our KPIs on page 32 and cash commentary on page 39

...creating value for shareholders

Further Capital Options

Mergers and Acquisitions

Tracking an active pipeline

Underlying free cash flow

£262m

Pensions

Technical provisions position has decreased by around £600 million over five years

Technical provision

c.£100m

Shareholder returns

Completed £200 million share buyback in April 2026

Further buyback announced

£200m

Image credit: Pilatus Aircraft

Chair's statement

Strongly positioned

“It has been another year shaped by an evolving geopolitical backdrop, with defence and security assuming a level of importance not seen since the Cold War.”

Dame Ruth Cairnie

Dear fellow Shareholder

It has been another year shaped by an evolving geopolitical backdrop, with defence and security assuming a level of importance not seen since the Cold War. This is reflected in the United Kingdom's reinforced commitment to both NATO and the Joint Expeditionary Force, and more broadly in the growing global demand for investment in national defence capabilities.

Babcock's strategic relevance is apparent, with our mission-critical capabilities and expertise that underpin sovereign security delivering clear value to all our stakeholders. At the same time, advances in warfare technologies are reshaping the defence and energy security landscape, further highlighting the importance of resilient, sovereign capabilities in an increasingly complex and uncertain world.

Last year I mentioned how energy transition is also driving demand, in this case for our specialist capabilities across the full lifecycle of nuclear power generation, including new build, operations and decommissioning. This trend has continued with our Cavendish Nuclear business delivering 18% growth in FY26 and being selected by Great British Energy – Nuclear (GBE – N), in a joint venture with Amentum, as Owner's Engineer for the UK's flagship small modular reactor (SMR) project. This highly technical contract, of up to 14 years, could position Babcock for significant future activity as the SMR market evolves, both in the UK and internationally.

The context of these strong fundamentals positions Babcock well for future growth. Our multi-year contract backlog of £9.8 billion provides current visibility of this, while a strong pipeline of further significant opportunities across the Group supports our long-term growth ambitions.

Financial strength

Excluding the increase in estimated programme costs of our legacy Type 31 contract, FY26 has been a strong year which saw growth in revenue and underlying operating profit across the Group. This has resulted in further operating margin expansion, as we consistently make progress towards our medium-term margin target of at least 9%. While the charge on the Type 31 contract is disappointing, it does not detract from the world-class shipbuilding capability we are building which positions us strongly for significant growth opportunities.

The Board has maintained a disciplined approach to capital allocation throughout the year, underpinning sustainable growth while delivering strong and consistent returns to shareholders.

These factors have given the Board the confidence to increase the full year dividend to 7.5 pence per share, a 15% increase on FY25. Furthermore, in April 2026, we successfully completed the £200 million share buyback programme started in July 2025. Considering the Group's balance sheet strength and continued strong underlying performance and cash generation, we announced a further £200 million share buyback programme which is expected to be completed in the current financial year.

“As we look ahead, the Board believes the Group is well positioned to deliver sustainable growth, supported by our strong market positions, disciplined strategy and continued focus on execution.”

Process and controls

As the Group continues to grow the Board has maintained a strong focus on governance and risk oversight, with further maturing of our framework and controls. As a programme-driven business we have been strengthening controls across the delivery lifecycle. The most complex programmes are subject to additional scrutiny through senior-level watchlist reviews. Improvements this year have included the rollout of an updated Global Delivery Governance Framework and cross-functional deep dives on critical delivery areas.

We have fully aligned our enabling functions (project management, engineering, procurement and supply chain, and IT) under the central leadership of the Chief Delivery Officer, ensuring greater consistency, accountability and operational effectiveness across the Group.

As discussed in the Audit Committee report, during FY26 we have continued our work to address the requirements of Provision 29 of the 2024 UK Corporate Governance Code, which will require a formal declaration on the effectiveness of material controls in the March 2027 Annual Report and Accounts (see page 114 for further detail).

Technology

Technology is central to our role as a mission-critical business. Our investment in technology ensures we remain competitive amid the rapid pace of technological change, particularly in Defence, where the shift towards hybrid warfare and increasingly digitally enabled capabilities are reshaping how customer operations are conducted.

The Athena programme, launched last year, continues to be rolled out across the Group and is delivering a modern, secure and cloud-based IT platform. This substantial modernisation and upgrade to our IT base supports enhanced collaboration, strengthens cyber resilience and increases productivity.

During the year, Babcock has established an AI and Data Centre of Excellence to professionalise, accelerate and enhance the quality of our digital development activities across the organisation, building on the new Athena capabilities.

Investing in people

Our people are fundamental to the long-term success of Babcock, with the strength and depth of talent across the company representing a significant competitive advantage that underpins both our operational performance and future growth ambitions. We have been strengthening clarity of purpose and alignment across the organisation, and this year marked an important step in advancing our ownership culture: in August we launched our inaugural free share award with over 27,000 colleagues across 26 jurisdictions receiving the equivalent of £300 in Babcock shares. This initiative aims to align colleagues directly with the company's long-term performance and value creation. We are pleased to be continuing this scheme into FY27 with a further free share award to be made soon this year.

Our focus over recent years on talent development, strengthening pipelines and succession planning has resulted in several instances of seamless transition this year, filling executive vacancies with high-calibre internal candidates. This included the appointment of our new Group CEO from within the organisation.

Inclusion remains central to our business, and we are committed to achieving 30% women across the organisation by 2030. This year, we continued to make strong progress in improving gender balance at senior levels. While this is encouraging, women still represent only 19% of our total workforce, highlighting the need to accelerate progress across the organisation.

Our connections with the communities we operate in remain strong. Programmes such as Team Plymouth, alongside sustained investment in STEM engagement, demonstrate our commitment to building future capability and supporting long-term regional resilience and prosperity.

During the year I had a number of opportunities to engage directly with colleagues during site visits. A highlight was visiting Devonport Dockyard to meet many of our apprentice and graduate colleagues; it was great to see the strong pipeline of talent we have coming into our business who will play a crucial role in delivering for our customers.

Leadership and confidence in the future

I would like to extend my personal thanks to David Lockwood for his outstanding contribution to Babcock's transformation over these last 6 years. Under his stewardship, Babcock has returned to the FTSE 100 and recovered the respect of the market, is better valued by our customers and is an increasingly attractive employer. The Group has demonstrated resilience, focus, and a clear strategic direction, delivering against priorities while strengthening operational and financial performance.

Under David's tenure the company has also developed a significant pipeline of growth opportunities and has secured its largest ever contract framework – the UK and Indonesia landmark £4 billion maritime deal where we have proudly been chosen as the prime industrial partner for the Maritime Partnership Programme.

I am also delighted to congratulate Harry Holt on his appointment as Group CEO, bringing deep experience from various high profile leadership roles, most recently as our Chief Executive, Nuclear. I look forward to his leadership in the next phase of our journey.

As we look ahead, the Board believes the Group is well positioned to deliver sustainable growth, supported by our strong market positions, disciplined strategy and continued focus on execution.

Finally, I would like to thank all our colleagues for their commitment and contribution during the year, underpinning our performance and future prospects; together, we remain on track to deliver our medium-term ambitions.

Dame Ruth Cairnie

Chair

CEO review

Strategic, operational and financial progress

“We delivered good underlying growth, improved margins and cash generation, and further strengthened Babcock’s position in defence and nuclear.”

David Lockwood



Introduction

FY26 was another year of strong strategic, operational and financial progress. We delivered good underlying growth, improved margins and cash generation, and further strengthened Babcock’s position in defence and nuclear, which now account for around 80% of Group revenue. This reflects our focus on markets where our engineering expertise, critical infrastructure and customer relationships create durable competitive advantage.

That focus is increasingly aligned with the priorities of our customers. In a more uncertain world, defence and energy security have become strategic imperatives for the UK and its allies. Rapid technological change, the need for sovereign capability and greater operational agility are reshaping customer requirements. Babcock’s deep engineering know-how, proven operational delivery and close customer relationships position us well to deliver the mission-critical capabilities they need.

FY26 performance

The Group’s strong underlying financial results were partly offset by a charge of £140 million on the Type 31 contract, which reflects the increase in cost over the remaining programme life, fully recognised in FY26 (see page 36).

Revenue grew 8% at constant currency, with particularly strong growth in Nuclear and Aviation. Underlying operating profit decreased to £293 million (FY25: £363 million) due to the Type 31 charge. Excluding this, operating profit increased 19%, driving a 70 basis point improvement in operating margin to 8.2%, with progress in all sectors.

Cash performance was also robust, with free cash flow increasing to £262 million (FY25: £153 million). This further strengthened the balance sheet, reducing net debt to £329 million (FY25: £373 million) and covenant gearing to 0.2x (FY25: 0.3x).

Sector performance (at constant FX) was resilient across the Group. Marine revenue grew 2%, with growth in LGE and Skynet offset by the revenue reversal due to the Type 31 charge. Excluding the Type 31 charge, margin improved 40 basis points to 6.5%. Nuclear delivered another strong year, with revenue up 14% and margin up 70 basis points to 9.5%. Land revenue declined 3% due to lower civil activity but returned to growth in the second half, delivering a 110 basis points increase in margin to 8.8%. Aviation delivered the highest growth, with revenue up 34% and margin up 90 basis points to 7.1%.

2026

8%

Organic revenue growth, see page 35

Contract backlog was £9.8 billion (FY25: £10.4 billion), reflecting large multi-year orders won in FY25 and ongoing contract execution. At year-end, the £3.5 billion Future Maritime Support Programme (FMSP) moved to a six-month bridging agreement while the multi-year follow-on contract is finalised. Our long-duration backlog, which excludes around £2.8 billion of framework orders, continues to provide strong revenue visibility.

Confidence in our platform and future growth has enabled us to increase the full-year dividend by 15% and launch a further £200 million share buyback, following successful completion of the previous £200 million programme in April.

Type 31

During the year, operational progress continued, including the float-off of ships one and two, keel laying for ship three, and steel cut for ship four.

As announced in our trading update on 13 May 2026, we recognised a £140 million charge at the year-end following higher-than-expected rework during the outfitting of ship one and an updated estimate of the cost to complete the programme. The full charge is recognised in FY26 operating profit, with related cash costs expected over the remainder of the contract. We outline in more detail in the Financial Review on page 36.

Importantly, through the Type 31 programme, we are establishing a leading naval shipbuilding capability with a flexible build and support model which is already having success in export markets, including Indonesia and Poland. While we were disappointed not to be selected for the Swedish corvette opportunity, we remain well positioned for further multi-billion-pound naval programmes, as allied governments expand and upgrade their fleets.

Delivering momentum across strategic areas

Against a rapidly changing geopolitical backdrop, demand for Babcock's critical defence and nuclear capabilities remains strong. During the year, we continued to deliver against our strategy through consistent operational performance, stronger product and export capability, deeper strategic partnerships and an enhanced position in key markets. We also secured a number of important contract wins with the potential to generate significant medium and long-term revenue.

In November we signed the Maritime Partnerships Programme (MPP) framework with the Indonesian Government for up to £4 billion. Indonesia has since signed a Letter of Intent for two further Arrowhead 140 frigate licences, expected in the coming months, while negotiations continue on the contract structures for the broader programme. This reinforces our position as a trusted government delivery partner on strategically important international programmes.

Our partnership with HII, the United States' largest military shipbuilder, strengthened further during the year, expanding to support the US Virginia Class nuclear submarine programme. Babcock is now authorised to manufacture complex submarine assemblies at our advanced manufacturing facility in Rosyth. The initial engineering contract is underway and could expand materially over time.

In Land, we secured contracts to deliver 270 Light Utility Vehicles to the British Army and the first tranche of off-road vehicles to Albania. These early wins, developed in partnership with Toyota, strengthen our position in future UK and export vehicle opportunities, including the British Army's Land Rover replacement programme.

At year-end, we agreed a six-month FMSP bridging agreement with the UK MOD to maintain continuity of nuclear submarine fleet support and naval base management services, while the MOD signed a Letter of Intent to finalise the multi-year replacement contract, Gateway, by October 2026. We also secured a two-year extension for critical Royal Navy surface ship maintenance and infrastructure support.

In civil nuclear, we secured an important role on Great British Energy – Nuclear's first small modular reactor (SMR) project at the Wylfa site in North Wales. Through Litmus Nuclear, our joint venture with Amentum, we will deliver the Owner's Engineer contract, worth up to £300 million over 14 years, supporting regulatory compliance and long-term low-carbon power generation.

Structural growth in our core markets

This year, organic growth in defence was 8% and in civil nuclear 19%, reflecting the strength of our exposure to markets with attractive structural growth.

Higher defence spending from governments continues to support demand as the nature of conflict evolves rapidly, shaped by new technologies and changing operational requirements. While some governments are balancing these priorities against fiscal constraints, as reflected in the delayed publication of the UK's Defence Investment Plan (DIP), the long-term trend remains clear. Demand is increasingly structural, driven by the need for more advanced, adaptable and integrated capability.

Energy security is also driving renewed government commitment to nuclear power. Global expenditure on new nuclear is expected to reach \$2.2 trillion by 2050, with growing interest in SMRs and advanced modular reactors (AMRs). In the UK, the Government has already allocated £2.5 billion to support early SMR deployment.

Together, these trends are expected to support sustained defence demand and increased civil nuclear investment for the foreseeable future.

2026

£9.8bn

Contract backlog

2026

£433m

Underlying operating profit*, see page 36

2026

8.2%

Underlying operating margin*, see page 36

* Excluding the impacts of the Type 31 charge, see page 36 for detail.

CEO review (continued)

Capabilities aligned to structural growth trends

These structural growth drivers, together with accelerating technological change, are reshaping customer priorities across our core markets.

Autonomy: Autonomous technology is transforming defence demand across all domains, as an enabler of interoperability and operational effectiveness. Babcock's expertise in complex assets, mission-critical support and systems integration positions us well to help customers adopt and integrate new technologies.

Energy security: Rising electricity demand, energy security and decarbonisation are strengthening the long-term case for nuclear. The ongoing conflicts in Europe and the Middle East have further highlighted the importance of sovereign capability and energy resilience. Against this backdrop, the UK Government has set out a roadmap to increase nuclear power generation capacity from 6GW to 24GW by 2050, underlining the scale of the opportunity. With specialist capabilities across the full nuclear lifecycle, from legacy reactors to next-generation technologies, Babcock is well placed to support the Government's evolving nuclear agenda and broader global demand.

Supply chain sovereignty: Customers are increasingly prioritising sovereign capability and supply chain resilience. As an integrator of complex supply chains, Babcock brings together major partners, SMEs and specialist technology providers, with SMEs accounting for 30% of our supplier spend. Our new SME Charter is designed to help broaden access and participation across Babcock and the wider UK defence sector.

Agility: Customers need capability delivered faster and more affordably. The increasing adoption of autonomy and artificial intelligence is shortening technology cycles and accelerating upgrade requirements, while legacy platforms still need to remain relevant and interoperable for decades to come. As an OEM-agnostic technology and systems integrator, Babcock is uniquely positioned to upgrade, operate and support both current and next-generation capability at scale.

Through-life support: In a more demanding global environment, asset availability and readiness are critical at the same time militaries modernise and scale. We deliver integrated product and service solutions that meet customers' requirements for availability, affordability and capability across long asset lifecycles.

Babcock's advantage

In our core defence and nuclear markets, we provide technology-enabled support and product solutions that strengthen customer capability and resilience.

- **Mission-critical provider of defence and strategic resilience:** We deliver engineering expertise through long-term, highly regulated programmes and critical infrastructure aligned to national defence and energy priorities.
- **Differentiated capability in complex, long-life assets:** We have decades of technical, and operational expertise developed through the design, build, integration and support of complex assets with long lifecycles. These capabilities are difficult to replicate and support repeat work and scope opportunities.
- **Deep customer embed and long-term relationships:** Our delivery heritage gives us a unique understanding of our customer's requirements and a durable advantage in highly regulated, high-consequence environments.
- **Partnership-led model with supply chain integration:** Strategic partnerships and supply chain integration broaden our opportunity set and strengthen our ability to solve complex customer challenges.

Building pipeline of significant long-term growth opportunities across defence and nuclear

Aligned to these emerging structural trends, Babcock has increasing visibility of multi-decade, multi-billion GBP growth opportunities across three pillars: defence nuclear (submarines), broader defence programmes and energy security. Most sit within our core capabilities, where we see potential for meaningful long-term scale.

In defence nuclear, long-duration contracts and high incumbency provide significant growth potential. In the UK, submarine fleet expansion and transition will increase long-term support and infrastructure requirements. Internationally, AUKUS offers further upside through Australia's developing nuclear submarine capability under Pillar I, including supply chain, training, infrastructure and support. Momentum is building with the AUKUS partner nations, Australia, the UK and the US, signing the first Pillar II project last month, to develop enabling systems for Uncrewed Undersea Vehicles (UUVs).

Across defence programmes, our naval shipbuilding capability, Arrowhead 140 platform, Indonesian framework agreement, autonomous maritime partnerships and growing land vehicle activities all create opportunities for significant medium- and long-term growth in the UK and internationally. In Aviation, we also see multiple opportunities to scale our military aviation technical training and specialist support services.

In energy security, the UK's civil nuclear renaissance could represent up to a £25–30 billion addressable opportunity for Babcock through to 2050. Our existing position at Hinkley Point C can be scaled through Sizewell C and further new large gigawatt reactors that may be required to meet the UK's future energy requirements. We also see multiple routes to long-term growth across SMRs, AMRs and fuels, both in the UK and internationally, built from our Owners Engineer status in the UK and our wider advanced nuclear capabilities.

Building capability to support sustainable growth

Our people remain a critical strategic asset and a key enabler of growth. We continue to build a talent-led culture focused on having the right skills, capability and leadership to support performance, delivery and growth.

In FY26, we welcomed 500 apprentices and more than 260 graduates, our largest UK intake to date, taking total apprentice and graduate roles across the business to around 1,800.

Our successful STEM outreach programme continues to build future skills resilience. During the year, we delivered more than 300 engagement events across the UK, reaching over 27,000 young people.

Disciplined capital allocation

Robust cash generation and a healthy balance sheet give us flexibility to invest for growth while increasing shareholder returns. In FY26, we continued to invest in the business through capital expenditure, while assessing further organic growth opportunities and selective inorganic options. We also increased the full-year dividend by 15% to 7.5 pence per share. In April 2026, we completed the £200 million share buyback launched last summer and have since announced a further £200 million programme, expected to commence imminently and complete in the current financial year.

CEO succession and Board changes

In January 2026, I was pleased the Board announced that Harry Holt would succeed me as CEO upon my retirement later this year. Harry has been an integral member of my senior management team for the past three years as CEO of Babcock's Nuclear sector. He also brings more than a decade of executive experience across the aerospace, defence, security and nuclear sectors, following a long and distinguished military career as an officer in the British Army. I am confident in his ability to lead Babcock through its next phase of growth and delivery.

We have been undertaking a thorough transition process over the last five months, which is progressing well. Harry was appointed Deputy CEO on 1 April and will become CEO and join the Board on 1 August.

Outlook

For FY27, we expect another year of good progress, supported by strong visibility with around 70% of revenue under contract at 1 April 2026.

Looking further ahead, we are reaffirming our medium-term guidance of average mid-single-digit organic revenue growth, underlying operating margin of at least 9% and average underlying operating cash conversion of at least 80%.

David Lockwood

CEO

Dividend

A final dividend of 5.0 pence per ordinary share (FY25: 4.5 pence) is payable on 25 September 2026 to shareholders whose names appear on the register at the close of business on 14 August 2026. If approved by the Shareholders at the AGM on 16 September 2026 this will give a total dividend for the year of 7.5 pence (FY25: 6.5 pence). Shareholders may participate in the dividend re-investment plan and elections must be made by 4 September 2026. Details of the dividend re-investment plan can be found, and shareholders can make elections, at www.babcock-shares.com.

Notes to CEO Statement

All profit and earnings figures are stated on an underlying basis as defined in our Alternative Performance Measure (APM) set out on page 1, 34 and in our Financial Glossary on page 46.

In focus: Civil Nuclear

Strongly positioned for the new nuclear renaissance

Babcock, is the UK’s largest sovereign provider of civil and defence nuclear services. In the civil nuclear market, powerful global mega-trends are driving secular market growth.

Rising demand for power, the need for resilience and energy independence, and the drive to decarbonise our planet are fuelling a resurgence in new nuclear.

As a long-established provider of nuclear capabilities critical to the UK, new nuclear presents a significant growth opportunity for our clean energy business, both in the UK and internationally, over the near, medium and long term.



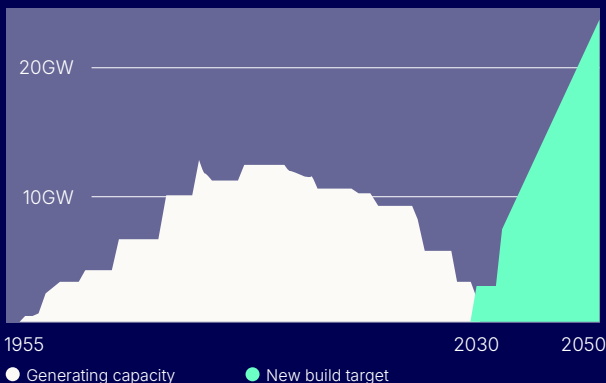
Engineering the next generation

Hinkley Point C: the UK’s first new large gigawatt build site.

UK new nuclear: entering a multi-decade growth cycle

Roadmap from 6GW today to 24GW is driving unprecedented growth and opportunities.

Structural growth driver



Major long-term new build programmes are beginning to address current power demands, while potential future growth is expected to be driven by further large gigawatt (LGW) reactors, small modular reactors (SMRs), advanced modular reactors (AMRs) and fuels supporting greater national resilience.

Opportunities and scale

New reactors: LGWs, SMRs, and AMRs

- Hinkley Point C under construction
- Sizewell C now funded
- Scope for additional LGW projects by 2050
- First SMR project underway and AMR framework launched

Sovereign fuels capability

- UK is transitioning to a secure, domestically led nuclear fuels supply chain underpinned by Government investment

Up to
£25–30 bn
 Estimated addressable opportunity to 2050

Cavendish Nuclear

Already scaled and growing

We are a leading provider of nuclear solutions, critical to the UK, with strong capabilities in specialist engineering, technical consulting and fuels. In Cavendish Nuclear, we deliver:

- **Clean Energy:** design, build, operations and fuels
- **Defence:** specialised engineering
- **Decommissioning:** defuel and decommissioning

Our strategic partnerships

Our strong position in the market is underpinned by our deep relationships with government customers, regulators, and industry partners and alliances.

What sets us apart

- **People:** Highly specialist workforce of >3,000
 - **Assets and Infrastructure:** advanced manufacturing, test and assembly facilities
 - **Credibility and reputation:** 70 years experience across all 36 UK nuclear sites
 - **Integration and collaboration:** shared cross-sector expertise and long-term industry collaboration
- See our Nuclear operational review on page 56

>3,000

Specialist workforce
70 years experience

>£1.9 bn

FY26 contract backlog
and framework orders

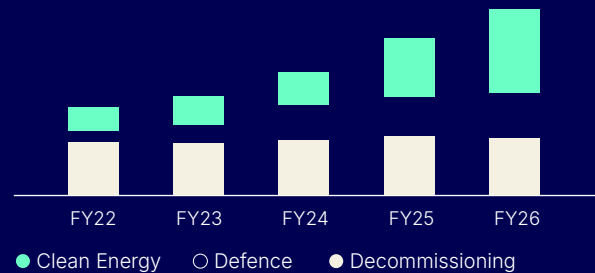
c.£380 m

FY26 revenue
>7% of Group

>11%

FY26 underlying
operating margin

Five-year revenue profile



21%

5-year revenue CAGR
(FY22-FY26)

c.£600 m

FY30 medium-term
revenue guidance

Clean Energy

Enduring growth potential

Near term growth

Existing new nuclear projects driving strong growth

Hinkley Point C

We are a key partner in the Mechanical, Electrical and HVAC (MEH) Alliance, delivering high integrity nuclear equipment design, manufacture, and systems integration for a first-in a generation large gigawatt reactor in the UK.

- **£820m** in contract backlog and framework orders
- **Duration:** 10+ years to 2029+
- **Babcock Workforce:** c.900 and expected to grow

Sizewell C

Strategic framework role with EDF, where we aim to replicate MEH engineering and further infrastructure delivering the UK's second new LGW.

- **Strategic Framework and support work** contracted
- **£38bn:** UK Government backed spending
- **Engineering schedule:** 2026 to 2035+

Long term growth

Leveraging capabilities to capture major growth potential in modular reactors and fuels

Manufacturing

- Large-scale SMR and AMR structures
- Leverage existing advanced manufacturing capability
- Potential to materially increase scale in 5-10 years

Infrastructure

- Lead technical integration of SMRs and AMRs
- Leverage existing nuclear infrastructure capability
- Potential to materially increase scale in 10 years

Owner's Engineer

- Secure further government strategic partner roles
- Leverage first-mover advantage in UK SMR rollout
- Potential to scale sustainable long-term revenue stream over next 10 years+

Fuels

- Leverage fuel facility design engineering and specialist fuel cycle knowledge

38%

5-year revenue CAGR
(FY22-FY26)

c.£300 m

FY30 medium-term
revenue guidance

Market review

Continued focus on defence and civil nuclear

Over the past five years, Babcock has strengthened its position as an international defence company and the largest sovereign UK nuclear services provider. In both markets, we provide technology-enabled support and product solutions to enhance our customers' capabilities and critical assets.

Geopolitical tensions have continued to rise over the past year, creating an increasingly uncertain global environment. This has driven increased global defence spending, which reached a record high of \$2.6 trillion in 2025. As national governments continue to increase their defence expenditure, particularly NATO members, ongoing regional conflicts have also highlighted significant changes in how conflicts are fought and the technology drivers that underpin them. The pace of technological advancement continues to accelerate, demanding innovative, adaptable and integrated capability that is suitable for the modern, multi-domain battlespace.

In the UK, our main defence market, a new National Armaments Director has been appointed in the last year. They are responsible for managing a £20 billion annual defence procurement budget, whilst also supporting industry to deliver significant growth in defence exports. This development is supporting Babcock's ongoing drive to increase both the scale and quality of new international business in our portfolio.

Across the world, increased geopolitical uncertainty is also driving governments to improve energy security by renewing their commitment to nuclear power, with global expenditure on new nuclear now expected to reach \$2.2 trillion by 2050. This includes a growing interest globally in Small Modular Reactors (SMRs), particularly in the UK, where the Government has already allocated £2.5 billion from the 2025 Spending Review to enable early deployment.

Our unique position

Babcock operates side-by-side with our customers as they prepare for and return from operational deployments. This provides us with a unique insight into the real-world challenges they face, particularly those related to the availability, performance and supportability of their critical assets. These insights and our experience working with a wide range of international partners enables us to deliver tailored solutions to our customers, using a proven approach to sustainment, product development and systems integration. Whether delivering capability for submarines, ships, land vehicles or satellites, our focus remains firmly on providing value for money and maximising operational benefit.

As the leading provider of nuclear services in the UK, Babcock has a distinctive position across both civil nuclear and defence nuclear markets. Our strength is underpinned by a pool of experienced subject-matter experts, whose expertise spans the full nuclear lifecycle. In clean energy, this includes design, build, operations, and fuelling and defuelling, across both legacy reactor technologies and next-generation solutions. Our broad capability ensures we are well positioned to support the UK's evolving nuclear requirements and the wider global transition to advanced nuclear technologies.

Our growing markets

Defence

The UK's Strategic Defence Review (SDR), published in June 2025, aims to strengthen the nation's defence readiness and accelerate technological innovation, securing warfighting advantages for the UK and its allies. It also reinforces some of the long-standing pillars of UK defence, including the sustainment of the Continuous At Sea Deterrent and the UK's support for NATO through a 'NATO First' policy. In response to rising geopolitical pressure, the majority of NATO members, including the UK, agreed in June 2025 to raise national security spending to 5% of GDP by 2035. At least 3.5% is aimed at core defence, with the remaining 1.5% for infrastructure and resilience.

The SDR and the commitment to meet the NATO funding pledge indicates a clear intention to increase investment to strengthen the UK's defence posture, whilst also creating opportunities for UK exporters. This momentum, supported further by the Defence Industrial Strategy's focus on deepening collaboration with UK industry to enhance national industrial resilience, should continue to present opportunities for Babcock. As for many allied governments, the UK Government is balancing defence and strategic priorities against fiscal constraints. The expected Defence Investment Plan should detail how the Government plans to fund and deliver the SDR. While political uncertainty remains, the UK Government has committed to an increase in core defence spending to 2.5% of GDP by April 2027, with an ambition for this to rise to 3% of GDP in the next Parliament.

Beyond our core UK market, Babcock continues to see a growing opportunity set across several of our key growth countries, particularly in Eastern Europe, Scandinavia and the Indo-Pacific region, where security challenges are driving increased defence budgets and major defence procurement activities. Across these markets, governments are prioritising sovereign resilience, major capability development, industrial investment and long-term platform modernisation. These priorities closely match Babcock's strengths in complex engineering, sustainment, systems integration and defence nuclear capability. Babcock continues to develop and leverage partnerships with governments, prime contractors and SMEs to expand the scale and reach of our international defence exports.

Civil nuclear

The UK Government's civil nuclear roadmap, published in January 2024, targets an increase in nuclear capacity from 6GW to 24GW by 2050, driving significant long-term growth across both large-scale gigawatt reactors and advanced nuclear technologies including SMRs and Advanced Modular Reactors (AMRs), alongside the reinstatement of sovereign fuel production. This is creating significant long-term growth opportunities across multi-billion pound engineering, construction, commissioning and through-life support programmes. Demand is also increasing for specialist SMR and AMR services including site preparation, modular assembly, digital engineering and regulatory support. In February 2026, the UK's Nuclear Decommissioning Authority set out a long-term, integrated strategy for the safe, secure and sustainable decommissioning of the UK's legacy nuclear sites, underpinning decades of future delivery and investment opportunity.

Internationally, our civil nuclear markets are also growing. Sustained investment in decommissioning programmes across the United States and Japan presents opportunities for Babcock to develop our export offering, applying our full-lifecycle expertise to further support the clean-up of legacy nuclear sites. In parallel, increasing global demand for SMRs and AMRs presents further opportunities for Babcock to support the global deployment of next-generation modular reactor technologies, leveraging and building upon our strategic role in the UK civil nuclear programme. This will further enhance the visibility of our core technical capabilities with major international nuclear services customers.

● See more detail on new nuclear on page 16.

Market dynamics



70% of FY26 revenue

Our primary defence market is the UK, the third-largest defence budget in NATO, where we provide critical support to all the UK's armed forces. As part of the Strategic Partnering Programme, we work alongside the UK Government and MOD across multiple critical programmes to ensure the increasingly complex needs of our armed forces are met.

Priorities and future opportunities

Defence

- Hybrid navy solutions
- UAS and counter UAS
- Light and medium mobility vehicles
- MRO
- Weapons systems
- Training
- Artillery
- AWE fissile support



14% of FY26 revenue

We are a key defence company in Australasia, providing maritime sustainment and defence communications capability to the Australian and New Zealand Defence Forces, with product capability exports further afield.

Priorities and future opportunities

Defence

- Maritime autonomous capability
- AUKUS
- Arrowhead frigate exports
- UK-Indonesia Maritime Partnership Programme
- Land MRO
- Maritime MRO
- Critical infrastructure management



4% of FY26 revenue

We have an established position in France, while exporting selected capabilities to Poland, Ukraine and Spain in support of equipment modernisation initiatives.

Priorities and future opportunities

Defence

- Maritime autonomous capability
- Arrowhead frigate exports
- Land and aviation training
- Submarines WHLS
- Light mobility vehicles
- Land MRO
- Maritime MRO



5% of FY26 revenue

We have a strong history of supporting the Royal Canadian Navy and the US Navy.

Priorities and future opportunities

Defence

- Submarine components
- Submarine MRO
- Submarine WHLS
- Light mobility vehicles



7% of FY26 revenue

We have a strong position in South Africa through our engineering, construction and power services business. We recently secured our first defence contract supporting submarines.

Priorities and future opportunities

Defence

- Maritime MRO
- Land MRO
- Land and aviation training
- Critical infrastructure management

Sources:

1. The International Institute for Strategic Studies (IISS) 2026
2. IISS 2026: AUS, NZL, ROK, IDN
3. IISS 2026: FRA, POL, UKR, BEL, ESP, DNK, GER, IRL, NOR, NLD, SWE, ROM
4. IISS 2026: US, CAN, CHL
5. IISS 2026: RSA

Strategic framework

Positioned for long-term growth



Following a multi-year turnaround focused on portfolio simplification, balance sheet strength, and operational discipline, Babcock has successfully shifted from stabilisation to high-value growth.

Guided by our Purpose, 'to create a safe and secure world, together', our strategic framework prioritises capability, delivery, performance and efficiency, focusing on seven key areas of strategic development to drive and deliver long-term growth and shareholder value.

Our Purpose

To create a safe and secure world, together

Our long-term strategy

To maintain and grow our position as a trusted, long-term partner to the UK and allied governments, delivering critical defence and nuclear capabilities, and strengthening national resilience.

Achieved through our strategic framework

Leverage technical capability

Solve complex customer challenges across defence and nuclear, underpinned by deep domain expertise and regulated capability

Delivery excellence

Execute with discipline – on safety, schedule and quality – to deepen and protect customer relationships

Operational performance efficiency

Drive productivity and efficiency to expand margins, improve cash generation and enhance competitiveness

And a strategic focus to...

Grow in Defence and Nuclear:

Strengthen and expand capabilities aligned to evolving requirements; position in emerging ecosystems

Expand our international business:

Scale in priority markets, build positions in strategic geographies and grow direct exports

Develop and grow product-led capability:

Drive product and integration and through-life support opportunities to deepen customer embed

Increase agility:

Leverage engineering and technology expertise to respond rapidly to changing defence and energy needs

Build strategic partnerships:

Partner with best-in-class primes and OEMs; strengthen our role as a reliable government delivery partner

Invest in our people:

Attract, retain and develop critical skills; maintain a high-performance, safe and inclusive culture

Be a responsible business:

Embed sustainability and responsible practices in all that we do

...to progress against our medium-term targets...

Average annual organic growth

Mid-single digit

Underlying operating margin

≥9%

Average underlying operating cash conversion

≥80%

...and deliver value for all our stakeholders

Customers

improved capability outcomes with high delivery confidence

Colleagues

a safer, more engaging place to work with strong development pathways

Shareholders

sustainable value creation

Suppliers

benefiting from collaborative relationships with those who share our values

Communities

providing positive benefits to the places where we live and work

In focus: Technology

Capability for the future

Technology is embedded in everything we do. Geopolitical shifts and emerging technologies are changing the nature of the defence and energy security landscape, and highlighting the importance of critical sovereign capabilities and resilience. Babcock's intimate knowledge of our customers' requirements and their assets enables us to select the right technologies to support current and future mission needs.

To deliver the best capabilities at the point of need for our customers and support our growth ambitions, technology underpins our aim to be the leading provider of integrated solutions. Our approach is to identify and collaborate with innovative SMEs and apply our expertise to integrate the technology into an effective solution, often enabling SMEs an easier route to engage with the defence and energy sectors.

Babcock's seven strategic technology themes:

- 1 Autonomy**
Providing, integrating, manufacturing and supporting effective autonomy solutions.
Project example: Autonomous and Remote Maritime Operational Response (ARMOR) Force architecture to control a network of uncrewed systems from an Arrowhead Common Command Vessel.
- 2 Advanced manufacturing**
Developing flexible manufacturing capability to deliver and scale high-integrity engineering.
Project example: deploying advanced technologies and robotics to deliver the US-UK common missile compartment assemblies for US Columbia Class and UK Dreadnought Class submarine programmes.
- 3 C5ISR**
Developing comprehensive capabilities in Command and Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance.
Project example: NOMAD AI-powered real-time military intelligence system for the battlefield.
- 4 Sustainable energy**
Providing sustainable, resilient power solutions.
Project example: Development of small and micro modular nuclear reactor propositions to provide resilient power at the point of need.

Key technology growth areas

The three key growth areas being disrupted by technology that have significant upside potential for Babcock:

Underwater battlespace

Protecting the undersea battlespace against emerging surface and subsea threats, including hybrid warfare.

Capability at scale

Creating, delivering, supporting, connecting and countering increasingly large masses of attritable and consumable capabilities at scale.

Sustainable power

Providing resilient power at the point of need to meet increasing demands in both military and civilian contexts.

To deliver growth in the three key areas and enhance existing capability, seven strategic technology themes are defined. The themes are governed under a global approach that protects our intellectual property and that ensures that we develop once, do it well and use it many times.



5 Digital through-life support

Providing optimised, data-driven, through-life asset management, maintenance, repair and overhaul, and digital engineering services.

Project example: METIS, an AI-enabled digital asset management platform.

6 Effectors and countermeasures

Integrating modular capability to tackle large numbers of varying threats.

Project example: Modular launcher, a containerised platform for launching low-cost missiles to defend against one-way attack drones.

7 Human performance augmentation

Optimising training, predicting performance and enabling human machine teaming.

Project example: Babcock Immersive Training Environment (BITE), using technology to layer effects and simulate modern operational environments to optimise training.

Leveraging assured Artificial Intelligence (AI)

AI is a foundational technology that underpins all seven technology themes. Babcock's global AI and Data Centre of Excellence (AIDEX) centralises expertise to deliver assured AI solutions that optimise our existing lifetime engineering capability, unlock new opportunities and achieve operational advantage for our customers.

Our business model

How we create value, our competitive advantage

Strengths and resources

Our people

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

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

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

Strategic partnerships

Collaboration with key industry partners is a significant enabler to access and accelerate addressable opportunities to deliver complex customer solutions in evolving environments, with reduced risk.

How we operate

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

1. Foundations

We work collaboratively with government departments, public bodies, highly regulated industries and blue chip companies, and are embedded on crucial long-term programmes. We focus on markets and customers with outsourcing models that require value-add engineering-based support and product development. Our five focus 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 £9.8 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 other 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 110 for our principal risks.

4. Sustainability

Our sustainability 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 70 for our sustainability review.

Drawing on the key strengths that underpin our success

Market trends and opportunities

- Read more on page 18

Strategic framework

- Read more on page 20

Key performance indicators

- Read more on page 32

As a long-cycle global business in defence and civil markets, our business model is critical for strong delivery and operational excellence. We're focused on securing the right contracts and managing them effectively to deliver value to all our stakeholders over the long-term.

- **5. Technology-based solutions**
We apply technology-based solutions to solve complex customer problems. We invest in technologies that optimise asset utilisation, advance manufacturing, enhance support capabilities and add value to customers. Our data analytics, digital design and integration capabilities reduce costs and increase the customer's ability to adapt to technology developments.
- **6. Partnerships and collaboration**
Partnering and collaboration are key to our success in bringing market-leading capabilities to our customers. We bring together organisations to deliver engineering and technology-based products and support solutions that add value to our customers and increase access to markets.
- **7. Investment and capability**
The cash we generate funds selective reinvestment into the business, principally through capital expenditure to develop our unique infrastructure, equipment, IT systems and engineering talent.
● See page 8 for our capital allocation framework.

Our competitive advantage

Decades of accumulated engineering expertise in complex long-life assets	Deep customer embed – unique understanding of complex customer requirements	Strategic partnerships with leading global players
Critical integrator of complex supply chains – supplier and technology agnostic	Scale and agility – cross-Group capabilities to respond to changing requirements	Broad portfolio of opportunities in strategically important sectors (Defence and Nuclear)

Creating stakeholder value

Customers

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

Colleagues

Creating a better place to work, where colleagues are valued and motivated at all times.

Investors

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

Communities

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

Suppliers

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

● See page 68 for more on our stakeholder engagement

Risk management

● Read more on page 110

Stakeholder engagement

● Read more on page 68

Governance

● Read more on page 132

In focus: People and skills

Lifetime Engineered...



At Babcock, we take a foundations-to-future approach to developing our people and their skills. Our focus is on building a diverse and resilient workforce, equipped with the engineering and technical capabilities required to deliver complex programmes and pursue new opportunities across defence and civil markets.

“As a major sovereign UK defence company, Babcock relies on a strong domestic pipeline of talent to underpin our growth. We work across all levels, ages and backgrounds, from young people and students to returners and those seeking a career change, creating inclusive pathways that unlock opportunity and support the delivery of our critical programmes.”

Harry Holt, Deputy CEO

Skills investment

Sustained investment in our skills capability is key to our long-term competitiveness, resilience and ability to deliver enduring value for our customers and investors. This year, we launched our new apprenticeship welding school in Bristol, fusing traditional welding training with augmented reality technology. As part of the wider Babcock Academy, the new welding apprentices will progress through their training programme with our academic partners, Weston College.

The UK is experiencing growing demand for these critical skills, driven by growth in global defence programmes and technological advancement, alongside an ageing workforce and a decline in welding apprenticeship opportunities.

In Scotland, we recently signed a Memorandum of Understanding with Forth Valley College and Fife College focused on accelerating the development of Scotland’s defence and advanced manufacturing workforce. This initiative is further supported by the UK Government’s Scotland Defence Growth Deal with up to £10 million of the £50 million deal focusing on skills investment.

...building skills that last



Early careers and returners programmes

Our early careers, returners and other emerging talent programmes are essential to developing the strong pipeline of skills needed to support continuity, succession and the long-term capabilities required for future growth. We develop these skills through our 1,800 apprentice and graduate roles. This year, in the UK we welcomed over 500 apprentices and over 260 graduates, representing our largest early careers intake in the UK to date.

STEM outreach

Through our STEM outreach programmes, we are inspiring and developing the next generation of engineers and technicians, reaching 1 in every 130 UK school children every year. Our flagship initiative, The Festival of Engineering, is our national programme of events designed to raise awareness of STEM opportunities and career pathways. The programme aims to build a more diverse and inclusive workforce by encouraging greater participation in engineering careers, particularly among women, and by helping to break down barriers where they exist.

Partnering for the future

In 2025, we became a founding partner for International Defence Esports Games, a new international Esports tournament designed to train military personnel and upskill the wider defence community in critical cyber and digital skills. Military teams from 12 allied nations competed as part of a collaborative initiative involving the Ministry of Defence, the British Esports Federation, and industry partners.

Alongside this, we are leveraging our partnership with the Royal Academy of Engineering to help change people's perceptions of engineering careers and strengthen the talent pipeline needed to secure the critical defence skills of the future.

In focus: Commitment to society

Responsible Business, Lasting Impact



Being a responsible corporate citizen is fundamental to how Babcock creates sustainable, long-term value for all our stakeholders. Across our operations and supply chain, we deliver impactful initiatives that reinforce trust, strengthen partnerships and create a positive, lasting impact for society and the communities we work within.

Unlocking the defence dividend

We are demonstrating the strategic importance of defence to unlocking economic growth and regional prosperity. In the UK, we recently announced the Babcock Capability Centre in the heart of Plymouth. This initiative will relocate up to 2,000 colleagues from Devonport dockyard to Plymouth city centre, significantly increasing footfall and providing a boost to local businesses and services.

This new facility will enable us to free up vital space in the dockyard, supporting the continued delivery of critical defence programmes, while acting as a catalyst for local regeneration and economic growth. The announcement builds on recent momentum for the city, including its designation as a National Defence Growth Area and the Ministry of Defence's £4.4 billion investment in Devonport.

Earlier this year, in partnership with the Royal Navy and Ministry of Defence, we opened the gates of Devonport dockyard to the general public for the first time in 19 years, shining a spotlight on the people, skills and sovereign capability that help keep our country secure. Over the two-day event, we welcomed c.10,000 guests, including members of the public, colleagues, supply chain partners and customer staff, along with their families. Our guests were given a unique view into what we do, why we do it and how they can join us. Thanks to the success of the event, another open day is planned for the Summer of 2026.



Supporting the Armed Forces community

We are proud to be a longstanding and active partner to the Armed Forces community. Our connection to serving personnel, veterans, reservists and military families is integral to who we are and how we operate. During the year, we strengthened our position as a leading employer of veterans, rising to joint number one in the Great British Employers of Veterans ranking.

We were also recognised as 'Best Employer' at the Ex-Forces in Business Awards, reflecting the strength, consistency and maturity of our approach across the UK. In addition, we re-signed the Armed Forces Covenant, reaffirming our enduring commitment to supporting those who serve, or who have served.

Making a meaningful difference together

We support charitable initiatives that deliver tangible outcomes, both nationally and internationally. Our partnership with The Vine Trust continues to thrive, from our work at Babcock's Rosyth facility repurposing naval vessels for humanitarian use to sending volunteers into remote communities across the Amazon and Tanzania to provide hands-on support.

This year, we were honoured to host the Trust's 40th anniversary celebration in the presence of Her Royal Highness the Princess Royal. We further strengthened our partnership through the signing of a new Memorandum of Understanding, creating a strong foundation for continued collaboration and future impact.

Across our global business, colleagues continue to use their Be Kind days to support local causes. Together they contributed more than 10,600 volunteer hours this year – making a meaningful difference in the communities where they live and work.

Stronger governance through smarter insight

Robust governance and oversight drive responsible decision-making, reinforcing trust with all stakeholders. Across the business, we continue to strengthen data, reporting and governance, from sustainability to supply chain management.

This year, we fully implemented Envizi, our environmental data management system, enabling faster, more accurate data collection that allows us to better monitor progress against our sustainability priorities as we work to tackle climate change, protect the natural environment and manage our resources responsibly.

We also launched 'Mission Control', a unified platform that turns fragmented procurement and supply chain data into actionable insights. With real-time visibility, automated reporting and live supplier scorecards, it helps us identify trends, manage risks proactively and make informed decisions across our network of over 9,500 global suppliers.

In focus: Commitment to Society (continued)

Powering innovation, through partnerships

Small and medium-sized enterprises are the lifeblood of British industry, accounting for over 99% of UK employers and over 60% of employees. British SMEs bring innovation, creativity, agility and specialist capabilities to every sector of the economy, not least national security.

David Lockwood, CEO

Unlocking SME potential

We commissioned the University of Exeter to carry out a research project to identify ways to dismantle the barriers preventing SMEs from contributing their innovative potential to UK defence.

Despite their vital role in innovation and local economies, SMEs currently account for only around 4% of defence expenditure. Increasing SME participation would not only strengthen UK defence capability and resilience, but also unlock a powerful defence dividend, creating jobs, stimulating growth and delivering lasting benefits to communities across the UK.

Published in January 2026, *The Next Line of Defence: Unlocking SME Potential in UK Defence from Policy to Practice*, calls for significant reforms to help SMEs more readily support UK defence and overcome common challenges. The report identifies six areas of focus:

- **Beyond Bureaucracy:** simplifying procurement
- **Recasting Prime:** from gatekeepers to partners
- **Stabilising Funding:** patient finance and private capital
- **Reframing Defence Careers:** building a skills pipeline
- **Modernising Infrastructure:** digital and physical security
- **Protecting the Country:** ensuring sovereign capability

SME Engagement Charter

In March 2026 we built on the findings of the *Next Line of Defence* report by launching the UK defence industry's first SME Engagement Charter (see next page), supported by UK defence trade body ADS Group. The charter sets out a clear and practical set of commitments to drive meaningful change, providing a consistent framework to strengthen SME engagement and encourage industry-wide adoption.

Applied partnerships

We recognise that small and medium-sized enterprises are critical to accelerating innovation and bolstering long-term defence resilience. Informed by the insights and evidence from the thought leadership report, the charter addresses areas where greater awareness, collaboration and action are needed. It focuses on removing practical barriers, tackling long-standing challenges and creating a more inclusive defence ecosystem – enabling SMEs to contribute fully, innovate faster and play a stronger role in supporting UK sovereign defence capability.



Babcock kicked off DSEI 2025, hosting a panel on stand to explore the impact of overlooking SMEs in defence.



Our report, together with the University of Exeter, examines the barriers and opportunities for SMEs engaging with UK defence supply chains.



● Read our report "The Next Line of Defence: Unlocking SME Potential in UK Defence from Policy to Practice"

Key performance indicators

How we measure progress

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

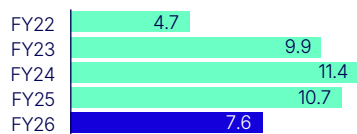
Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures.

● The Group has defined and outlined the purpose of its APMs on page 1, 34 and 46.

2026 Financial performance

Organic revenue growth (%)

7.6%



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

Revenue growth of 7.6% on an organic basis was driven by strong growth in Nuclear and Aviation. Excluding the revenue reversal impact of the Type 31 charge, organic revenue growth was 9.5%.

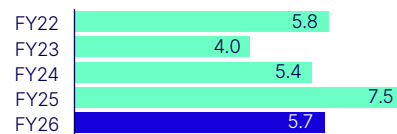
● See our commentary on page 35

G Organic revenue growth

T Organic revenue growth

Underlying operating margin (%)

5.7%



Definition

Underlying operating profit, expressed as a percentage of revenue.

● See page 37 for a reconciliation of statutory to underlying operating profit

Commentary

Underlying operating margin decreased year on year, driven by the £140 million charge on the Type 31 contract, more than offsetting strong performances across all sectors. Excluding the Type 31 charge, Group underlying operating margin was 8.2%.

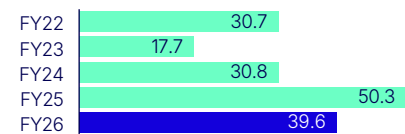
● See our commentary on page 36

G Underlying operating profit
Underlying operating margin

T Underlying operating margin

Underlying EPS (p)

39.6p



Definition

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

Commentary

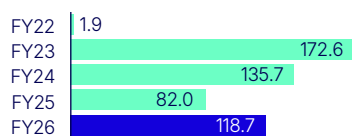
Underlying EPS decreased due to lower underlying operating profit for the year driven by the £140 million Type 31 charge. Excluding the Type 31 charge, Group underlying EPS was 60.5 pence.

● See reconciliation on page 37

G Underlying basic earnings per share

Underlying operating cash conversion (%)

118.7%



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 119% represents strong operational performance, expected unwind of working capital and the impact on the Type 31 charge to underlying operating profit. Excluding the Type 31 charge, cash conversion was 84%. For more information, see page 39.

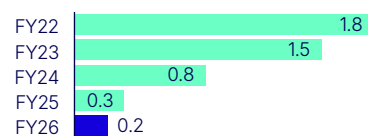
● See calculation on page 38

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

T Underlying operating cash conversion

Net debt/EBITDA (covenant basis)

0.2x



Definition

Net debt to EBITDA as measured in our banking covenants. This uses net debt (excluding leases) divided by underlying earnings before interest, tax, depreciation and amortisation plus JV dividends received. This definition makes a series of adjustments to both Group net debt and Group EBITDA; see page 41 for a reconciliation.

Commentary

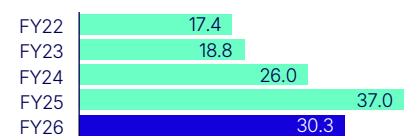
Net debt/EBITDA (covenant basis) reduced to 0.2x, due to strong underlying free cash flow.

● See reconciliation on page 41

G EBITDA
Net debt/EBITDA (covenant basis)

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

30.3%



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

Return on invested capital was lower year on year, driven by lower underlying operating profit driven by the £140 million Type 31 charge.

● See calculation on page 41

G Underlying return on invested capital

Appointment key

G Link to Glossary

T Link to medium-term guidance

2026 Non-financial performance

Days lost rate

15.93

FY25	15.81
FY26	15.93

Definition

The Days Lost Rate (DLR) is a 12-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 calendar days that Babcock colleagues were unavailable for work during that period due to a work-related injury or occupational illness.

Injury or illness diagnosis may have occurred in a previous reporting period but absences are accounted within the period of the absence.

Commentary

We have increased the governance of absence management, invested in training, wellbeing support and workforce engagement to ensure we build a capable, empowered and future-ready organisation with an engaged culture. Our commitment to create a safer and healthier workplace remains solid, and our focus for FY27 is to strengthen critical controls and develop leaders to enable the growth of our culture of care. As the days lost rate is a new target without full historical data, this year we will continue to show our total recordable injury rate below.

Maintaining our unwavering commitment to the health, safety and wellbeing of our colleagues, we have continued to embed the Home Safe commitments and engage colleagues throughout the value chain. Whilst the injury rate had reduced mid-year, it has risen again. The severity of many of the reported injuries is low and we continue to encourage all injuries to be reported. We will continue to strive to reduce injuries and occupational illnesses through strong risk controls.

● See page 79 for more information

Total recordable injuries rate

FY22	0.74
FY23	0.73
FY24	0.92
FY25	0.73
FY26	0.73

Total Scope 1 and 2 emissions (tCO₂e)

109,389

2021	136,917
2022	138,457
2023	129,461
2024	123,092
2025	109,389

Definition

Tonnes of Scope 1 and 2 emissions within our organisational boundary using the operational control approach and market-based Scope 2 accounting methodology. The reporting period for our emissions is the calendar year (1 January to 31 December).

Commentary

Scope 1 and 2 emissions have reduced by 20.1% since our 2021 baseline. This has been driven by several key factors, including reduced electricity and fuel consumption at Devonport Royal Dockyard, reduced consumption of electricity supplied by the carbon-intensive Energy from Waste (EfW) plant at Devonport Dockyard, introduction of biodiesel Hydrotreated Vegetable Oil (HVO) to replace diesel in generators, reduced diesel use in our rail business, and electrification of our vehicle fleet.

Figures for prior years have been restated, see page 105.

Scope 1 and 2 year-on-year emissions have dropped by 11.1%. This has been primarily driven by the EfW outage as mentioned above. This KPI does not include Scope 3 emissions.

● See page 105 for more information

% Women across total workforce

19.4%

FY22	20.5%
FY23	18.2%
FY24	19.2%
FY25	19.1%
FY26	19.4%

Definition

We have set a Gender Balance target of '30% women across our workforce'; our definition of 'workforce' includes global, permanent and agency.

Commentary

While we have seen significant progress for female representation in senior positions, representation across the whole workforce remains static reflecting the structural challenges within the defence sector and the time required for interventions to translate into workforce change. Further actions are being taken in FY27 to support this KPI.

● See page 83 for more information

Financial review

Strong year of underlying performance and shareholder returns

“Significant track record of growth, performance, and delivery creating a platform for further long-term value creation”

David Mellors
Group CFO



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

The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with those for the year ended 31 March 2025. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 46.

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

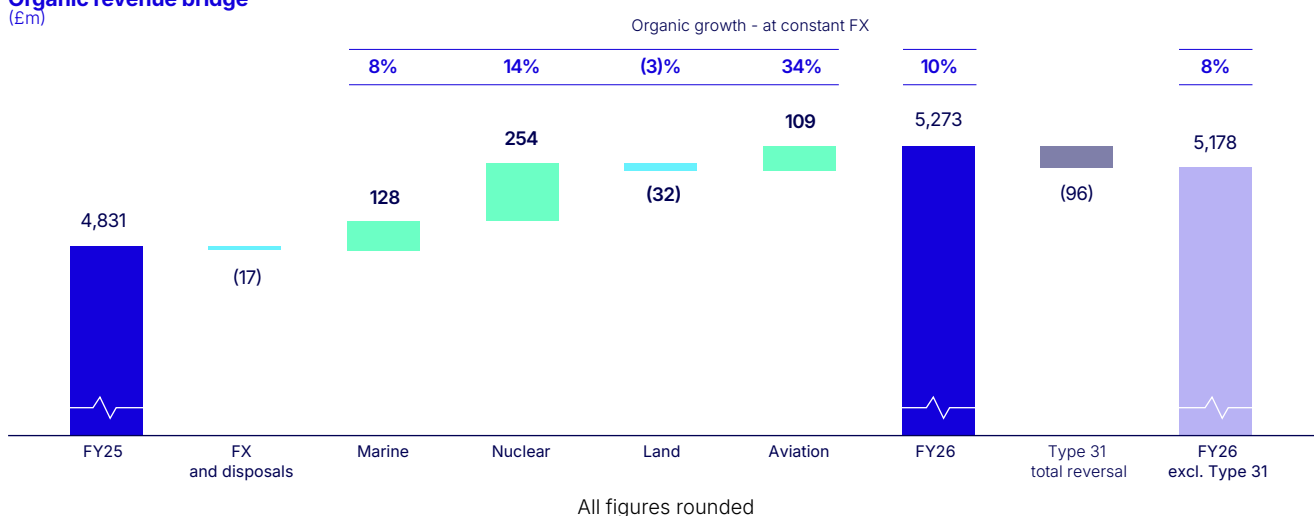
Income statement

	31 March 2026			31 March 2025		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	5,177.7	–	5,177.7	4,831.3	–	4,831.3
Operating profit	293.3	11.8	305.1	362.9	1.0	363.9
Operating margin	5.7%	–	5.9%	7.5%	–	7.5%
Share of results of joint ventures and associates	7.4	–	7.4	8.4	(11.1)	(2.7)
Net finance costs	(33.5)	4.7	(28.8)	(31.9)	(0.2)	(32.1)
Profit before tax	267.2	16.5	283.7	339.4	(10.3)	329.1
Income tax (expense)/benefit	(69.2)	(3.8)	(73.0)	(84.1)	3.9	(80.2)
Profit/(loss) after tax	198.0	12.7	210.7	255.3	(6.4)	248.9
Non-controlling interest	0.5	–	0.5	(1.8)	–	(1.8)
Profit/(loss) attributable to the owners of the parent	198.5	12.7	211.2	253.5	(6.4)	247.1
Basic EPS	39.6p		42.1p	50.3p		49.1p
Diluted EPS	38.8p		41.3p	49.3p		48.0p

A full statutory income statement can be found on page 196.

As described on the prior page, 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 above and in note 2 of the financial statements.

Organic revenue bridge

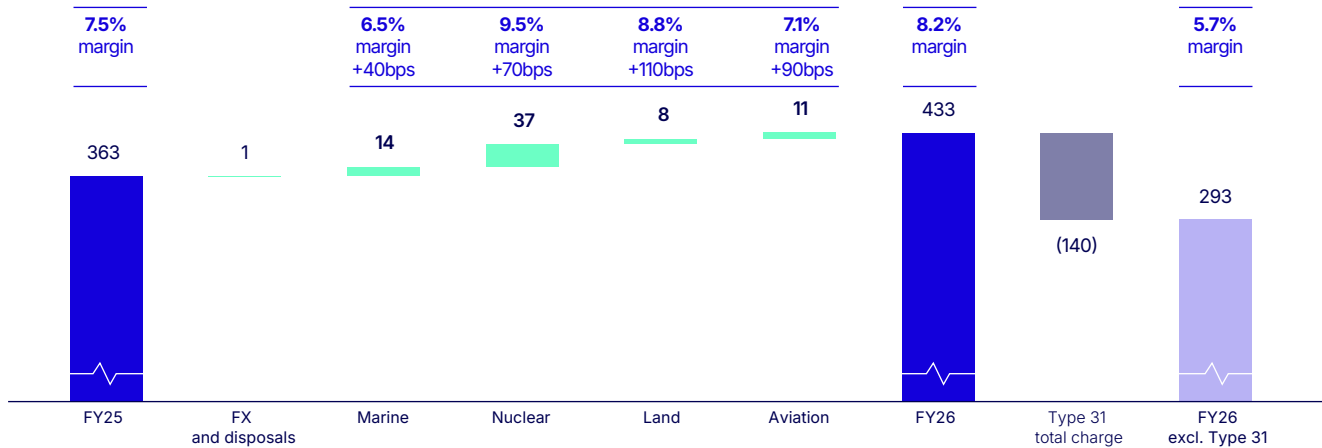


Revenue of £5,177.7 million after £95.5 million revenue reversal at the year-end, due to the Type 31 charge, represents an increase of 8% on an organic basis, driven by strong growth in Nuclear and Aviation. See segmental tables on page 45:

- **Marine** revenue increased 2% (at constant FX) to £1,591.5 million, with higher volumes in our LGE business and growth of the Skynet programme partly offset by the £95.5 million Type 31 reversal and lower UK and international ship support activity, as expected.
- **Nuclear** revenue increased 14% (at constant FX) to £2,070.4 million, due to strong growth in our Cavendish Nuclear business (+18%) and higher submarine support activity, more than offsetting the expected decline in Major Infrastructure Programme revenue.
- **Land** revenue decreased 3% (at constant FX) to £1,084.4 million, although returned to growth in the second half of the year as expected. Growth in our defence businesses was more than offset by lower volumes in our Civil businesses, particularly Rail and South Africa.
- **Aviation** revenue increased 34% (at constant FX) to £431.4 million, due the ramp up of the Mentor 2 programme in France and the British Columbia HEMS contract in Canada, and increased scope in UK military support contracts.

Financial review (continued)

Underlying operating profit bridge (£m)



All figures rounded

Underlying operating profit decreased 19% to £293.3 million, with strong underlying performance offset by the Type 31 charge of £140.0 million. As a result, underlying operating margin decreased to 5.7% (FY25: 7.5%). Excluding the Type 31 charge, underlying operating profit increased 19% to £433.3 million and underlying operating margin increased 70 basis points to 8.2%, ahead of our target of 8% at the year-end, with all four sectors delivering increased margin. See segmental tables on page 45:

- **Marine** underlying operating loss of £29.8 million reflects the Type 31 charge of £140.0 million, resulting in an underlying operating margin of (1.9)% (FY25: 6.1%). Excluding the Type 31 charge, underlying operating profit increased 14% to £110.2 million driven by performance on LGE orders and improvements in contract profitability increasing the operating margin to 6.5%.
- **Nuclear** underlying operating profit increased 23% to £197.1 million, due to revenue growth, mix and the final year of trading on the Future Maritime Support Programme (FMSP) contract. As a result, underlying operating margin increased to 9.5% (FY25: 8.8%).
- **Land** underlying operating profit increased 11% to £95.3 million, reflecting growth in higher-margin defence programmes and contract completion. As a result, underlying operating margin increased to 8.8% (FY25: 7.7%).
- **Aviation** underlying operating profit increased 54% to £30.7 million, due to growth in higher-margin defence revenues. As a result, underlying operating margin increased 90 basis points to 7.1% (FY25: 6.2%).

Further analysis of financial performance is included in each sector's operational review, starting on page 52.

Type 31 contract update

The Type 31 contract typically represents less than 4% of Group revenue. During the year we floated off the first and second ships in the five-ship programme, laid the keel of ship three and formally commenced the build of ship four at its steel cutting ceremony.

As outlined in our trading update on 13 May 2026, as we finish structural completion of ship one, the bulk of the remaining work now relates to outfitting and commissioning. During the outfitting stage we have experienced higher than expected levels of rework as a result of changes to the design and the long-term impacts of out-of-sequence build activity earlier in the programme. Whilst the number of such rework events is not entirely unexpected, the work is being performed in the later stages of completion and therefore is more complex and more costly. The ability to increase levels of programme productivity through full enablement of production tasks has also been impacted. As the build of ship two is close behind ship one, there is also some cross over in the design-related rework necessary to this ship. With ships three and four still in the early construction stages, the extent of impact on these and future vessels is comparatively reduced.

As a consequence, we have performed an engineering maturity review, and we have updated our financial estimates to complete the programme, given the elevated levels of rework due to engineering change and productivity. These re-estimates not only cover the production costs of material and personnel, but also an increased programme risk contingency.

This is reflected in a charge on the contract at the year-end of £140.0 million for the revised costs to complete delivery of the Type 31 design and build contract, which is fully recognised in FY26, but the cash costs of which will be incurred over the remainder of the programme. Within the £140.0 million charge, £95.5 million is recognised as a revenue reversal in FY26 (with a corresponding increase in contract liabilities) and the balance increases the contract loss provision. See further disclosures on page 204.

Statutory operating profit decreased to £305.1 million (FY25: £363.9 million) due to the impact of the Type 31 charge, with a small positive impact from the revaluation of derivatives, and the final recovery of loan receivables originating from the disposal of the Civil Training business in FY23. As a result, statutory operating margin decreased to 5.9% (FY25: 7.5%). The specific adjusting items between statutory and underlying operating profit are set out in the table below.

Reconciliation of statutory to underlying operating profit

	31 March 2026 £m	31 March 2025 £m
Statutory operating profit	305.1	363.9
Amortisation of acquired intangibles	10.0	8.2
Business acquisition, merger and divestment-related items	(10.2)	(1.5)
Curtailed gain on pension scheme closure	–	(1.2)
Fair value movement on derivatives	(11.6)	(6.5)
Specific adjusting items impacting operating profit	(11.8)	(1.0)
Underlying operating profit	293.3	362.9

Share of joint ventures and associates on a statutory basis was a £7.4 million profit (FY25: £2.7 million loss, which included an £11.1 million charge following a review by our Ascent flight training joint venture to align its accounting to IFRS principles). The underlying share of results from joint ventures and associates was a profit of £7.4 million (FY25: £8.4 million profit).

Net finance costs

- **Underlying net finance costs** increased to £33.5 million (FY25: £31.9 million), with higher net interest income on cash balances and lower interest charges on pension liabilities more than offset by interest costs arising from the outcome of a legacy legal case.
- **Statutory net finance costs** decreased to £28.8 million (FY25: £32.1 million), reflecting the items above and the fair value movement of derivatives which hedge interest cost.

Income tax expense

- **Underlying income tax expense** decreased to £69.2 million (FY25: £84.1 million), reflecting lower underlying operating profits. This represents an effective underlying tax rate of 26.6% (FY25: 25.4%), calculated using underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). The Group's effective underlying tax rate is expected to remain broadly stable over the medium term, depending on country profit mix.
- **Statutory income tax expense** decreased to £73.0 million (FY25: £80.2 million), higher than the underlying income tax expense, due to the tax impact of the specific adjusting items outlined above and in note 2 of the financial statements.

Basic earnings per share

- **Underlying basic earnings per share** of 39.6 pence (FY25: 50.3 pence) decreased due to lower underlying operating profit for the year driven by the Type 31 charge. Excluding the Type 31 charge, underlying basic earnings per share increased to 60.5 pence.
- **Basic earnings per share** on a statutory basis decreased to 42.1 pence (FY25: 49.1 pence), reflecting the lower underlying earnings per share and the post-tax impact of the specific adjusting items outlined above.

Reconciliation of statutory profit and basic EPS to underlying profit and basic EPS

	31 March 2026		31 March 2025	
	£m	Basic EPS	£m	Basic EPS
Statutory profit after tax for the year	210.7	42.1p	248.9	49.1p
Specific adjusting items, net of tax	(12.7)	2.5p	6.4	1.2p
Underlying profit after tax for the year	198.0	39.6p	255.3	50.3p

Dividend per share

	31 March 2026 pence	31 March 2025 pence
Interim	2.5	2.0
Final	5.0	4.5
Total	7.5	6.5

The Board has recommended a final dividend of 5.0 pence per ordinary share for approval by shareholders at the 2026 Annual General Meeting, which will result in a total dividend for FY26 of 7.5 pence (FY25: 6.5 pence), a 15% increase.

Financial review (continued)

Exchange rates

The translation impact of foreign currency movements resulted in an increase in revenue of £14.2 million and an increase in underlying operating profit of £0.2 million. The main currencies that have impacted our results are the Australian Dollar, Canadian Dollar, Euro, New Zealand Dollar and South African Rand. The currencies with the greatest potential to impact results are the South African Rand, the Australian Dollar, the Euro and the Canadian Dollar:

- A 10% movement in the South African Rand against Sterling would affect revenue by around £37 million and underlying operating profit by around £3 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £30 million and underlying operating profit by around £2 million per annum
- A 10% movement in the Euro against Sterling would affect revenue by around £20 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 £21 million and underlying operating profit by around £2 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 2026 £m	31 March 2025 £m
Statutory operating profit	305.1	363.9
Add back: specific adjusting items (see table on page 47)	(11.8)	(1.0)
Underlying operating profit	293.3	362.9
Right of use asset depreciation & impairment	50.4	33.0
Other depreciation & amortisation	85.2	78.3
Non-cash items	10.9	11.0
Working capital movements	12.0	2.1
Provisions	48.1	(23.5)
Net capital expenditure	(107.2)	(122.2)
Lease principal payments	(44.5)	(45.4)
Underlying operating cash flow	348.2	296.2
Underlying operating cash conversion (%)	119%	82%
Pension contributions in excess of income statement	(23.4)	(89.1)
Interest paid (net)	(26.6)	(26.8)
Tax paid	(47.5)	(39.1)
Dividends from joint ventures and associates	11.1	12.2
Underlying free cash flow	261.8	153.4
Net acquisitions and disposals of subsidiaries	8.1	(1.1)
Purchase of other investments	(3.9)	–
Dividends paid (including non-controlling interests)	(36.7)	(28.0)
Purchase of own shares	(155.3)	(18.8)
Lease principal payments	44.5	45.4
Net new lease arrangements	(73.3)	(87.2)
Leases disposed of/(acquired) with subsidiaries	–	1.1
Other non-cash debt movements	(3.2)	(2.1)
Fair value movement in debt and related derivatives	9.3	0.5
Exchange movements	(7.0)	(1.1)
Movement in net debt	44.3	62.1
Opening net debt	(373.3)	(435.4)
Closing net debt	(329.0)	(373.3)
Add back: leases	306.3	272.1
Closing net debt excluding leases	(22.7)	(101.2)

A full statutory cash flow statement can be found on page 199 and a reconciliation to net debt on page 49.

Underlying operating cash flow increased to £348.2 million (FY25: £296.2 million), representing underlying operating cash conversion of 119%. Excluding the impact of the Type 31 charge at the year-end, underlying cash conversion was 84% (FY25: 82%). Net capex of £107.2 million (FY25: £122.2 million) remains ahead of depreciation as we continue to invest across the portfolio. See financial glossary page 46 for the reconciliation of underlying cash conversion and page 51 for the reconciliation of capital expenditure.

The £12.0 million inflow of working capital includes a £95.5 million increase in contract liabilities due to the Type 31 revenue reversal as described on page 36. Together with deposits received on new contracts, this more than offset the expected unwind of advance payments on certain existing contracts, notably LGE due to the record order intake in the prior year and the increase in inventory due to slower sales of construction equipment in Africa.

Underlying free cash flow of £261.8 million (FY25: £153.4 million), reflects higher underlying operating cash flow and lower pension deficit repair contributions following the agreement of long-term funding arrangements for our three main schemes.

Acquisitions and disposals

Cash receipts and related fair value gains of £8.1 million arose on the final settlement of loan receivables originating from the disposal of the Civil Training business in FY23.

New lease arrangements

In addition to net capital expenditure, £73.3 million of net additional lease liabilities were entered into in the year (FY25: £87.2 million). The increase includes aircraft leases to support new contracts in Australia and Canada. These are new lease obligations and are therefore included in net debt, but do not involve any cash outflows at inception.

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

	31 March 2026 £m	31 March 2025 £m
Underlying operating cash flow	348.2	296.2
Add: net capital expenditure	107.2	122.2
Add: lease principal payments	44.5	45.4
Less: pension contributions in excess of income statement	(23.4)	(89.1)
Less: Non-operating cash items (excluded from underlying cash flow)	(29.2)	(17.3)
Cash generated from operations	447.3	357.4
Tax paid	(18.3)	(21.8)
Net interest paid	(26.6)	(26.8)
Net cash flows from operating activities	402.4	308.8

Statutory cash flow summary

	31 March 2026 £m	31 March 2025 £m
Net cash flow from operating activities	402.4	308.8
Net cash flow from investing activities	(91.7)	(110.8)
Net cash flow from financing activities	(239.5)	(92.7)
Net increase in cash, cash equivalents and bank overdrafts	71.2	105.3

Net cash flow from operating activities was £402.4 million (FY25: £308.8 million). This reflects lower operating profit and lower pension deficit payments.

Net cash flow from investing activities was an outflow of £91.7 million (FY25: outflow of £110.8 million), reflecting lower net capex.

Net cash flow from financing activities was an outflow of £239.5 million (FY25: outflow of £92.7 million), including £44.5 million lease payments (FY25: £45.4 million), £36.7 million dividends paid (FY25: £28.0 million) and £155.3 million purchase of own shares (FY25: £18.8 million).

Financial review (continued)

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

	31 March 2026 £m	31 March 2025 £m
Net increase in cash, cash equivalents and bank overdrafts	71.2	105.3
Cash flow from the (increase)/decrease in debt	(13.8)	29.9
Change in net funds resulting from cash flows	57.4	135.2
Additional lease obligations	(73.1)	(96.2)
New lease receivables granted	60.9	24.7
Debt held by disposed subsidiaries	–	1.1
Other non-cash movements and changes in fair value	6.1	(1.6)
Foreign currency translation differences	(7.0)	(1.1)
Movement in net debt in the year	44.3	62.1
Opening net debt	(373.3)	(435.4)
Closing net debt	(329.0)	(373.3)

Net debt

Net debt at 31 March 2026 was £329.0 million, a reduction of £44.3 million due to increased underlying free cash flow, partially offset by dividend payments of £36.7 million (FY25: £28.0 million), purchases of own shares of £155.3 million (FY25: £18.8 million) and net new leases of £73.3 million (FY25: £87.2 million) in excess of lease principal payments of £44.5 million (FY25: £45.4 million). Net debt excluding leases was £22.7 million, representing a reduction of £78.5 million.

Cash components of net debt

	31 March 2026 £m	31 March 2025 £m
Cash and cash equivalents	723.6	646.5
Current liabilities – bank debt and other loans	(299.7)	(0.5)
Non-current liabilities – bank debt and other loans	(474.9)	(750.7)
Other debt instruments (includes loans to JVs)	(16.6)	(38.6)
Net finance leases	44.9	42.1
Closing net debt excluding leases	(22.7)	(101.2)
Include leases	(306.3)	(272.1)
Closing net debt	(329.0)	(373.3)

Summarised balance sheet

	31 March 2026 £m	31 March 2025 £m
Intangible assets	913.8	920.6
Property, plant and equipment and right of use assets	849.8	787.7
Investment in joint ventures and associates, and other investments	44.2	43.5
Working capital	(704.3)	(694.2)
Provisions	(201.5)	(138.3)
Net retirement benefit deficits	(34.0)	(8.4)
Net tax assets	73.3	76.1
Net other financial assets and liabilities	17.0	8.1
Leases	(306.3)	(272.1)
Net debt excluding leases	(22.7)	(101.2)
Net assets	629.3	621.8

Property, plant and equipment (PP&E) and right of use assets were £849.8 million, an increase of £62.1 million. PP&E increased by £42.4 million to £601.3 million, reflecting additions of £155.4 million (FY25: £105.0 million) less disposals of £50.9 million (FY25: £5.4 million), depreciation of £66.0 million (FY25: £59.0 million) and impairment and currency adjustments. The disposals primarily relate to aircraft acquired and then sold and leased back within the year. Right of use assets increased by £19.7 million to £248.5 million including new leases of £63.5 million (net of disposals) less depreciation and impairment of £50.4 million (FY25: £33.0 million) and currency adjustments.

Working capital was £(704.3) million, a decrease of £10.1 million. This reflects a £95.5 million increase in contract liabilities due to the Type 31 revenue reversal and deposits received on new contracts, which more than offset the expected unwind of advance payments on certain existing contracts and an increase in inventory from slower sales of construction equipment in Africa.

Funding and liquidity

As of 31 March 2026, the Group had access to a total of £1.4 billion of borrowings and facilities. These comprised:

- £600 million RCF, maturing July 2031
- £300 million bond maturing on 5 October 2026
- €550 million bond, hedged at £493 million, maturing on 13 September 2027
- An overdraft facility of £50 million

At 31 March 2026, the Group's net cash (cash and cash equivalents less overdrafts) balance was £723.6 million. This, combined with the undrawn amounts under our committed RCF and overdraft facilities, gave us liquidity of around £1.4 billion.

Net debt to EBITDA (covenant basis)

While there are several facets to balance sheet strength, a primary measure relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenant of a maximum of 3.5x. This measure is used in the covenant in our RCF and includes several adjustments from reported net debt and EBITDA. The net debt/EBITDA gearing ratio (covenant basis) at 31 March 2026 reduced to 0.2x (FY25: 0.3x) due to strong underlying free cash flow and lower underlying operating profit.

	31 March 2026 £m	31 March 2025 £m
Underlying operating profit	293.3	362.9
Depreciation and amortisation	85.2	78.3
Covenant adjustments ¹	1.5	(2.6)
EBITDA	380.0	438.6
JV and associate dividends	11.1	12.2
EBITDA + JV and associate dividends (covenant basis)	391.1	450.8
Net debt excluding lease liabilities	(22.7)	(101.2)
Covenant adjustments ²	(54.0)	(51.9)
Net debt (covenant basis)	(76.7)	(153.1)
Net debt/EBITDA	0.2x	0.3x

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

Return on invested capital, pre-tax (ROIC)

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

	31 March 2026 £m	31 March 2025 £m
Underlying operating profit	293.3	362.9
Underlying share of results of joint ventures and associates	7.4	8.4
Underlying operating profit plus results of JVs and associates	300.7	371.3
Net debt excluding leases	22.7	101.2
Leases	306.3	272.1
Shareholder funds – see balance sheet on page 197	629.3	621.8
Retirement deficit – note 25	34.0	8.4
Invested capital	992.3	1,003.5
ROIC	30.3%	37.0%

Financial review (continued)

Pensions

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

IAS 19

At 31 March 2026, the IAS 19 valuation for accounting purposes was a net deficit of £34.0 million (FY25: £8.4 million). The increase in net accounting deficit is driven by the lower performing fair value of plan assets of £2,804.4 million (down by £26.6 million year on year), driven by contributions of £31.7 million offset by asset returns of £145.1 million and benefits paid of £200.3 million. The present value of pension benefit obligations of £2,838.4 million decreased by £1.0 million driven by interest costs and experience losses offsetting benefits paid. The fair value of the assets and liabilities of the Group pension schemes at 31 March 2026 and the key assumptions used in the IAS 19 valuation of our schemes are set out in note 25 starting on page 254.

	31 March 2026 £m	31 March 2025 £m
Fair value of plan assets (note 25)	2,804.4	2,831.0
Present value of benefit obligations (note 25)	(2,838.4)	(2,839.4)
Net (deficit) at 31 March	(34.0)	(8.4)

Income statement charge

The charge included within underlying operating profit in FY26 was £8.3 million (FY25: £17.9 million), of which £3.4 million (FY25: £11.1 million) related to service costs and £4.9 million (FY25: £6.8 million) related to expenses. In addition to this, there was a net interest credit of £0.4 million (FY25: charge of £4.5 million). The reduction follows the closure of defined benefit schemes to future accrual.

Technical provision

An estimate of the aggregate actuarial deficits of the Group's defined benefit pension schemes (excluding those in surplus), including all longevity swap funding gaps, calculated using each scheme's technical provisions basis, as at 31 March 2026 was approximately £100 million (FY25: c.£125 million). Such valuations use discount rates based on UK gilts which differ from the corporate bond approach of IAS 19. This technical provision estimate reflects the assumptions used within the latest agreed valuation prior to 31 March 2026 for each of the principal schemes.

Actuarial valuations are carried out every three years to determine the Group's cash contributions to the schemes. The valuation of the three largest schemes is set so only one scheme is undertaking its valuation in any one year, to spread the financial impact of market conditions. The valuation of the DRDPS as at 31 March 2023 was completed in FY24, the valuation of the RRDPS as at 31 March 2024 was finalised in April 2025, and the valuation of the BIGPS at 31 March 2025 was finalised in May 2026.

We expect annual deficit repair payments to be c.£20 million per annum over the coming years.

Cash contributions

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

	31 March 2026 £m	31 March 2025 £m
Future service contributions	4.7	14.6
Deficit recovery	18.5	52.7
Longevity swap	1.8	27.2
Total cash contributions – employer	25.0	94.5

Treasury

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

Debt

Objective

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

Policy

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

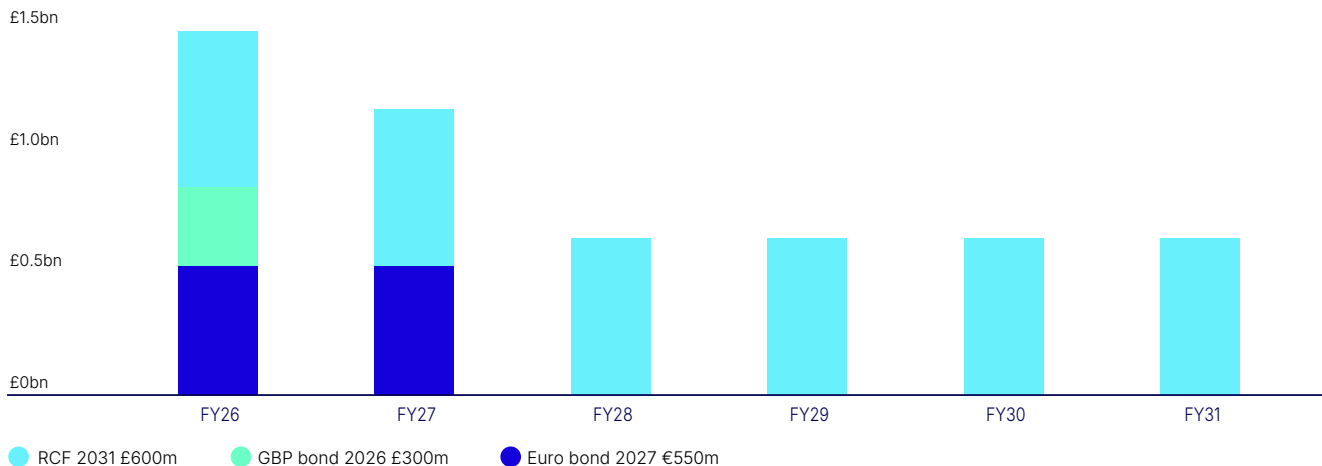
Updates

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

The Group refinanced its RCF to a £600 million facility maturing in July 2031.

The Group's main corporate debt comprises a £300 million Sterling bond, maturing October 2026 and a €550 million bond, maturing September 2027. Together, these provide the Group with a total of around £1.4 billion of available committed facilities and bonds.

Debt maturity profile



Financial review (continued)

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 2026, the Group had 85% fixed rate debt (31 March 2025: 85%) and 15% floating rate debt (31 March 2025: 15%) based on gross debt (excluding leases) of £793 million (31 March 2025: £793 million).

Liquidity

Objective

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

Policy

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

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

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

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

Performance

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

Foreign exchange

Objective

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

Policy — Transaction risk

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

Policy — Translation risk

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

Performance

There was a net foreign exchange gain of £3.4 million in the income statement for the year ending 31 March 2026 (31 March 2025: £0.4 million gain).

Segmental analysis

The Group reports its performance through four reporting sectors.

31 March 2026	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Contract backlog	2,806.8	1,792.7	3,086.9	2,068.8	9,755.2
Revenue	1,591.5	2,070.4	1,084.4	431.4	5,177.7
Add back Type 31 revenue reversal	95.5	–	–	–	95.5
Revenue excluding Type 31 revenue reversal	1,687.0	2,070.4	1,084.4	431.4	5,273.2
Statutory operating profit / (loss)	(28.4)	197.1	103.4	33.0	305.1
Statutory operating margin	(1.8)%	9.5%	9.5%	7.7%	5.9%
Underlying operating profit / (loss)	(29.8)	197.1	95.3	30.7	293.3
Add back Type 31 charge	140.0	–	–	–	140.0
Underlying operating profit excluding Type 31 charge	110.2	197.1	95.3	30.7	433.3
<i>Underlying operating margin</i>	<i>(1.9)%</i>	<i>9.5%</i>	<i>8.8%</i>	<i>7.1%</i>	<i>5.7%</i>
<i>Underlying operating margin excluding Type 31 charge</i>	<i>6.5%</i>	<i>9.5%</i>	<i>8.8%</i>	<i>7.1%</i>	<i>8.2%</i>
31 March 2025	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Contract backlog	3,026.5	1,983.9	3,466.1	1,939.7	10,416.2
Revenue	1,576.4	1,816.0	1,116.6	322.3	4,831.3
Statutory operating profit	99.3	161.4	86.3	16.9	363.9
Statutory operating profit margin	6.3%	8.9%	7.7%	5.2%	7.5%
Underlying operating profit	96.5	160.3	86.2	19.9	362.9
Underlying operating margin	6.1%	8.8%	7.7%	6.2%	7.5%

Financial review (continued)

Financial glossary

Alternative Performance Measures (APMs)

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

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

Organic revenue growth – Group KPI

Closest equivalent IFRS measure: Revenue growth year on year

Definition: Growth excluding the impact of foreign exchange (FX) and contribution from acquisitions and disposals in the year of, and following, completion.

Purpose: A good indicator of business growth.

	31 March 2026 £m	31 March 2025 £m
Prior year revenue	4,831.3	4,390.1
FX	(14.2)	(22.4)
Disposals	(3.1)	(2.8)
Prior year revenue adjusted for FX and disposals (b)	4,814.0	4,364.9
Revenue growth (a)	363.7	466.4
Current year revenue	5,177.7	4,831.3
Organic revenue growth (a)/(b)	8%	11%

Contract backlog

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2026 £m	31 March 2025 £m
Contract backlog	9,755	10,416

Underlying operating profit

Closest equivalent IFRS measure: Operating profit

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

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

	31 March 2026 £m	31 March 2025 £m
Underlying operating profit	293.3	362.9
Specific adjusting items (note 2)	11.8	1.0
Operating profit	305.1	363.9

Specific adjusting items (note 2)

	31 March 2026 £m	31 March 2025 £m
Amortisation of acquired intangibles	(10.0)	(8.2)
Business acquisition, merger and divestment-related items	10.2	1.5
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes	–	1.2
Fair value movement on derivatives	11.6	6.5
Specific adjusting items impacting operating profit	11.8	1.0
Non-recurring amounts in results from joint ventures and associates	–	(11.1)
Fair value movement on derivatives and related items	4.7	(0.2)
Specific adjusting items impacting profit before tax	16.5	(10.3)
Income tax expense		
Amortisation of acquired intangibles	2.9	2.2
Business acquisition, merger and divestment-related items	(2.5)	–
Profit/(loss) from amendment, curtailment, settlement or equalisation of Group pension schemes	–	(0.3)
Fair value movement on derivatives and related items	(4.2)	(1.6)
Other tax items including rate change impact	–	3.6
Specific adjusting items impacting income tax expense	(3.8)	3.9

Underlying operating margin – Group KPI

Closest equivalent IFRS measure: Operating margin

Definition: Underlying operating profit as a percentage of revenue.

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

	31 March 2026 £m	31 March 2025 £m
Revenue	5,177.7	4,831.3
Underlying operating profit	293.3	362.9
Underlying operating margin	5.7%	7.5%

Underlying net finance costs

Closest equivalent IFRS measure: Net finance costs

Definition: Net finance costs excluding specific adjusting items.

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

	31 March 2026 £m	31 March 2025 £m
Underlying net finance costs	(33.5)	(31.9)
Add: specific adjusting items impacting finance costs (note 2)	4.7	(0.2)
Net finance costs (note 5)	(28.8)	(32.1)

Financial review (continued)

Underlying profit before tax

Closest equivalent IFRS measure: Profit before tax

Definition: Profit before tax excluding all specific adjusting items.

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

	31 March 2026 £m	31 March 2025 £m
Underlying profit before tax	267.2	339.4
Specific adjusting items impacting profit before tax (note 2)	16.5	(10.3)
Profit before tax (note 2)	283.7	329.1

Underlying effective tax rate

Closest equivalent IFRS measure: Effective tax rate

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

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

	Year ended 31 March 2026			Year ended 31 March 2025		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit before tax (note 2)	267.2	16.5	283.7	339.4	(10.3)	329.1
Share of (profit) / loss from JVs and associates (note 2)	(7.4)	–	(7.4)	(8.4)	11.1	2.7
Profit before tax excluding profit from joint ventures and associates (a)	259.8	16.5	276.3	331.0	0.8	331.8
Income tax expense (b)	(69.2)	(3.8)	(73.0)	(84.1)	3.9	(80.2)
Effective tax rate (b)/(a)	26.6%		26.4%	25.4%		24.2%

Underlying basic and diluted earnings per share

Closest equivalent IFRS measure: Basic earnings per share

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

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

	Year ended 31 March 2026			Year ended 31 March 2025		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) before tax (note 2)	267.2	16.5	283.7	339.4	(10.3)	329.1
Income tax (expense)/benefit (note 2)	(69.2)	(3.8)	(73.0)	(84.1)	3.9	(80.2)
Profit/(loss) after tax for the year	198.0	12.7	210.7	255.3	(6.4)	248.9
Amount attributable to owners of the parent	198.5	9.3	211.2	253.5	(6.4)	247.1
Amount attributable to non-controlling interests	(0.5)	–	(0.5)	1.8	–	1.8
Weighted average number of shares (m)	501.3		501.3	503.6		503.6
Effect of dilutive securities (m)	9.8		9.8	10.8		10.8
Diluted weighted average number of shares (m)	511.1		511.1	514.4		514.4
Basic EPS (note 9)	39.6p		42.1p	50.3p		49.1p
Diluted EPS (note 9)	38.8p		41.3p	49.3p		48.0p

Net debt

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2026 £m	31 March 2025 £m
Cash and bank balances	739.9	646.6
Bank overdrafts	(16.3)	(0.1)
Cash, cash equivalents and bank overdrafts	723.6	646.5
Debt	(774.6)	(751.2)
Derivatives hedging debt	(3.1)	(10.8)
Lease liabilities	(307.3)	(274.6)
Liabilities from financing arrangements	(1,085.0)	(1,036.6)
Lease receivables	45.9	44.6
Loans to joint ventures and associates	3.3	3.6
Derivatives hedging interest on debt	(16.8)	(31.4)
Net debt	(329.0)	(373.3)

Net debt (excluding leases)

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2026 £m	31 March 2025 £m
Net debt	(329.0)	(373.3)
Leases	306.3	272.1
Net debt (excluding leases)	(22.7)	(101.2)

Net debt / EBITDA (covenant basis) – Group KPI

Closest equivalent IFRS measure: No direct equivalents

Definition: Net debt (excluding leases), before loans to joint ventures and associates and finance lease receivables, divided by EBITDA (as defined in our banking covenants – being underlying operating profit, defined on page 46, excluding depreciation and amortisation and including certain covenant adjustments) plus JV and associate dividends. See page 41.

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

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

Closest equivalent IFRS measure: No direct equivalent

Definition: Underlying operating profit plus share of JV profit after tax, divided by the sum of net debt (excluding leases), shareholders' funds and retirement benefit deficit/(surplus). See page 41.

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

Financial review (continued)

Net capital expenditure

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

Definition: Property, plant and equipment and intangible additions less proceeds received from disposal of property, plant and equipment, right of use assets, and intangible assets.

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

	31 March 2026 £m	31 March 2025 £m
Purchases of property, plant and equipment (PP&E) (note 12)	(155.4)	(105.0)
Purchases of intangible assets (note 11)	(13.5)	(22.3)
Movements in unpaid capital expenditure	8.6	(1.0)
Gross capital expenditure	(160.3)	(128.3)
Proceeds on disposal of PP&E, intangible assets and right of use assets (statement of cash flows)	53.1	6.1
Net capital expenditure	(107.2)	(122.2)

Underlying operating cash flow

Closest equivalent IFRS measure: Net cash flow from operating activities

Definition: Cash flow from operating activities excluding net income tax, net interest paid, pension contributions in excess of the income statement charge and cash flows related to specific adjusting items and including net capital expenditure and lease principal payments. See page 38.

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

	31 March 2026 £m	31 March 2025 £m
Underlying operating cash flow	348.2	296.2
Add: net capex	107.2	122.2
Add: capital element of lease payments	44.5	45.4
Less: pension contributions in excess of income statement	(23.4)	(89.1)
Non-operating cash items (excluded from underlying cash flow)	(29.2)	(17.3)
Cash generated from operations	447.3	357.4
Tax (paid)	(18.3)	(21.8)
Less: net interest paid	(26.6)	(26.8)
Net cash flow from operating activities	402.4	308.8

Underlying operating cash conversion – Group KPI

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2026 £m	31 March 2025 £m
Underlying operating profit	293.3	362.9
Underlying operating cash flow	348.2	296.2
Operating cash conversion	119%	82%

Underlying free cash flow

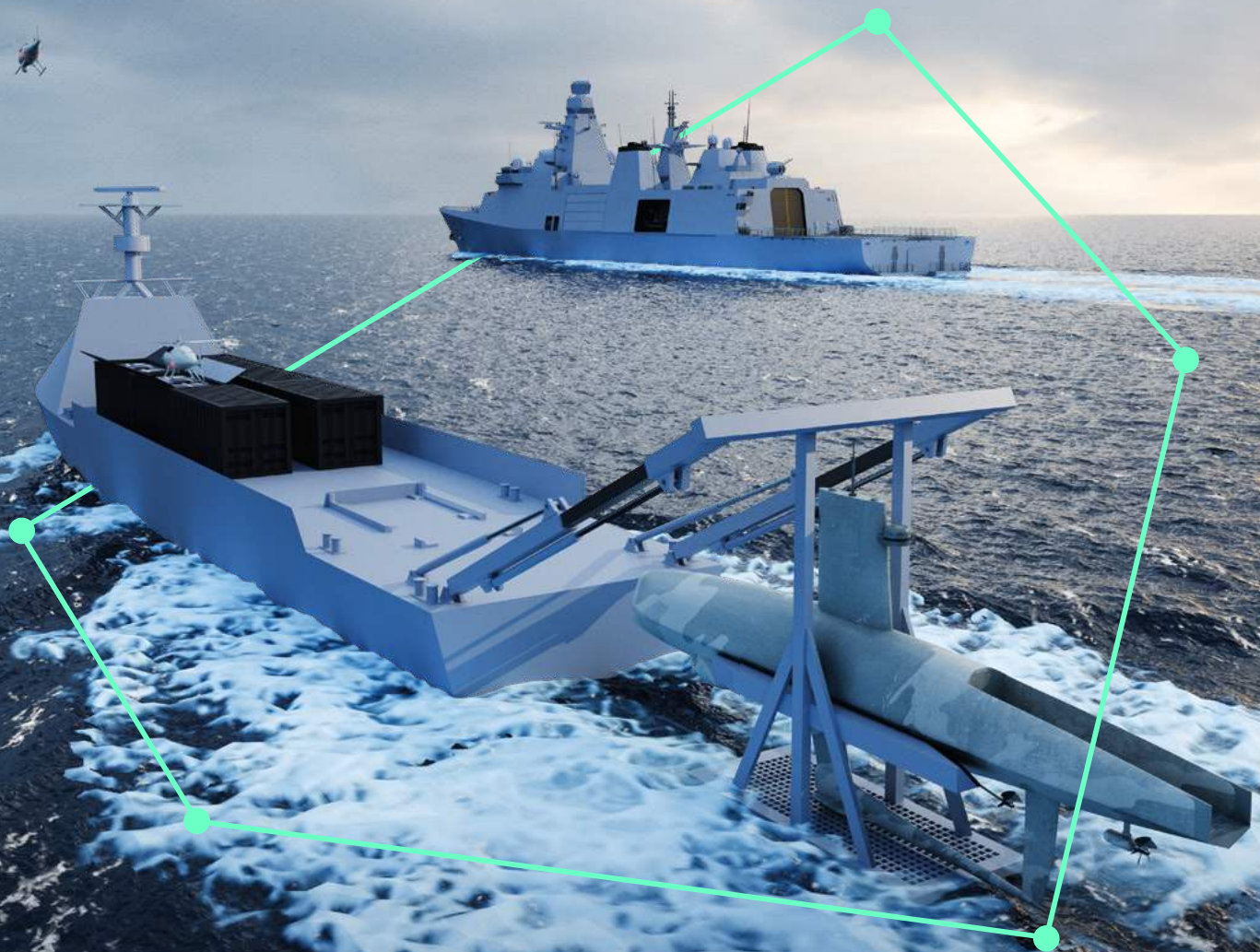
Closest equivalent IFRS measure: No direct equivalent

Definition: Underlying free cash flow includes cash flows from pension deficit payments, interest, tax, JV dividends, specific adjusting items, in addition to underlying operating cash flow. See page 38.

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

Operational reviews

Safeguarding mission critical naval systems



Shaping the future of hybrid navies

To counter escalating global maritime threats, modern navies demand a balance of fleet readiness and cost-effective modernisation. Our Marine sector directly addresses these demands through its multi-domain capabilities.

Working with HII, the United States' largest military shipbuilder and a global leader in maritime unmanned autonomous platforms, and defence technology company, Arondite, our technology plans are geared to supercharge the delivery of a hybrid navy concept.

We are combining advanced autonomy, modular systems, and digital innovation to create a fleet that is more agile, resilient, and ready for tomorrow's challenges. What we are proposing will keep the navies at the forefront of global maritime security for decades to come and redefine what is possible at sea.



What we do

Our c.7,500 employees design, develop, build, manufacture and integrate specialist systems, and deliver technical through-life support for complex systems and platforms in the marine sector. Over 75% of Marine’s revenue is derived from defence, with the remainder primarily comprising our Liquid Gas Equipment (LGE) business.

Design

Complex platforms, systems and equipment design for through-life affordability, capability, availability

Build

Digitally-enabled, high-integrity advanced manufacturing of platforms, systems and equipment

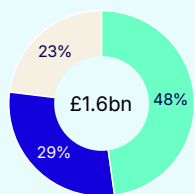
Support

Through-life support, life extension and upgrade of platforms, systems and equipment

Operational highlights

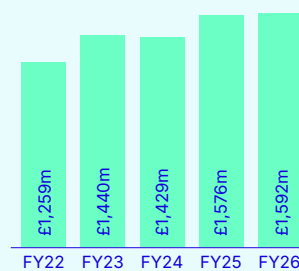
- Two UK Type 31 Inspiration Class frigates now floated-off and in outfitting phase, ships three and four in build
- Signed Maritime Partnership Programme framework agreement with Indonesia, worth up to £4 billion
- Awarded initial engineering contract on US Virginia Class nuclear submarine build programme
- Secured a two-year FMSP extension to support the UK Royal Navy’s surface ships and infrastructure
- LGE completed significant milestones securing 150th ecoSMRT® order for LNG reliquification technology, and successfully completed delivery of a world-first CO₂ carrier cargo handling system

FY26 revenue market split

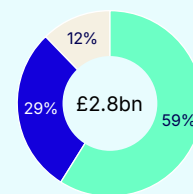


- Defence UK
- Defence International
- Civil International

Five-year revenue history



FY26 contract backlog market split



- Defence UK
- Defence International
- Civil International

Marine (continued)

Financial review

	31 March 2026 £m	31 March 2025 £m
Contract backlog*	2,806.8	3,026.5
Revenue	1,591.5	1,576.4
Underlying operating (loss)/profit*	(29.8)	96.5
Underlying operating margin*	(1.9)%	6.1%
Revenue excluding the Type 31 revenue reversal	1,687.0	1,576.4
Underlying operating profit excluding the Type 31 charge*	110.2	96.5
Underlying operating margin excluding the Type 31 charge*	6.5%	6.1%

* Alternative Performance Measures are defined in the Financial Glossary on page 46.

Contract backlog reduced to £2,807 million, reflecting delivery of the record LGE order intake in FY25 and revenue recognised on long-term contracts, partially offset by scope increases and renewals in UK and international defence contracts and the two-year extension to the FMSP ship support contract.

As outlined in the Financial Review on page 36, a £140.0 million charge was recorded in relation to Type 31, which is fully recognised in FY26. The cash impact of this charge is expected to be realised over the remainder of the programme. This has resulted in a revenue reversal of £95.5 million in FY26.

Revenue increased 2% (at constant FX) to £1,591.5 million, with growth in our LGE business and the Skynet programme partly offset by the Type 31 revenue reversal and lower UK and international ship support activity, as expected.

The underlying operating loss of £29.8 million reflects the Type 31 charge of £140.0 million, resulting in an underlying operating margin of (1.9)% (FY25: 6.1%). Excluding the Type 31 charge, underlying operating profit increased 14% to £110.2 million driven by performance on LGE orders and improvements in the profitability of existing contracts, increasing the operating margin to 6.5%.

Operational review

Defence

UK defence (48% of Marine revenue)

The Type 31 Inspiration Class programme to build five frigates for the Royal Navy at our facility in Rosyth continues to progress across multiple ships. During the year we floated off the first and second ships in the five-ship programme, laid the keel of ship three and formally commenced the build of ship four at its steel cutting ceremony.

Also at Rosyth, the advanced manufacturing of missile tubes for the UK-US Common Missile Compartment has achieved record levels of output, delivering 12 missile tube assemblies over the year for the US Columbia Class and UK Dreadnought submarine programmes. Following Rosyth's success as a centre of excellence for advanced manufacturing of complex nuclear submarine components, Babcock has further expanded its strategic partnership with HII, with an initial contract to support the US Virginia Class submarine build programme.

Babcock delivered the final year of critical surface ship support within the Future Maritime Support Programme (FMSP) contract, and at the year-end, agreed a two-year extension ahead of the future long-term Naval Support Integrated Global Network (NSIGN) contract.

During the year we delivered upgrade and maintenance work on Type 23 vessels, alongside fleet time support in the UK and overseas. Deployed support for Type 23s was delivered in South Korea, Australia, Crete and Gibraltar, ensuring high availability for the UK Carrier Strike Group. We also assumed further support packages for two Type 23 frigates as they enter extended readiness.

As the Type 23 fleet is phased out, Babcock is expanding its support focus to the new Type 26 frigates, planned to be base-ported at HMNB Devonport. Our specialist in-service support team is already planning routes to support these vessels when they enter service, ensuring they are delivered, upgraded, and maintained efficiently. As the new ships enter service, managing their critical equipment under a single, integrated support arrangement will become increasingly important, improving efficiency and reducing reliance on multiple external contracts.

As part of our ten-year contract to deliver maintenance and docking on the UK Queen Elizabeth Class aircraft carriers, HMS Queen Elizabeth successfully docked in Rosyth for routine work during the year.

In December 2025, our Mission Systems business led a group of established and startup companies to demonstrate integrated autonomous Maritime Domain Awareness (MDA) technology to several European navies. The MDA demonstration included a range of autonomous platforms, delivering aerial, surface and sub-surface Intelligence Surveillance and Reconnaissance outcomes.

The Mission Systems team continues to provide critical, long-term support, evidenced by the third renewal contract supporting in service Royal Navy submarine effector systems, worth £110 million over nine years. Meanwhile we've completed two years of service on the Skynet contract, where we are responsible for operating the UK's constellation of military satellites and ground stations, including the integration of terminals into the MOD network.

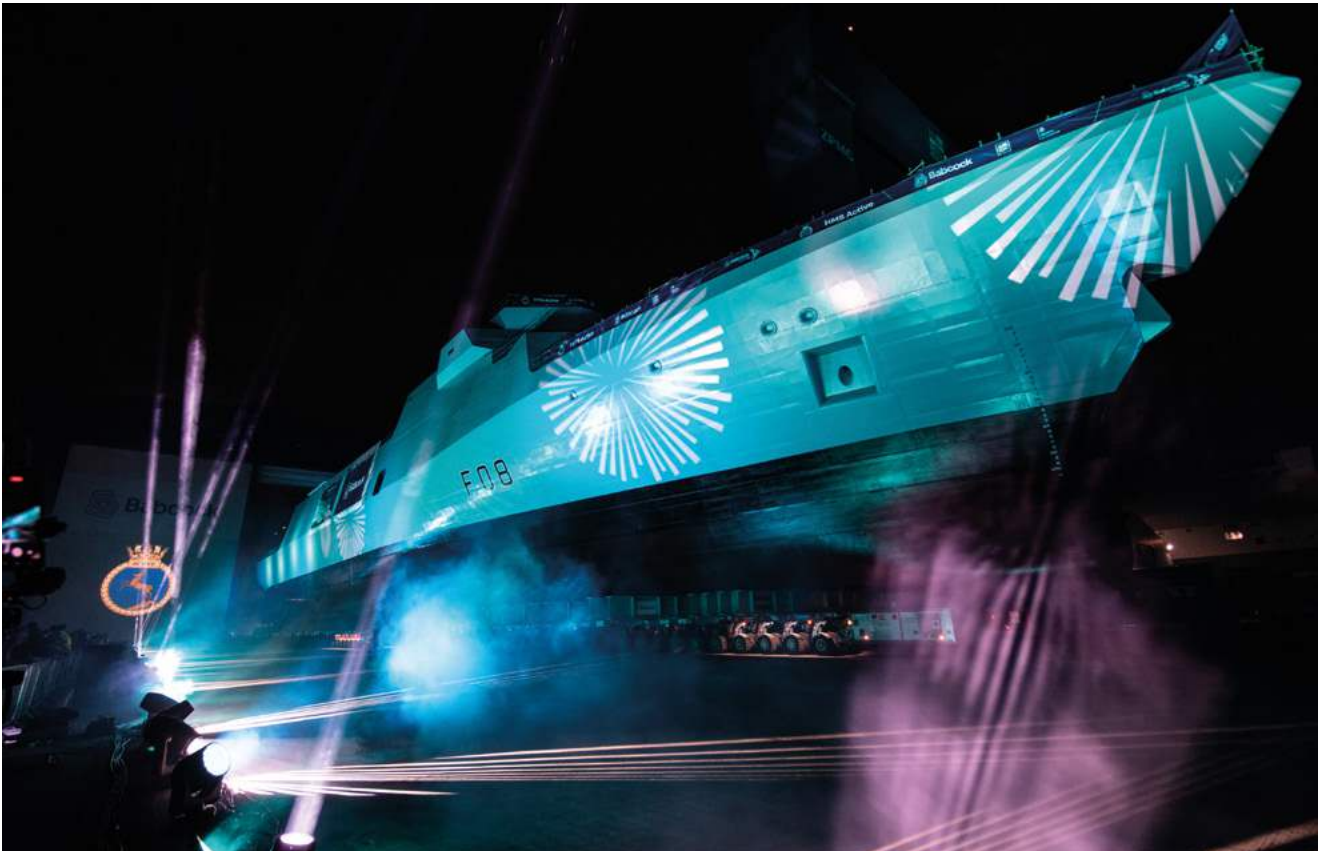
International defence (29% of Marine revenue)

In Canada, we are continuing to deliver an Extended Docking Work Period (EDWP), for the HMCS Victoria submarine, on schedule as part of the Victoria In-Service Support Contract (VISSC). This year, we received a contract amendment aligning HMCS Victoria's EDWP with the current VISSC contract end date in 2027. Babcock also supports the Fleet Maintenance Facility Cape Scott in Nova Scotia where the submarine HMCS Windsor's EDWP is taking place.

During the year, we signed a teaming agreement focused on in-service support with Hanwha Ocean, one of two short-listed suppliers for the Canadian Patrol Submarine Project (CPSP), to acquire Canada's next-generation conventionally-powered submarines.

In South Africa, we secured our first defence contract, for the survey and refit of two submarines at Simonstown Dockyard, alongside spares and product supply contracts. This marks a major strategic milestone and our entry into the defence sector in South Africa.

In Australia, we play a critical role as the Royal Australian Navy's surface ship sustainment provider in Western Australia, supporting four ship classes in parallel at Henderson. As Regional Maintenance Provider – West, we expanded our sustainment portfolio to include Arafura Class offshore patrol vessels, supply class auxiliary oiler replenishment ships, and Anzac Class frigates.



Under contract with BAE Systems Maritime Australia, Babcock completed the Critical Design Review for the Air Weapons Handling System for the Royal Australian Navy's new Hunter Class frigates.

In New Zealand, as Strategic Maritime Partner to the New Zealand Defence Force, we work closely with our 600 local suppliers to deliver maritime fleet sustainment services to the Royal New Zealand Navy (RNZN). During the year, we completed the largest maintenance package to date on HMNZS Te Mana, an Anzac Class frigate, as well as critical maintenance work on the RNZN fleet tanker HMNZS Aotearoa.

In Sweden, we were disappointed to learn our Arrowhead 120 design was not selected for preferred bidder on the Luleå Class surface combatant programme, after a decision was made in late May 2026.

In Denmark, we are awaiting an announcement from the Danish Government as to its preferred naval platform, with the Arrowhead 140 design under consideration.

In Poland, Babcock signed a strategic cooperation agreement with PGZ SA to collaborate on naval design, construction, maintenance, military aircraft sustainment and strategic asset management for the Polish armed forces.

In Indonesia, we signed the £4 billion Maritime Partnership Programme framework agreement to support Indonesia in areas of maritime defence, maritime security and maritime modernisation alongside an agreement for the sale of two further Arrowhead 140 frigate licences.

In Brazil, we have extended our support contract on landing platform dock, NAM Atlantico (previously HMS Ocean), to August 2026, with negotiations ongoing to extend further. Meanwhile we are also engaged to offer support to NDM Oiapoque (previously HMS Bulwark) to integrate into the Marinha do Brazil in FY27.

Civil (23% of Marine revenue)

Our LGE business performed well in the year, successfully delivering 42 projects featuring cargo handling and fuel gas supply systems for LPG, LNG, CO₂, and ethane liquefied gas carriers, including the successful delivery and trials of the cargo handling system for a world-first CO₂ carrier. A further milestone was reached with the winning of the 150th ecoSMRT® system. The business completed nine dry dock service operations globally to support its patented ecoSMRT® LNG reliquefaction systems, with a significant number already secured for FY27.

The company also secured its first contracts for the design and supply of ammonia fuel gas supply systems using our ecoFGSS-FLEX® technology, supporting the transition to ammonia as a zero-carbon marine fuel.

Operational reviews

Nuclear capability for generations

Tackling the need for clean energy

The global renaissance of nuclear energy, fuelled by net-zero mandates, energy security, and exponential power demands, presents a multi-decade growth catalyst in the UK. Our long history of expertise and specialist capabilities in our wholly owned subsidiary, Cavendish Nuclear, positions the Group well to capture multi-billion, long-duration opportunities.

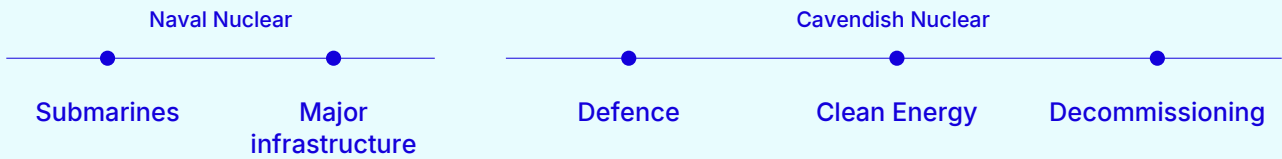
Our work at the UK's large gigawatt new build site, Hinkley Point C, through the Mechanical, Electrical and HVAC (MEH) Alliance, is bringing together manufacturing and build activities into an integrated model delivering: engineering and design, advanced manufacturing, construction readiness, systems integration and completion. Read more on new nuclear on page 16.



Nuclear

What we do

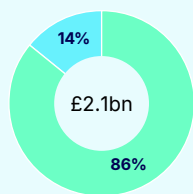
Our c.11,100 employees provide complex through-life engineering support to the entirety of the UK's nuclear submarine fleet. We own and manage critical national infrastructure and provide engineering integration support to AWE. We operate across UK civil nuclear, including new build, generation support and decommissioning.



Operational highlights

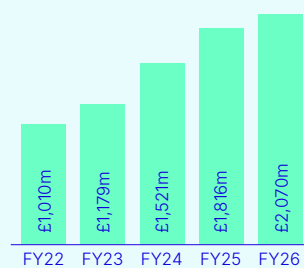
- Signed a six-month FMSP bridging agreement with the UK MOD to continue delivery of critical submarine support and naval base management until the expected replacement contract in FY27
- Devonport's 9 Dock complete with HMS Victorious docked down to continue deep maintenance programme
- Ramped up activity on the large gigawatt nuclear new build programme at Hinkley Point-C
- Secured major role as Great British Energy-Nuclear's Owners Engineer for the UK Small Modular Reactors
- H&B Defence (JV with HII) secured its first contract to enhance AUKUS supply chain capabilities

FY26 revenue market split

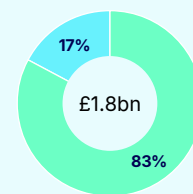


● Defence UK
● Civil UK

Five-year revenue history



FY26 contract backlog market split



● Defence UK
● Civil UK

Nuclear (continued)

Financial review

	31 March 2026 £m	31 March 2025 £m
Contract backlog*	1,792.7	1,983.9
Revenue	2,070.4	1,816.0
Underlying operating profit*	197.1	160.3
Underlying operating margin*	9.5%	8.8%

* Alternative Performance Measures are defined in the Financial Glossary on page 46.

Contract backlog decreased to £1,793 million, primarily reflecting trading on our multi-year FMSP submarine support, HMS Victorious deep maintenance and Major Infrastructure Programme (MIP) contract maturity, partly offset by the £0.5 billion six-month FMSP bridging agreement at the year-end.

Revenue increased 14% (at constant FX) to £2,070.4 million due to strong growth in our Cavendish Nuclear business (+18%) and higher submarine support activity, more than offsetting the expected decline in MIP revenue to £438 million (FY25: £504 million).

Underlying operating profit increased 23% to £197.1 million due to revenue growth, mix and the final year of trading of the Future Maritime Support Programme (FMSP) contract. As a result, underlying operating margin increased 70 basis points to 9.5% (FY25: 8.8%).

Operational review

Defence

UK Defence (86% of Nuclear revenue)

A six-month bridging arrangement, under our FMSP contract with the UK MOD, has been secured to maintain continuity of critical submarine fleet support and naval base management services. The contract bridges to a longer-term agreement, which is in the latter stages of negotiation. As part of the bridging arrangement, the MOD, the Royal Navy and Babcock have signed a Letter of Intent that reinforces the commitment to a long-term strategic relationship.

As a core partner in Team Plymouth, we announced the location of the new Babcock Capability Centre in Plymouth city centre, to relocate 2,000 colleagues from our Devonport Dockyard facility. This will bring thousands of highly skilled roles into the city centre, increasing footfall, supporting local businesses, and stimulating wider economic activity. First announced in June 2025, the centre will support Babcock's long term operations, strengthen Plymouth's role as a national defence engineering hub, and free up dockyard capacity to enable the efficient delivery of complex defence programmes.

Operationally, we are nearing completion of the base maintenance period for the first Astute Class submarine to undergo this type of maintenance activity in Devonport. Final activities are progressing in 15 Dock, to enable the transition to sea-readiness activities. This marks a return to our capability to maintain two nuclear-powered submarines in parallel at our Devonport facility.

HMS Victorious continues its deep maintenance period in dry dock at Devonport, extending its operational life into the 2030's ahead of the transition to the Dreadnought Class submarines. The programme is progressing through to the rebuild phase.

Our Major Nuclear Capital Programmes (MNCP) business, which manages the delivery of MIP, continues to focus on providing modern facilities and major upgrades that meet the evolving needs of the Royal Navy.

This work now spans significant infrastructure delivery across Devonport, including the close out of the 9 Dock buildings, the major upgrades to 10 Dock and the 5 Basin berths, and the delivery of essential secondary facilities. Work is also progressing well on the Submarine Refit Complex at Devonport, enabling essential maintenance required for the future defueling programme. In addition, Rosyth has been designated by the MOD to host a Contingent Dock Facility (CDF) for the future Dreadnought Class submarines due in the early 2030s. Activity on the CDF continues to accelerate, with the design passing through concept phase before entering detailed design and manufacture later in 2026.

In Scotland, major infrastructure and development work is required at HMNB Clyde, the MOD operational submarine base where we manage and deliver all in-service support and base maintenance periods for all UK nuclear submarines. The UK Government has announced the Clyde 2070 programme, a multi-decade, multi-billion programme representing one of the most significant UK Government investments over the coming decades, to ensure the Royal Navy can deliver the Continuous At Sea Deterrent from a modern, efficient base. The MOD's initial three-year, £250 million investment into their site aims to fund early site enabling activity, development and approval for the first major programmes and working with industry to design an organisation and structure to deliver transformation at scale. Through our continued delivery at the naval base and our prime expertise delivering the Devonport MIP, we are well positioned to capture future opportunities to support delivery of this complex programme.

During the year, we progressed work to enable the first defueling of a decommissioned Trafalgar Class submarine in over two decades, completing key activities on the first defuel platform and advancing a second as part of the programme rollout. Further afloat work planned for FY27 will improve efficiency and reduce docking duration, supporting a three year, £114 million programme awarded in June 2025 and delivered with the wider Defence Nuclear Enterprise to defuel four submarines.

Our Rosyth facility marked a milestone in March 2026 with 40% of material removed from Swiftsure as we progress to complete dismantling by the end of 2026, using a world-first methodology. This project is on track to ensure that 90% of materials can be reused or recycled, setting a new standard for sustainable submarine recycling.

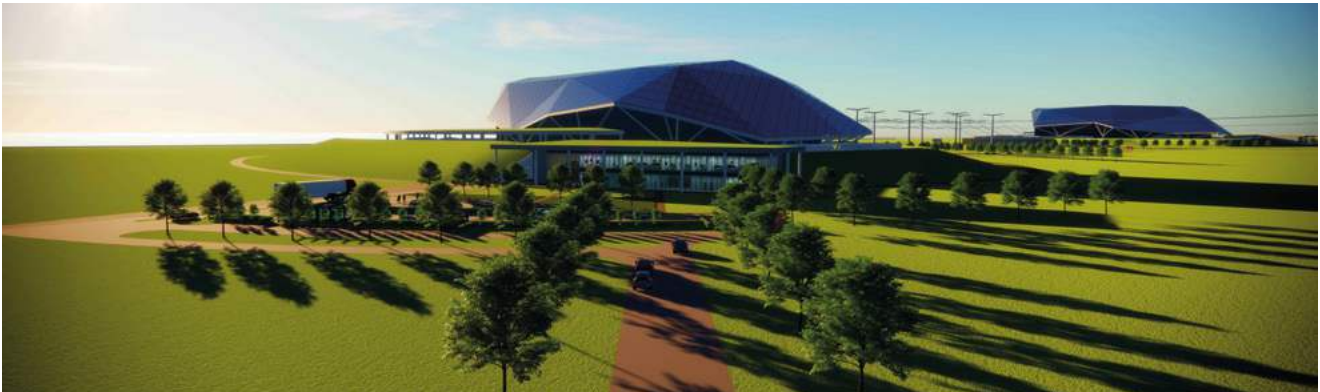
At AWE Aldermaston and Burghfield sites, work continues on the design, installation and commissioning of complex plant and engineering equipment in support of the Continuous at Sea Deterrent (CASD).

International defence

Our joint venture with HII, H&B Defence, secured its first contract to enhance supply chain capabilities for the global AUKUS enterprise through the Australian Submarine Supplier Qualification (AUSSQ) pilot programme, Australia's gateway into the US submarine supply chain. In August 2025, the first Australian supplier received an RFQ for the US Virginia Class submarine programme following successful qualification through AUSSQ. The AUSSQ programme also enables Australian suppliers to compete for future maintenance activity in Australia on Astute Class submarines. H&B Defence is developing a syllabus to advance nuclear knowledge amongst Western Australian businesses after securing a state government grant to deliver a series of new defence industry training courses.

Internationally, MNCP delivery in the UK strengthens our ability to support global programmes, including opportunities related to AUKUS aligned infrastructure at Henderson in Western Australia and at Osborne in South Australia.

We continue to provide in-service support, deploying specialists to Australia to support the Astute Class submarine maintenance period, an important step in deepening the AUKUS trilateral partnership ahead of Submarine Rotational Force-West from 2027.



Civil

UK Civil (14% of Nuclear revenue)

At Hinkley Point C, Cavendish Nuclear's contribution to the MEH alliance, a partnership of four organisations, has grown to around 900 people (up from around 550 in FY25), with further growth anticipated as programme activity continues to increase.

During the year, the UK Government confirmed full funding for Sizewell C as Britain's next nuclear power station, adopting a Regulated Asset Base funding model in contrast to the approach used for Hinkley Point C. As part of the Sizewell C consortium and alliance partnership, we are coordinating the supply of materials and equipment to enhance installation efficiency, while also creating jobs and apprenticeships, and supporting delivery of this nationally significant project and the UK's clean energy future. Alongside our role in nuclear build, we continue to provide critical support to EDF as it extends the operational lives of the UK's existing generating nuclear reactors.

Our Cavendish Nuclear business, as part of the Litmus Nuclear Joint Venture with Amentum, has been selected as Owner's Engineer for the Great British Energy-Nuclear (GBE-N) as a UK-first for the SMR programme. In this role, we provide independent technical advice and oversight, supporting safe and efficient delivery. This 14-year programme, valued at around £300 million, positions us at the centre of the UK's SMR market, creating opportunities to export UK owner-engineer expertise and services. This follows the selection of GBE-N's preferred bidder to build SMRs in the UK, and we will play a key role in supporting deployment. As GBE-N moves from design into the delivery phase of the SMR procurement programme, it is expected to award a series of contracts to the supply chain over the next two years. We continue to actively develop manufacturing and wider delivery ecosystem opportunities.

The UK Government has provided clarity on how privately led advanced nuclear technology projects can be accelerated, with the launch of the Advanced Nuclear Framework. It provides a structured route for credible developers to progress toward deployment, supported by clearer planning, regulatory reform and access to specialist expertise. Coupled with the announcement of the Atlantic Partnership, a UK-US Government Agreement for Advanced Nuclear Energy, we see significant potential to support advanced nuclear technology developers.

We are also supporting Urenco in the design of an expansion to the tails management facility, a specialist nuclear site used to manage and process 'tails', converting the depleted uranium hexafluoride that remains after uranium enrichment to the lower hazard uranium oxide material for long term storage. We have started the front-end engineering design for the facility, which is expected to complete at the end of 2026.

In decommissioning, we continue to target major framework opportunities with Sellafield. In October 2025, our joint venture, Nuclear Decommissioning Solutions (NDS), secured a contract under the £4.6 billion Sellafield Ltd Decommissioning and Nuclear Waste Partnership framework to support retrievals activities within the site's high-hazard risk reduction programme.

We have also signed contracts for the provision of radiometric and environmental analysis support, which secures our position as a critical service supplier to Sellafield over the next four years.

International Civil

In the USA, Cavendish Nuclear, as part of the Southern Ohio Cleanup Company (SOCCo) joint venture, transitioned into the site management and operations phase of the decommissioning and dismantling contract with the US Department of Energy, to lead environmental remediation at the former Portsmouth Gaseous Diffusion Plant in Piketon, Ohio. The ten-year contract, with a potential five-year extension, will see the joint venture safely demolish a legacy nuclear power plant facility and deliver environmental restoration.

In Japan, Alkali Metal Processing Limited, a further joint venture between Cavendish Nuclear and Amentum, was awarded a contract by the Japan Atomic Energy Agency to construct a new facility at the Port of Workington, UK, to treat sodium coolant removed from the Japanese reactor and convert it safely into sodium hydroxide for general industrial reuse. This is the next phase of work to support the decommissioning of the Monju Prototype Fast Reactor, in Fukui Prefecture. Construction activities will now progress alongside installation of process equipment and preparations for operations, working closely with locally based supply chain partners.

Our previously announced MOU with Lucideon remains in place, a partnership that brings together our engineering and project delivery expertise with Lucideon's MIDAR® geopolymer technology, and continues to explore opportunities in decommissioning and nuclear waste management, initially focused on the Japanese market.

Operational reviews

Enabled-support delivering readiness

Supporting the British Army wherever, whenever and however they need it

Amidst rising global instability, continuous military readiness is a non-negotiable customer need. Aligning with the UK's demand for increased vehicle availability, we recently secured a five-year, £1 billion extension to our DSG contract to deliver complex vehicle support and fleet maintenance for the British Army. This strategic follow-on contract underscores Babcock's key role in the land domain.

Supporting vital military assets, ranging from Land Rovers up to Challenger II main battle tanks, we provide technology enabled preventative maintenance repair and overhaul, frontline support and complex supply chain management.

The contract capitalises on modern defence trends by integrating digital transformation into fleet management. By utilising data-driven asset management and predictive support techniques, we aim to maximise combat-readiness to deliver capability, availability and affordability.



What we do

Our c.6,000 employees provide essential services to our customers through three core capabilities: build, support and train. We do this through the delivery of through-life engineering support and systems integration for military vehicles and equipment. We provide individual and collective training for customers with critical missions and deliver engineering services in power generation and transport networks and through-life support of mining equipment.

Design

Through-life engineering support for complex military equipment

Build

Vehicle build and systems integration. Engineering services in power generation and transport networks

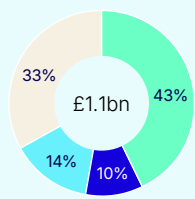
Support

Individual and collective training, delivering operational readiness for customers with critical missions

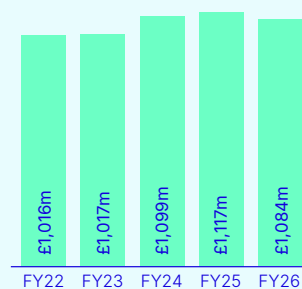
Operational highlights

- Successfully mobilised the £1 billion five-year British Army strategic support partner DSG follow-on contract and secured additional work to support new platforms
- Progressed the High Mobility Transporter Jackal 3 programme for the British Army, completing delivery in FY27
- Awarded a contract to deliver 270 Light Utility Vehicles for the British Army
- Signed a teaming agreement with Patria to offer its 6x6 armoured personnel carrier to the UK Armed Forces
- Demonstrated the digital integration of light mortars with in-service UK tactical communications systems

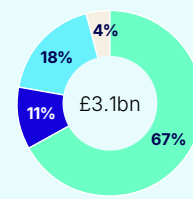
FY26 revenue market split



Five-year revenue history



FY26 contract backlog market split



Land (continued)

Financial review

	31 March 2026 £m	31 March 2025 £m
Contract backlog*	3,086.9	3,466.1
Revenue	1,084.4	1,116.6
Underlying operating profit*	95.3	86.2
Underlying operating margin*	8.8%	7.7%

* Alternative Performance Measures are defined in the Financial Glossary on page 46.

Contract backlog decreased to £3,087 million due to revenue traded on multi-year contracts, primarily the new c.£1 billion DSG vehicle support contract which was booked into backlog in FY25.

Revenue decreased 3% (at constant FX) to £1,084.4 million, although returned to growth in the second half of the year as expected. Growth in our defence businesses was more than offset by lower volumes in our Civil businesses, particularly Rail and South Africa.

Underlying operating profit increased 11% to £95.3 million, reflecting growth in higher margin defence programmes and contract completion. As a result, underlying operating margin increased 110 basis points to 8.8% (FY25: 7.7%).

Operational review

Defence

UK defence (43% of Land revenue)

During the year, the £1 billion five-year DSG follow-on contract extension for the maintenance, repair and asset management of over 30,000 British Army vehicles and equipment was successfully mobilised. This will see Babcock maximise the availability of critical equipment through improved readiness, regeneration and asset management services, cementing our position as a strategic partner to the British Army. Within the period, Babcock has secured additional work to support critical new platforms.

Metis, our network of enterprise-wide systems and data, continues to be developed at pace to support both our customers' operational needs today, while creating long-term value through realisable lifecycle intelligence. Metis turns fragmented, siloed data into actionable, real time intelligence.

During the year, we were awarded the Phoenix 3 contract by the UK MOD, a new five-year, £60 million contract managing the MOD's 'white' fleet of 15,000 civilian transport vehicles across the UK and overseas. We were also awarded a small contract to provide the British Army with in-service support for its Field Electrical Power Supplies power generators.

Through our HECTOR contract, which see us delivering personnel training and refurbishment and renewal of equipment to Ukraine's Armed Forces, we continue to provide and have expanded our support to Ukraine throughout the year, supporting essential battle winning equipment. We also secured a 12-month extension supporting the Army transport personnel under Op Interflex.

Working with Supacat and the UK MOD, we completed the first tranche of the High Mobility Transporter Jackal 3 programme for the British Army. We are now delivering tranche two, which consists of 53 six-wheeled 'Extenda' variants, known as the Jackal 3 (E), with the final deliveries due later in 2026, completing the programme delivery of 123 Jackal 3 and Jackal 3 (E) vehicles.

In September 2025, in a UK-first, we successfully demonstrated the integration of the light 120mm mortar with the in-service UK tactical communications systems, enabling first-of-its-kind networked firepower from sensor to effector, and providing a 'ready-now' digital capability for the British Army.

Also in September 2025, we signed a teaming agreement with Patria to be the build partner for its armoured personnel carrier in the UK. The agreement coincided with confirmation that the UK had signed a technical arrangement to join the Common Armoured Vehicles (CAVs) programme, which encompasses a growing number of nations across the Joint Expeditionary Force.

We have been awarded a sub-contract to deliver 270 units of a Light Utility Vehicle to the British Army's 11 Brigade, as part of the Army's RAPSTONE taskforce to deliver high performance products at speed.

Our defence training business was awarded a one-year extension to our Electro-Mechanical Training Contract to deliver individual technical training to the British Armed Forces at MOD Lyneham, worth around £20 million.

International defence (10% of Land revenue)

In Poland, our training business signed an MOU with the Polish Air Force University to conduct joint research and development for the armed forces. We have also signed a teaming agreement with Airbus Helicopters and CAE to offer a comprehensive helicopter air crew training solution to the Polish Armed Forces.

In Australia, we have secured a three-year, A\$42 million contract extension for the asset management programme for Counter-Chemical, Biological, Radiological, Nuclear and Explosive (C-CBRNE) capability, which involves leading-edge technologies to prevent and defeat CBRNE threats used against Australia's national interests. The programme was also awarded Land Programme of the Year at the 2025 Australian Defence Industry Awards. We have also expanded our Woodville North facility in South Australia by 50% to support the upgrade and enhancement of Australia's Defence High Frequency Communications System.

In Albania: working with our local partner Timak Defence we have secured the delivery of the first tranche of vehicles to Albanian MOD. This export showcases the growing export potential of our GLV platform.



Civil

UK Civil (14% of Land revenue)

Our Rail business has experienced lower volumes year on year. This has been driven by our Translink frameworks, following the completion of the Belfast Grand Central Station project. Volumes in the Rail Systems Alliance Scotland (Babcock, in partnership with Network Rail and Arcadis) were delivered as expected in year two of Control Period 7, with a seamless transition to the new Network Rail National Plant Framework that commenced in April 2025. We also secured the new Translink track framework, which commenced in January 2026.

We have made further progress in decarbonising the London Fire Brigade's (LFB) fleet. We have replaced the first batch of light commercial vehicles from the LFB current diesel models to the electric vehicle equivalent. This builds on the success in converting the majority of the LFB's car and van fleets to electric variants. Having co-written the LFB's fleet strategy, Babcock is supporting the LFB to become a world leader in decarbonising its operational fleet.

Following a successful trial period, Babcock secured the LFB's longer term wildfire fighting capability through purchasing a fleet of specialist vehicles and equipment designed to cater for the unique and growing risks global warming brings to grasslands and rural areas.

International Civil (33% of Land revenue)

In Africa, we continue to experience reduced demand in our equipment business as a result of constrained commodity conditions and elevated electricity costs, following the temporary closure of several mining smelters across South Africa.

Operational reviews

Mission-critical military pilot training

Delivering military air power requirements

As European defence requirements intensify, allied nations increasingly rely on specialised industry partners to accelerate force readiness. Addressing this critical need, we continue to mobilise the landmark 17-year, Mentor 2 contract for the French Air and Space Force and Navy, where we aim to evolve technical pilot training by deploying 22 advanced Pilatus PC-7 MkX aircraft and 12 high-fidelity Exail flight simulators, and centralising instruction.

Our streamlined approach aims to increase training efficiency while ensuring technical preparation for up to 120 student pilots annually.

Our track record in France illustrates European market penetration, aligning our technical training and support capabilities with sovereign security needs of allied nations.

Image credit: Pilatus Aircraft



What we do

Our c.2,600 employees deliver military pilot training support for the two largest Air Forces in Europe (France and UK), through-life support to operational military flying assets and critical air operations for government customers.

Technical training

We deliver end-to-end military flying training for UK's Royal Air Force, French Air Force and French Navy

Through-life support

Multi-domain support of operational military flying assets and operational military infrastructure

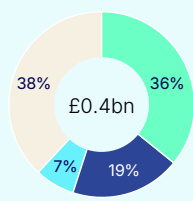
Critical air operations

Global mission-critical air operations delivered to save lives and protect communities for government customers

Operational highlights

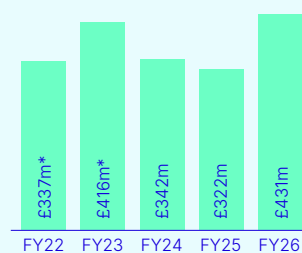
- Progressed mobilisation of our Mentor 2 military air training contract in France
- Secured a four-year contract extension to continue Light Aircraft Flying Task technical training for the RAF
- Awarded a £70 million contract to provide new infrastructure facilities for the UK's military flying training system
- Awarded an eight-year AUS\$230 million contract with Australian Border Force for helicopter protection and security
- Awarded new contract up to 10 years to support Airbus H145-D3 helicopters for the French Government

FY26 revenue market split



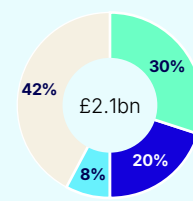
- Defence UK
- Defence International
- Civil UK
- Civil International

Five-year revenue history



* Excluding divested businesses (FY23, FY22)

FY26 contract backlog market split



- Defence UK
- Defence International
- Civil UK
- Civil International

Aviation (continued)

Financial review

	31 March 2026 £m	31 March 2025 £m
Contract backlog*	2,068.8	1,939.7
Revenue	431.4	322.3
Underlying operating profit*	30.7	19.9
Underlying operating margin*	7.1%	6.2%

* Alternative Performance Measures are defined in the Financial Glossary on page 46.

Contract backlog increased to £2,069 million with the award of the A\$230 million Australian Border Force contract, partly offset by trading on long-term contracts.

Revenue increased 34% (at constant FX) to £431.4 million, reflecting the ramp up of the Mentor 2 programme in France and the British Columbia HEMS contract in Canada, and increased scope in UK military support contracts.

Underlying operating profit increased 54% to £30.7 million, due to the mix of revenue growth. As a result, underlying operating margin increased 90 basis points to 7.1% (FY25: 6.2%).

Operational review

Defence

UK defence (36% of Aviation revenue)

The LAFT contract has been extended for a further four years, ensuring sustained service delivery. Currently it continues to deliver high levels of aircraft availability, with the team recently completing 750,000 flying hours. Support also continues for the fast jet lead in training for the Ukrainian Pilot Force, as pilots prepare to fly F-16s.

Performance remains strong on the HADES contract, delivering critical technical support services to the RAF, Joint Aviation Command and Strategic Command at 16 stations across the UK.

The contract supporting the RAF fleet of 28 Hawk T2 jets maintains a strong level of performance, with the team recently supporting an operational training detachment in Corsica. We welcomed our tenth cohort of aerospace apprentices to RAF Valley, bringing the total number of apprentices who have been through the scheme to over 60. The scheme continues to strengthen technical capability and workforce resilience, while supporting regional economic growth.

We were also awarded a £70 million contract to deliver new infrastructure facilities as part of a £300 million Military Flying Training System contract secured by Ascent, our 50/50 joint venture with Lockheed Martin. Ascent will deliver the Future ISTAR and Rear Crew Training System programmes.

International defence (19% of Aviation revenue)

In France, we continue to deliver Mentor 1 and FOMEDEC contracts and have begun the ramp-up phase, Mentor 2, awarded in January 2025 for up to 17 years, to deliver military air training solutions for the French Air and Space Force and the French Navy. The contract, worth up to €800 million, comprises the provision of aircraft, simulators and initial pilot training as well as through-life support of the aircraft, and infrastructure. This agreement represents a significant expansion of our military activity in France FY27 will be the final year of programme mobilisation.

As part of our contract with the French MOD, the H160 helicopter fleet has successfully completed more than 300 rescue missions again during the period. We have also completed the world's first 900-hour periodic maintenance for an H160 aircraft at our dedicated facility in France. In addition, the H160 has reached a major milestone, surpassing 1,000 flight hours on one of the six aircraft deployed by the French Navy for Search and Rescue (SAR) operations. The overall H160 fleet has now accumulated more than 5,000 flight hours.

In August 2025, we were awarded a new ten-year contract by the French Ministry of Armed Forces' Directorate of Aeronautical Maintenance to support the French Government's fleet of 46 new Airbus H145-D3 helicopters. In parallel, under our existing 12-year contract with the Sécurité Civile and the French Gendarmerie Nationale, and our seven-year contract with the French Customs and the Gendarmerie Nationale, we completed major maintenance on nine helicopters, with three additional maintenance visits currently underway Babcock now supports more than 85 French military helicopters every day.

During the period, we marked another milestone with the first multi-year training support contract for an L-39 fighter jet to support the training of test pilots for the International Test Pilots School of the French DGA. This achievement further strengthens our position in the pilot training market. Over the first two lease periods, we delivered both in-flight and maintenance training.

We have also secured a new contract, Ariane2, with the Armed Forces Commissariat Service to provide training for pilots of the FASF and the French Navy. Our teams will deliver both theoretical instruction and hands-on flight training for student pilots, Weapons Systems Officers, and simulator instructor trainees in Cognac on the Grob 120 and in Salon-de-Provence on the Cirrus SR22.

We have signed an MOU with French aircraft manufacturer AURA AERO, to jointly offer and promote INTEGRAL, the new-generation electric training aircraft with aerobatic capabilities, along with a complete packaged service, covering technical, logistical, training and support services.



Civil

UK Civil (7% of Aviation revenue)

During the year, we secured a four-year contract extension with Hampshire and Isle of Wight Air Ambulance, reinforcing our long-standing partnership and commitment to saving lives. We also celebrated 35 years of partnership with Midlands Air Ambulance Charity, one of the busiest air ambulance charities in the UK.

We delivered Scotland's most advanced air ambulance as part of our ten-year contract with Scotland's Charity Air Ambulance services through the adaption of helicopters into air ambulances. The helicopter is equipped with state-of-the-art technology, including night vision imaging systems, enabling the extension of flying hours.

We enabled Police Scotland's air support unit to be the first police force in the UK to operate with a drop in sustainable aviation fuel as they look to transition their whole fleet to a more sustainable model.

International Civil (38% of Aviation revenue)

In France, we are currently the leading operator of EC/H145 helicopters, and we successfully delivered around 10,300 Helicopter Emergency Medical Services (HEMS) missions and 8,700 flight hours with our H145/H135 fleet for five French regions.

We expanded our Angers base to pilot a full 24/7 operational cycle and enhanced annual activity at La Roche-sur-Yon with a mixed fleet of H135 and EC145 helicopters.

In Canada, as part of our ten-year contract with Ascent Helicopters Ltd., we continue to support the delivery of rotary-wing air ambulance services to British Columbia Emergency Health Services, with all five operating bases in British Columbia now operational, as well as all seven Leonardo AW169's.

In 2025, Canada saw the second worst wildfire season on record, resulting in unprecedented flying hours. Throughout this demanding season, our team continued to successfully deliver aerial wildfire suppression services for the Government of Manitoba, achieving a consistent aircraft availability rate of 98%. Our team also completed an out-of-province deployment in Nova Scotia and finished the winter maintenance of a CL415 and Turbo Commander ahead of schedule in February 2026, enabling the earliest test flights of the aircraft since the start of Manitoba's aerial firefighting programme.

In Australia, after being awarded a new eight-year A\$230 million contract with Australian Border Force in late-2025, Babcock is mobilising to deliver two new H145 helicopters and staff – including pilots, surveillance crew and engineers – to support the airborne services enabling critical deterrence, prevention and response operations from Horn Island, in the Torres Strait. The service provides multi-agency capability for a range of maritime security threats including illegal fishing, illegal immigration and marine pollution.

Stakeholder engagement

Go Together, Go Far

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

We're here for the long term; delivering lifetime engineering means setting our sights across generations. That's why we're committed to forging close and enduring partnerships with our stakeholders. Because we know that to go far, we must go together.



Customers

Our deep understanding of the needs of our customers and the challenges they face allows us to help them to succeed. We have long-term relationships with our customers, including as a Strategic Supplier to the UK Government. We seek to deliver deeply pragmatic and integrated solutions for our customers' critical programmes and services, working together for our mutual success.

What matters to them

- Health and safety
- Operational excellence
- Affordability, Availability, Capability
- Integrated solutions
- Innovation
- Collaboration

How we engaged

This year, Babcock was designated a risk rating of '1' by the UK Government – the best risk rating attainable for a company under the Strategic Partnering Programme (SPP).

- Regular engagement with customers at all levels
- Held up as a Strategic Partnering role model by UK Cabinet Office
- Held a One Government Day in October 2025 and continued programme of Partnering Executive Meetings across all of our sectors
- Collaborated with UK Government and MOD on the largest Strategic Partnering performance workstream
- Maintained Corporate Resolution Planning certification
- For critical programmes, like AUKUS, we regularly meet with various Federal and State Government stakeholders

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 132 and on pages 140 to 142, which form part of this statement. Further information on how the Board addressed the different matters set out in s172(1) in performing its duties during the year can be found as follows:

s172(1) factor	Relevant disclosures
a. the likely consequences of any decision in the long term	<ul style="list-style-type: none"> • Driving sustainable growth (pages 8 and 24) • Sustainability strategy (page 70)
b. the interests of the Company's employees	<ul style="list-style-type: none"> • Investing in skills (pages 26 and 85) • Building an inclusive, diverse and resilient workforce (page 82)
c. the need to foster the Company's business relationships with suppliers, customers and others	<ul style="list-style-type: none"> • Stakeholder engagement (page 68) • Commercial integrity (page 93)
d. the impact of the Company's operations on the community and environment	<ul style="list-style-type: none"> • Supporting our communities (pages 28 and 89) • Protecting the natural environment (page 77)
e. the desirability of the Company maintaining a reputation for high standards of business conduct	<ul style="list-style-type: none"> • Responsible business (page 93)
f. the need to act fairly between members of the Company	<ul style="list-style-type: none"> • Investors (page 69)



Colleagues

Babcock's value, first and foremost, is in its people. Our collective know-how is the key to our success, both now and in the future. Our people deserve an environment in which they can thrive – one that requires an unwavering commitment to their health, safety and wellbeing, and a culture where talent is recognised, supported and developed through meaningful action so that everyone can reach their full potential.

What matters to them

- Fair pay and reward
- Opportunities for career development
- Health, safety and wellbeing
- An empowering, inclusive culture with strong leadership
- Collaboration

How we engaged

Our Global People Survey remains a key indicator of organisational health and engagement, with a strong participation rate of 79%.

- Regular engagement with leaders at all levels
- Our designated Director for workforce engagement, Lord Parker, visited several Babcock sites, holding 10 meetings and engaging with over 200 colleagues
- 'Go Together, Go Far' immersive bus tour visited several operational sites across the UK
- Improving systems and processes
- Internal communication channels
- Ongoing programme of 'Safety Stand-Down' sessions held across the business
- Held the second year of Babcock's Ignite Awards
- Regular training programmes
- Targeted career development and mentoring initiatives for women

Investors

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 hard to provide clear and transparent information to the market which enables informed decisions, delivered by our active Investor Relations and Treasury teams.

What matters to them

- Creation of shareholder value
- Clarity of communications
- Appropriate access to management
- Responsive investor relations
- Leadership
- Strategy and business development
- Capital allocation model
- Governance

How we engaged

Babcock completed its first year back in the FTSE100 and was nominated for three awards, including 'Company of the Year' at the prestigious UK PLC awards in February 2026.

- Improved transparency and consistency of formal communications
- Delivered Civil Nuclear and Marine 'teach-ins' for analyst community
- Treasury team engagement with banks, noteholders and credit rating agencies
- Extensive investor roadshow programme with management and Investor Relations team
- Chair engagement with top shareholders

Communities

Babcock is a major employer, often operating in deprived areas. We have the power and responsibility to provide positive benefits to the places where we live and work, not only through employment but also by working with local suppliers, local community groups and charities, through volunteering and STEM outreach. We seek to work in partnerships with the communities we serve so that we can thrive together.

What matters to them

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

How we engaged

In July 2025, Devonport dockyard was opened to the public in July for the first time since 2009, welcoming over 10,000 visitors over two days.

- Regular dialogue at our largest sites on matters of mutual interest
- Working with SMEs to support local economies
- Colleague volunteering
- University and skills partnerships
- Sponsorship and donations
- STEM outreach
- Engagement with and support for local community programmes

Suppliers

Our sustainable growth requires an efficient, resilient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our values and appetite to drive operational improvement through innovation and best practice. These partnerships allow us to ensure continuity of supply, minimise risk and bring integrated solutions to our customers.

What matters to them

- Collaboration
- Fair treatment and respect
- Transparent communication and engagement
- Equal access to opportunities
- Prompt payment and predictable supplier cash flows

How we engaged

In FY26, Babcock launched the UK's first defence industry Small and Medium-Sized Enterprise (SME) Engagement Charter (page 30), built on the findings from the Next Line of Defence Report.

- Regular open and honest two-way communications
- Supplier Code of Conduct and Supplier's Guide
- Supplier conferences and workshops
- Supplier due diligence



Sustainability: Delivering our strategy

We strive to help safeguard our planet and support our people and communities

Sustainability is one of the four pillars of our business strategy; it is a key enabler to achieving Babcock’s Purpose and our overall success. See page 24.

Last year, we announced a new sustainability strategy to enable us to meet the increasingly complex requirements placed on the business and which reflected our growing level of ambition. We are now delivering this strategy, making progress on our targets and building capability across the business to prepare us for the future.

Making an impact

Our sustainability strategy is grounded in where we can have the greatest effect. In FY25, we undertook a Double Materiality Assessment (DMA) examining the impact of our operations on environmental, social and governance factors, while also

considering the financial risks and opportunities for the business posed by these factors.

Our DMA was based on the principles established by the Corporate Sustainability Reporting Directive (CSRD) and considered over 90 topics. From this, we identified 19 factors material to Babcock. The most material form the basis of our six strategic priorities in our sustainability strategy.

Our priorities

The scale of Babcock’s operations, and the sectors and locations in which we operate, mean we have a duty to help safeguard our planet and support our people and communities. This is how we encapsulate our strategy to build a more sustainable business. Within this strategy we have six priorities, three environmentally focused and three socially focused.



Good governance is critical to the delivery of our sustainability strategy as well as the business as a whole. Governance of this strategy is led by the Corporate Sustainability Committee (CSC), a sub-committee of the Executive Committee. The CSC is comprised of Executive Committee members and key functional leads. The Executive Committee also reviews progress against our sustainability targets on a quarterly basis. The Board plays an active role in oversight of our sustainability strategy, reviewing the whole strategy annually and discussing specific topics on a regular basis.

Delivering our targets

Each of our priorities encapsulates a wide range of activities to ensure compliance, manage risk and improve the sustainability performance of the business. In addition, to support progress in each priority area and ensure focus, a 2030 target was set to support each one.

A summary indication of performance to date against each target is given below, with further detail provided in the relevant section.









● Full methodology and details of our double materiality assessment are available on our website



● Please view our sustainability video to learn more about our approach

Summary table of targets and progress in FY26

Priority	Target	Progress	Learn more
 Tackling climate change	*^ A 42% reduction by 2030 in our Scope 1 and 2 emissions against a 2021 baseline	20.1% reduction	● See pages 72 and 33 for details
 Managing our resources responsibly	A 15% energy efficiency improvement target by 2030 against a 2024 baseline	14.1% improvement	● See page 75 for details
 Protecting the natural environment	A 10% biodiversity net gain across our most significant sites (where we have full operational control) by 2030	In progress	● See page 77 for details
 Ensuring the health, safety and wellbeing of our people	* A 10% reduction in the number of days lost to work-related injuries and occupational illness by 2030 against a 2025 baseline	0.8% increase	● See pages 79 and 33 for details
 Building an inclusive, diverse and resilient workforce	*^ 30% women in our workforce by 2030	19.4%	● See page 81 and 33 for details
 Supporting our communities	50,000 hours of volunteering per year in our communities by 2030	10,624 hours	● See page 89 for details

* Targets with an asterisk are also KPI

^ Targets with a caret are Board remuneration measures

Our Scope 1 and 2 greenhouse gas emissions continue to fall, aided by the continued roll-out of lower-emissions fuel for generators and introduction of renewables for electricity. To support our energy efficiency target, this year we launched a Company-wide energy savings campaign, as well as rolling out our energy action plans to all parts of the business. See page 75. We also took our next steps in improving biodiversity at our key sites, with plans developed for Devonport and Rosyth dockyards, and being implemented in Cavendish's Greeson Court laboratory. See page 78 for more details.

Last year, we announced that, following the progress we have made on reducing the number of accidents in the business, we would target reducing the number of lost workdays, broadening our focus to improvements in occupational health and case management. We continue to work towards this target. See page 79.

We have developed a strategy to help meet our gender target, focusing on attraction, recruitment, retention and progression. While we have seen improvements in the number of women in senior positions, the number of women across our workforce remains static, and this will continue to be a focus next year. See page 83.

Finally, the culture of volunteering in the business continues to grow with a 20% rise in volunteering hours in FY26. With the creation of new, simplified mechanisms for volunteering, we are confident participation will continue to rise. Learn more on page 91.

Embedding sustainability into the business

While important, our sustainability targets are only one aspect of our strategy. Our six sustainability priorities are much broader, ensuring that we are not only regulation-compliant and ready for future requirements, but also that a culture of sustainability is embedded across the business.

We already see this with many of our products and services enabling more sustainable practices. Our award-nominated Babcock Immersive Training Experience (BITE) is not only realistic and flexible, it provides a lower-carbon training solution by providing scenarios without utilising military assets. Babcock's ecoSMRT® Liquid Natural Gas reliquefaction technology significantly improves efficiency and sustainability for LNG carriers, with a further 12% improvement in the efficiency of the technology announced this year. Meanwhile, our submarine dismantling programme took significant strides forward in FY26, ensuring the responsible recycling and disposal of the Swiftsure class submarine.

This year saw further improvements in sustainability reporting with the full implementation of our Environmental Data Management system – Envizi – enabling fast, accurate and fully auditable data collection. The continued roll-out of the Thrive platform is also helping the business to accurately report on social sustainability initiatives to our customers.

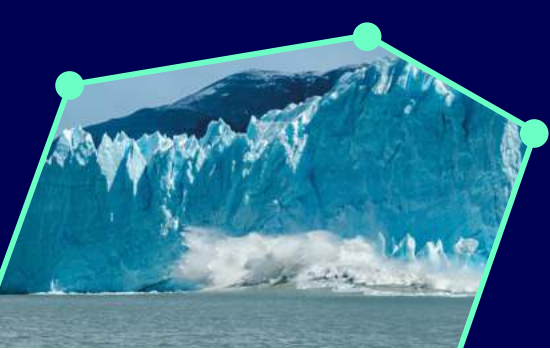
We completed detailed assessments of our physical and transitional climate risks, creating a robust approach that ensures the business is well positioned for the future.

Work has continued with key functions such as procurement, commercial and facilities management to ensure sustainability criteria are embedded in business policies and processes in an effective and proportionate manner. Work with these and other functions will continue into FY27.

The following pages give greater detail on both the implementation of our sustainability strategy and the work undertaken against our priorities, demonstrating significant progress in FY26 and setting our programme of work into the medium term.



● [View our sustainability pages on our website](#)



Sustainability (continued)



Tackling climate change

Priority target – Reduce our own greenhouse gas emissions by 42% compared to 2021

We recognise Babcock's operations produce significant greenhouse gas emissions and that climate change has the potential to significantly impact our business. This means we not only have a responsibility to reduce our emissions but must also have a mature understanding of how we will respond to the impacts of climate change.

Climate change presents profound environmental, social and economic risks. For Babcock, as a provider of critical defence, aerospace and security infrastructure, the implications are both strategic and operational. We are committed to minimising the environmental impacts of our activities, and to supporting our customers and partners in their own transition journeys.

Taking decisive action to reduce emissions will:

- Enhance long-term shareholder value
- Reduce exposure to energy price volatility
- Maintain our licence to operate
- Align with evolving regulatory and customer expectations
- Unlock innovation and efficiency opportunities.

In FY25, we launched our refreshed sustainability strategy, reaffirming our commitment to decarbonisation and setting a clear roadmap for delivery. Through disciplined investment, operational rigour and innovation, we aim to ensure that climate action strengthens our competitive position, enhances resilience, and supports sustainable long-term value creation for our shareholders and stakeholders alike.

Updated framework

Previously, we structured our climate activity across four strands: Estate, Transport, Products, and Value Chain. During FY26, we evolved this framework into a more execution-focused model, identifying six enterprise-wide priority programmes to accelerate delivery across our most material emissions sources:

Priority programmes

1. Strategic decarbonisation of Devonport

His Majesty's Naval Base (HMNB) Devonport represents one of the most complex and energy-intensive operational environments within the Group. Its scale makes it both a significant emissions source and a major opportunity for transformation. During FY26, we commenced infrastructure planning, technical feasibility assessments and stakeholder engagement to support phased decarbonisation of energy supply and site operations. Given the long asset lifecycles and critical national security role of the facility, decarbonisation must be incorporated into resilience plans, carefully sequenced and aligned with investment cycles. Addressing Devonport is a challenging undertaking; however, it is strategically important in enabling Babcock to meet our emissions reduction target, whilst also allowing us to demonstrate leadership in decarbonising defence infrastructure.

2. Heating systems transition

Legacy fossil fuel-based heating systems remain a key contributor to Scope 1 emissions. We have begun a systematic evaluation of electrification pathways and alternative low-carbon heating solutions across priority sites. Transition planning for this incorporates lifecycle cost analysis and infrastructure availability and readiness assessment, ensuring that decarbonisation initiatives are technically, operationally and financially viable.

3. Estate optimisation

Babcock has a large and complex estate which is varied in terms of archetype, geographic location, tenure, use, age and size across our global operations. Over recent years, we have worked hard to rationalise and optimise our estate, which has delivered operational, financial and environmental benefits. We are continuing to assess improvement and rationalisation opportunities across the estate to support our journey to Net Zero.

4. Energy demand reduction

Babcock consumes a wide range of energies across our global operations, which is a significant contributor to our environmental footprint. Whilst we will always need energy to perform our operations, we understand the need to eliminate unnecessary energy demand and our teams are taking proactive measures to ensure any areas of energy wastage are identified and addressed. More details on our energy improvement activities are on page 75.

5. Renewable energy deployment

We are progressing feasibility assessments for on-site renewable energy generation and exploring longer-term renewable energy procurement solutions. These initiatives support decarbonisation whilst enhancing energy security – an increasingly material consideration for critical infrastructure operators.

6. Fleet transition

Fleet decarbonisation represents both an emissions reduction opportunity and a visible signal of transition. During FY26, we advanced electrification pathway analysis, infrastructure assessments and phased transition planning to align fleet renewal cycles with decarbonisation objectives.

Expanding influence across the value chain

The majority of our total carbon footprint resides within Scope 3 – particularly in purchased goods and lifecycle impacts of our products. During FY26, we strengthened data collection and supplier engagement processes to improve Scope 3 accuracy and transparency. As customers increasingly incorporate carbon performance into procurement criteria, proactive engagement across our value chain enhances both competitiveness and resilience. Over time, we expect that integrating lifecycle carbon considerations into engineering and support solutions will become a differentiator in defence and infrastructure markets.

Progress towards target

	Baseline Emissions (2021) (tCO ₂ e)	2024 Emissions (tCO ₂ e)	2025 Emissions (tCO ₂ e)
Scope 1 and 2 Emissions	136,917	123,092	109,389

Scope 1 and 2 emissions have reduced by 20.1% since our 2021 baseline. This has been driven by several key factors, including:

- Reduced electricity and fuel consumption at Devonport Royal Dockyard
- Energy from Waste (EfW) outages in 2025
- Introduction of biodiesel Hydrotreated Vegetable Oil (HVO) to replace diesel in generators
- Reduced diesel use in our rail business
- Electrification of our vehicle fleet.

Scope 1 and 2 year-on-year emissions have dropped by 11.1%. This has been primarily driven by the EfW outage as mentioned above.

While we are reviewing our Scope 3 target during FY27, we continue to monitor performance. Scope 3 emissions have increased by 14.8% since our 2021 baseline. This is primarily due to an increase in 'category 11 – Use of Sold products' emissions, which is caused through increased sales associated with Babcock's energy-saving Liquefied Natural Gas (LNG) reliquefaction solution.

	Baseline Emissions (2021) (tCO ₂ e)	2024 Emissions (tCO ₂ e)	2025 Emissions (tCO ₂ e)
Scope 3 emissions (excluding pensions)	4,660,147	5,556,341	5,350,707

Our emissions table can be found on page 105.



● A further exploration of our emissions can be found on our website



Focus for FY27

The work undertaken during FY26 has shifted our climate programme from framework development to structured enterprise execution. During FY27, we aim to:

- Progress implementation of priority decarbonisation infrastructure projects
- Advance heating systems transition at key sites
- Scale Energy Action Plan delivery
- Continue the roll-out of renewable energy deployment where commercially viable
- Continue phased fleet electrification
- Enhance Scope 3 data quality and supplier collaboration
- Further embed climate considerations into capital allocation and programme design.

Through FY27, we also plan to review our Scope 1, 2 and 3 emissions reduction targets in line with updated Science Based Targets initiative (SBTi) standards.

Sustainability (continued)

Babcock wins Sanctuary Award for hydrogen innovation

Our pioneering hydrogen-from-wastewater initiative at our Devonport facility was recognised at the Ministry of Defence Sanctuary Awards, winning the Net Zero Resource Efficiency category. The project demonstrates the feasibility of producing sustainable hydrogen fuel from contaminated wastewater streams. Strategically, this initiative:

- Explores alternative zero-carbon fuel pathways
- Supports potential long-term dockyard decarbonisation
- Positions Babcock at the forefront of maritime hydrogen innovation.

This recognition highlights how engineering expertise can translate climate ambition into practical, scalable solutions.



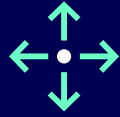
● Watch our video to learn more

Design innovations deliver further benefits

Babcock has announced a 12% performance upgrade to our market-leading ecoSMRT® Liquefied Natural Gas (LNG) reliquefaction technology. The ecoSMRT® system is designed to minimise energy consumption and reduce greenhouse gas emissions by efficiently managing boil-off gas during transit and at anchor, delivering greater efficiency and sustainability for LNG carriers. Responding to growing demand for higher capacity, driven by evolving vessel performance requirements and environmental legislation, Babcock has also developed ecoSMRT® 2.5, a next-generation reliquefaction solution.



These progressive improvements demonstrate our ongoing investment in innovation and operational excellence, ensuring customers benefit from the highest levels of performance without requiring modifications to existing installations. This breakthrough technology represents an increase of more than 30% in capacity. ecoSMRT® 2.5 will set a new benchmark for LNG carrier efficiency, offering even greater operational flexibility and environmental benefits.



Managing our resources responsibly

Priority target – Improve the energy efficiency of our operations by 15% compared to 2024

Babcock is a significant consumer of natural resources through our supply chain and operations. We recognise we have a responsibility to work with our suppliers and on our own sites to ensure we use resources effectively and efficiently.

Babcock operates a complex, asset-intensive infrastructure across marine, nuclear, land and aviation sectors. The efficient management of energy, water and materials is therefore both an environmental responsibility and a strategic business imperative.

Resource efficiency directly supports our broader corporate priorities by:

- Enhancing operational resilience across critical national infrastructure
- Reducing cost volatility associated with energy markets
- Improving asset performance and lifecycle value
- Strengthening customer alignment on sustainability objectives
- Supporting delivery of our Group decarbonisation commitments.

Within our refreshed sustainability strategy, responsible resource management has been identified as a core enabler of operational excellence and long-term value creation.

Energy

Energy has been prioritised as our primary resource efficiency metric due to its material financial impact, its link to carbon emissions and the significant opportunity it presents for operational optimisation. Performance against this target is embedded within our governance framework and incorporated into executive remuneration, reinforcing accountability and ensuring alignment between sustainability delivery and leadership incentives. To learn more, see page 154.

During FY26, we formalised our approach to energy optimisation through the launch of a Group-wide Energy Action Plan (EAP). This initiative provides a consistent framework for identifying, prioritising and delivering efficiency opportunities across diverse operational environments. Our methodology follows the established energy hierarchy, ensuring disciplined and value-focused decision-making.

By embedding this structured approach across business units, we are shifting from opportunistic energy savings to systematic and scalable improvement. Identified initiatives include:

- Estate rationalisation and asset optimisation
- LED lighting upgrades and Heating Ventilation and Air Conditioning (HVAC) efficiency improvements
- Building management system optimisation
- Improved shutdown protocols and operational practices
- Enhanced metering and real-time performance tracking.

This programme establishes a repeatable improvement model capable of supporting our 2030 target.

Energy, it all adds up

During 2025, we launched our 'Energy, it all adds up' behavioural change campaign which aims to raise awareness of how we use energy across our operations, and to empower individuals to take action to reduce energy wastage and improve our energy efficiency. As part of the campaign, a bespoke toolkit was developed to guide our colleagues and teams through a suite of activities to enable us to **Check, Challenge, Change**.

● Check what energy we use

Does my work use a lot of energy?
Do I know where energy may be being wasted in my workplace?

● Challenge the way we use it

Are we leaving equipment or lighting on unnecessarily? Do we need this window or door open?

● Change to use it more efficiently

Can we adapt our habits to turn off the things we aren't using? Are there alternative ways of working to reduce our energy consumption?

The campaign is part of a range of activities we have planned to improve the energy efficiency of the organisation and reduce our environmental impacts.

Sustainability (continued)

Data

A critical enabler of our strategy has been the successful implementation of our new Environmental Data Management System which has materially improved the quality, granularity and reliability of consumption data across the Group. This enhanced visibility allows us to:

- Identify abnormal consumption patterns rapidly
- Quantify site-level performance
- Target capital investment with greater precision
- Strengthen accountability across operational leadership.

This data foundation has strengthened confidence in our 2024 baseline, enabling performance to be managed with the same rigour as financial and operational metrics.

Whilst energy reduction remains our primary quantitative target, our commitment extends across all material resource streams. Our businesses continue to expand recycling programmes and explore circular economy opportunities, including increasing diversion from landfill and extending asset life through design. These initiatives enhance supply chain resilience, reduce material dependency and unlock cost efficiencies, while supporting customer sustainability expectations.

Focus for FY27

FY26 has established the structural and cultural foundations required to deliver sustained improvement. During FY27, we aim to:

- Expand Energy Action Plans across all priority sites
- Prioritise high-return opex and capex investment opportunities
- Strengthen internal accountability mechanisms
- Continue behavioural engagement initiatives
- Continue to investigate circular economy opportunities.

Through effective execution, enhanced data governance and leadership accountability, Babcock is positioning resource efficiency not only as an environmental commitment, but as a driver of operational excellence, resilience and long-term shareholder value.

Progress towards target

	2024 Energy Efficiency (Baseline)	2025 Energy Efficiency
Energy Efficiency (kWh/£k revenue)	60.33	51.80

Over 2025, our energy efficiency has improved by 14.1% year on year against the 2024 baseline. Our underlying energy consumption reduced year on year by 6.0%, which was largely due to reduced operations and associated energy consumption at Devonport Dockyard during infrastructure improvements works. Excluding Devonport Dockyard, underlying energy consumption across the Group has increased by 4.0%. Strong revenue growth has been a primary driver behind the 14.1% improvement. Whilst the improvement over 2025 has been positive, energy consumption is forecast to rise in line with increased production and operations, and therefore we need to maintain focus if we are to achieve and maintain our 15% improvement by 2030.

South Africa energy efficiency

Babcock Africa partnered with the National Cleaner Production Centre South Africa (NCPC-SA) to conduct resource-efficient and cleaner production (RECP) assessments across selected priority sites in South Africa, focusing on energy, water and waste management. The RECP assessments identified a range of no-cost, low-cost and medium- to high-cost investment interventions. In total, over 400 individual initiatives were identified.

Waste and water-related initiatives identified include:

- Installing water sub-metering for monitoring and leak detection
- Installing rainwater harvesting systems and onsite water re-use
- Identification of material reuse opportunities
- Enhanced waste-separation systems at source.

Energy initiatives identified include:

- Replacement of non-LED lighting with LED units, and installation of occupancy sensors
- Replacing electric water heaters with heat pumps
- Installing solar PV hybrid systems.

Babcock Africa has begun implementing the no-cost and low-cost initiatives, and continues to evaluate medium- to high-cost investment opportunities.





Protecting the natural environment

Priority target – Improve biodiversity in our most significant sites by 10%

Many of Babcock's operations are in areas of environmental sensitivity. Not only is it essential to comply with laws and regulations, but, where possible, we want to enhance the environments we operate in, providing both ecological and social benefits.

Protecting and enhancing the natural environment is fundamental to maintaining our licence to operate, supporting customer requirements and safeguarding long-term value.

Our natural environment programme aims to strengthen the integration of biodiversity, water stewardship and environmental risk management into enterprise governance processes. In doing so, we are transitioning from a compliance-led model to a more structured, risk-based and opportunity-focused approach. This enhanced approach builds on our existing site Environmental Management Systems and aligns with emerging corporate requirements and global reporting frameworks, enabling us to better understand and manage our material impacts and dependencies on the natural environment.

Our overarching programme provides a framework for delivery, ensuring:

- Tangible site-level biodiversity enhancements in the short term through our enterprise projects
- Natural environment risks and opportunities are embedded into our operations, through:
 - Improving the reporting of nature impact within existing Environmental Management Systems
 - Integrating nature-related financial risk identification into our business-wide enterprise risk management systems
 - Improving nature and biodiversity data collection to support emerging disclosure expectations
 - Enhancing cross-functional collaboration between sustainability, operations, estates and risk teams
 - Building internal capability and knowledge of natural capital and its value to Babcock.

Enterprise projects

During FY26, we launched four enterprise-level biodiversity projects across key operational sites, with a commitment to deliver a 10% biodiversity improvement at each location. These sites were selected based on ecological sensitivity, the scale and nature of our operational footprint and the opportunity for achieving measurable enhancement. The sites include HMNB Devonport, Rosyth Dockyard, Greeson Court and a confidential location. Together, these sites provide a representative cross-section of our operations.

Progress towards target

Two of the four sites have now entered the delivery phase, with activities underway including the creation of wildflower meadows, woodland enhancement and the design of wellbeing gardens. The following table provides details of the improvement opportunities identified and the improvements delivered during FY26:

	Improvement opportunity identified during Biodiversity Net Gain assessments	Improvements delivered during FY26
HMNB Devonport	23.14%	3.88%
Rosyth Dockyard	16.67%	0%
Greeson Court	29.31%	22.57%
Undisclosed location	20.77%	0%

We record the net gain delivery against the predicted Biodiversity Unit value set out in the metric, rather than waiting for habitats to reach their full maturity. Once a habitat is created and the improvement has been delivered on the ground, we record the associated Biodiversity Units immediately, rather than deferring recognition until the habitat reaches its target condition. Future surveys will be conducted to review any habitat delivery condition over time and update our overall metric results.

Alongside delivery across our key sites, we are assessing the material nature-related financial impacts and dependencies across the business, using the internationally recognised assessment methodology set within the Taskforce on Nature-related Financial Disclosures (TNFD). Although TNFD reporting remains voluntary, we recognise that nature-related risk awareness and transparency is becoming increasingly relevant to investors, regulators and customers. Early alignment strengthens our preparedness and supports long-term resilience.

Sustainability (continued)

Site-level environmental management

Preventing pollution and managing environmental risk remain core priorities across our industrial operations. Babcock currently operates Environmental Management Systems that cover over 80% of the business, ensuring effective frameworks are in place across our operations to reduce environmental impact and risk. Key controls include:

- **Site-level risk controls** such as hazardous material management plans, spill prevention and response planning
- **Structured annual environmental audits and inspections** to monitor compliance and drive continuous improvement
- **Ongoing Environmental Incident reporting**, supported by root cause analysis and corrective action to prevent recurrence
- **Ongoing development of corporate requirements, guidance and workforce training**, coordinated through our Group-wide Environmental Protection Working Group.

Environmental risks, including nature-related risks, are integrated into our Environmental Risk Management (ERM) framework with oversight at senior leadership and Board level. Water management is closely linked to biodiversity outcomes, particularly at our coastal and dockyard facilities. During FY26, we enhanced water monitoring capability and the understanding of our infrastructure integrity, and we are also working to strengthen controls surrounding discharges. As climate variability increases pressure on water resources, proactive stewardship forms an integral part of our natural environment strategy.

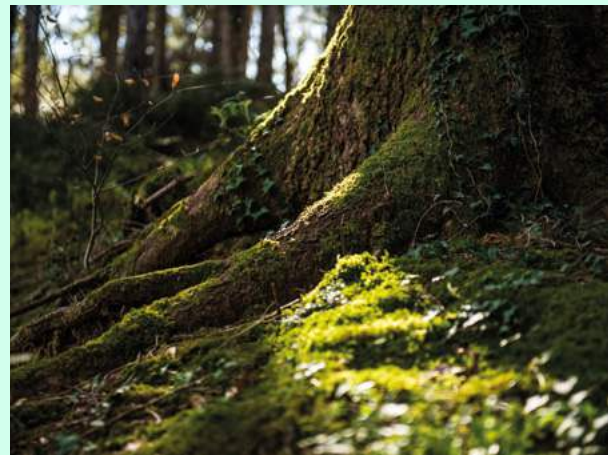
Focus for FY27

During FY27, we aim to:

- Implement and monitor site-specific biodiversity improvements in line with our site action plans
- Refine measurement methodologies to quantify 10% improvement outcomes
- Continue developing our corporate nature risk assessment approach, in alignment with TNFD
- Identify additional sites for future biodiversity enhancement programmes.

Biodiversity improvements at Greson Court

During FY26, a programme of targeted woodland management began at the Science and Technology Park in West Cumbria. Working with both the Cumbria Woodland Trust and West Cumbria Rivers Trust, improvement activities included ring-barking selected trees to create standing deadwood habitat, coppicing hazel to open the understorey, laying over-mature aspen to introduce low horizontal structure, and installing live willow stakes to support future shrub growth. Light-touch access improvements were also made by creating a narrow informal path, and all arising brash was repurposed into habitat piles, dead hedges and decomposition sites.



These interventions have already begun to diversify the woodland's structure, improving light penetration and creating a mosaic of habitats that will support fungi, invertebrates, birds, bats and small mammals. By introducing deadwood, encouraging fresh regrowth and enhancing the shrub layer, the works directly address the woodland's previously uniform age and species structure, accelerating ecological resilience and biodiversity recovery. The improvements are calculated to have delivered a 22.57% biodiversity improvement, with further improvements planned to take place.



Ensuring the health, safety and wellbeing of our people

Priority target – Reduce the number of lost workdays by 10% compared to 2025

Our first duty as a business is to look after our own people. This is not just in relation to matters of safety, but also their physical and mental health. Doing so not only improves the quality of life of our workforce, but it makes us a more productive and successful business.

Babcock’s Purpose – to create a safe and secure world, together – includes our unwavering commitment to the health, safety and wellbeing of our people. We strive to achieve the highest standards in all areas to ensure everyone can go home safe every day. We have renewed our five-year safety strategy to provide solid foundations for Babcock’s growth and deliver lasting improvements with enduring impact.

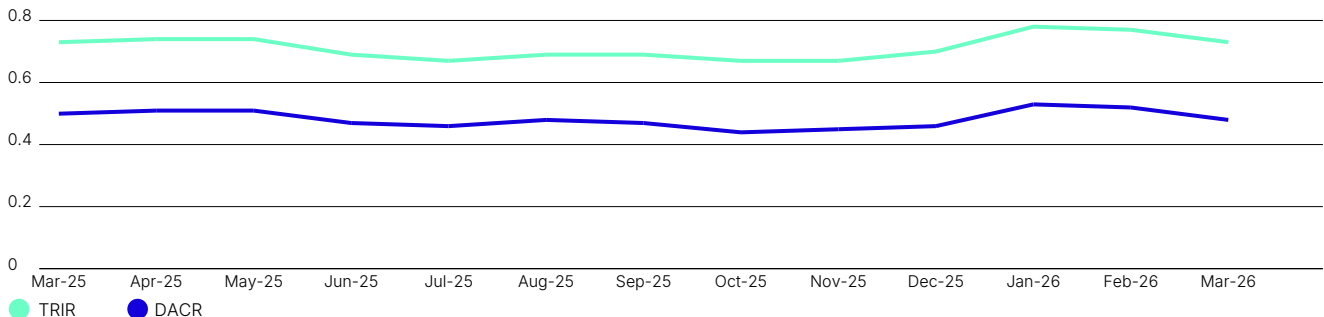
Safety, Health and Environmental Protection strategic vision

Through our five-year strategy we will create an industry-leading culture of care, enabling safe, sustainable and resilient business, for good.

Governance and assurance

As Babcock continues to grow, both in the UK and internationally, our people remain central to our success. Over the past year, we have invested in leadership development, technical training and workforce engagement, to ensure we build a capable, empowered, and future-ready organisation with an engaged culture. However, whilst the injury rates did reduce slightly mid-year, they have returned to previous rates and we recognise that these improvements will take time to fully embed. Regrettably, there have been some significant injuries and these contribute to our absence rates, but overall the severity of work-related injuries continues to reduce.

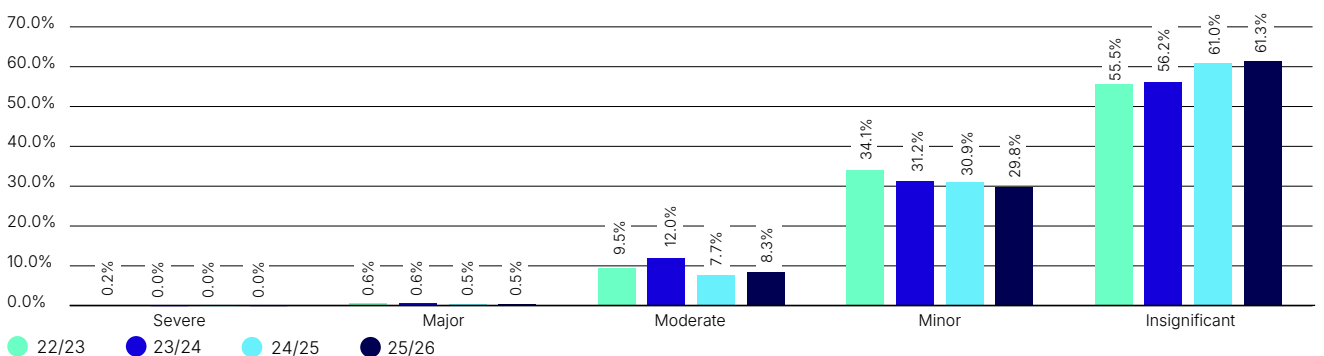
Total Recordable Injury (TRIR) and Days Away Case (DACR) rates



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

We have conducted thorough investigations into significant events in FY26 to enable us to learn, and have implemented actions to strengthen our operational risk controls. We are developing strategic programmes to enhance safety leadership and culture, build greater operational resilience, improve our management of contractors, and renovate our workplaces beyond compliance.

Actual severity of reported injuries



Sustainability (continued)

Progress towards target

As part of our sustainability strategy, we set ourselves the target to reduce the number of days lost due to work-related injuries and occupational illnesses by 10% by 2030 using FY25 as the baseline. The days lost due to work-related absences and occupational illnesses in FY26 is 15.93 compared with 15.81 in FY25. The strategic programme towards achieving this target has brought together reductions in severity of harm and enhancements in case and colleague management across the business. We will continue to deliver improvements in proactive interventions to support and build individual resilience, including occupational health and wellbeing provisions to support colleagues back to health and back to work.

Home Safe Every Day

We continue to embed our Home Safe commitments. These are core safety behaviours for all, including every leader, to create the right environment for those behaviours to thrive.

Recognising the importance of physical and mental health, our Home Safe Summit in November focused on how behaviours and actions can impact our own, and others', health and how this can then affect the risk of a safety or a security event. The interactive learning with realistic personas prompted meaningful, insightful discussions as colleagues considered what the colleague would do and how they would feel in various scenarios.

The Home Safe Summit was delivered to over 5,000 colleagues across 60 sites, showing a 42% increase in engagement. The programme helped to build a better understanding of how we can all contribute to our own, and others', health. Learn more on the Wellbeing element of our work on page 87.

Separately, the annual Safety Stand-Down, which is delivered to colleagues globally across Babcock, focused on identifying when 'work done' differs from 'work as imagined' and facilitated discussions to consider when to pause or stop work by thinking 'what if?'

The feedback from colleagues in our Global People Survey was that the majority of respondents were confident to pause or stop work, but we will continue to reinforce that empowerment through the Home Safe commitments campaign.

'I always...'



plan work with safety in mind



protect myself, others and the planet from safety, health and environmental hazards



make sure I am **fit and trained** to safely carry out my work



assess and control risks before I **set to work**



use the correct and safest **tools and equipment** for the job



speak up if I see something unsafe



pause or stop work if things change, or I have a safety concern

Consistent improvement through strategic alignment

We have areas of excellence across Babcock and an improving safety performance in key areas, such as the Nuclear and Aviation sectors, so our focus is on spreading the consistency of the good practices and building upon existing work on sites, sectors and countries. As part of enabling us to "deliver better, together" we have formed the Security, Safety and Resilience function to bring together the elements that protect our people and assets. Together, we will deliver our strategic vision by:

- **Evolving a culture of engagement and responsibility** through leadership where every action and engagement has people and the environment at the centre
- **Insights-led, risk-based decision-making** where data, evidence and risk analysis guide every decision and enable resources to be focused where they will have the greatest impact

- **Building our capability and resilience by** developing the skills, systems and adaptability needed to respond to challenges and deliver safely and consistently over the long term
- **Integrating security, safety and resilience across the business** to enable colleagues to do their best work.

Focus for FY27

Our commitment to create a safer and healthier workplace remains solid, with our focus for FY27 to strengthen critical controls and develop leaders to enable the growth of our culture of care.



Building an inclusive, diverse and resilient workforce

Priority target – Increase the proportion of women in our workforce to 30%

Inclusion and diversity in Babcock not only benefits our communities, but also enables us to build a stronger, more innovative business. We want to nurture the potential of our colleagues, supporting them throughout their career, regardless of background.

Our People Strategy underpins delivery of the Group's strategic priorities and our refreshed employee value proposition. It provides a clear roadmap for building the capabilities required to execute today's commitments while preparing for future growth. We are strengthening core capability – the engineering depth, programme delivery discipline and operational leadership required to deliver safely and reliably at scale. In parallel, we are developing strategic capability in priority growth areas, digital integration and advanced technical domains to support long-term competitiveness.

We continue to build a more inclusive and accessible working environment, recognising that this is fundamental to attracting, retaining and enabling diverse talent. During the year, we enhanced our approach to workplace adjustments and site accessibility, with a clear focus on creating conditions where everyone can perform at their best. As part of this, we are progressing towards Disability Confident Level 3 accreditation, reinforcing our commitment to inclusive practices across our operations and our leadership within the Defence and Nuclear sectors.

As we enter the next phase of our growth, clarity of identity, capability and culture is essential. During the year, we introduced a refreshed corporate brand to reflect who we are today and the standards we set for ourselves, strengthening the connection between individual contribution and enterprise performance. For our 30,481 colleagues, this clarity matters; whether designing, maintaining, supporting or leading complex programmes, their work contributes directly to national security and long-term value creation.

To learn more about the related remuneration target see page 154.

Go Together, Go Far: An immersive experience

During the year, we took our strategy on the road through the Go Together, Go Far immersive bus tour, visiting operational sites across the UK.

Designed to make our Purpose, principles and performance tangible, the mobile experience enabled colleagues to step inside our strategy – exploring how it shapes the way we work, deliver and grow. Through interactive content, real stories and forward-looking insights, colleagues saw how their role was connected directly to business outcomes and long-term ambition. The bus also provided practical access to information on reward, wellbeing and wider benefits, ensuring colleagues better understood the support available to them and how to make the most of it.

Members of the Executive team and senior leaders joined the tour, reinforcing visible and accountable leadership and encouraging open dialogue. The initiative responded directly to feedback from our Global People Survey (GPS), particularly the need for greater clarity on strategy, performance and connection to leadership.



Our GPS remains an important measure of organisational health and engagement. Participation continues to be strong at 79%, reflecting high levels of colleague voice across the business. Survey insights inform local action plans and Group-wide priorities, ensuring focus, accountability and measurable progress in areas including leadership effectiveness, inclusion and performance culture.

By aligning brand, strategy, capability and culture, we are strengthening organisational resilience and building a platform for sustained operational excellence.

Sustainability (continued)

Leadership and capability

Our leadership strategy focuses on building the capability required to execute at scale, manage complexity and drive performance.

Central to this approach is our Leadership Framework, which establishes clear and consistent expectations across all global grades. Fully aligned to our People Priorities, the framework provides structured development pathways that support personal growth, career progression and leadership capability. It ensures colleagues have access to learning that supports both current performance and future leadership requirements.

The framework is structured around four progressive levels of leadership – Leading Self, Leading Others, Leading Leaders and Leading Babcock – allowing colleagues to take ownership of their development while ensuring leaders are equipped with the right skills and capability at each stage of their career.

During FY26, we invested in capability at the Leading Others level, supporting approximately 3,500 colleagues. Over the next 18 months, we will further align our leadership programmes globally and expand development to ensure consistent standards. This builds on pilot activity within our Nuclear sector, where we are embedding executive coaching into day-to-day operational activity.

Alongside this, we are broadening access to high-impact development through a blend of masterclasses and digital learning solutions that provide support at the point of need.

Together, these investments strengthen leadership capability, reinforce accountability and position the business for stronger performance, resilience and sustainable long-term success.

Building an inclusive, resilient and high-performing culture

Creating an inclusive, resilient, high-performing culture is fundamental to building a diverse and respectful workforce. It enables us to attract and retain talent, strengthen capability and support long-term business performance.

As a defence business operating in complex, safety-critical environments, creating an inclusive and trusted culture is essential for our long-term success. Our GPS results have a meaningful increase of +12 percentage points in positive responses to the statement "I feel respected at work", since we started the Global People Survey in 2022. This improvement reflects continued progress in building a culture grounded in respect, psychological safety and inclusion.

We continue to embed inclusion across our organisation through clear leadership accountability.

Networks

Our colleague-led networks play an important role in providing insight, advocacy and support, and helping to shape our approach to inclusion across the business.

Executive Committee-level sponsorship of our colleague networks strengthens accountability and demonstrates our ongoing commitment to inclusion. We have also clarified roles and responsibilities within the networks to better support their chairs and enable greater impact.

Networks collaborate across shared themes including disability, caring responsibilities and neurodiversity. Joint activity during Grief Awareness Week and National Inclusion Week supported open conversations, increased understanding and strengthened peer support, particularly during periods of challenge and change.

We are taking targeted action to ensure our workplaces are safe and respectful for everyone. This includes enhancing manager guidance, tools and training to prevent inappropriate behaviours, alongside initiatives such as our White Ribbon ambassadors and champions programme, reinforcing a culture where everyone is treated with dignity and respect.

We continue to enhance our policies and support at key moments that matter. This includes the introduction of our Premature Baby policy, aligned to our commitment to The Smallest Things Charity charter, ensuring colleagues are supported through challenging life events. See also page 87.

Together these actions are strengthening our culture and creating an environment where colleagues feel supported to contribute, develop and perform at their best.

Gender representation and progress

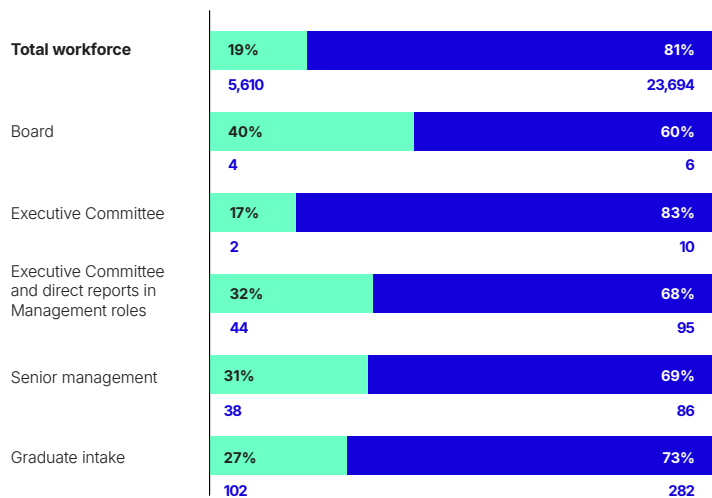
Progress towards target

Women currently represent 19.4% of our workforce. Increasing representation remains a strategic priority for Babcock and forms part of our sustainability target to reach 30% women in our workforce by 2030. While we have seen significant progress for

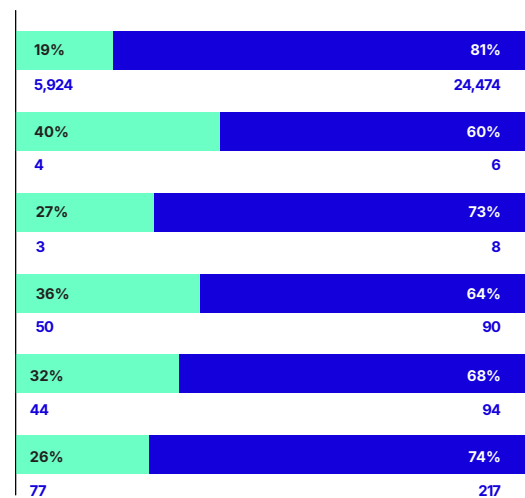
female representation in senior positions, representation across the whole workforce remains static, reflecting the structural challenges within the defence sector and the time required for interventions to translate into workforce change.

Gender balance

FY 2025



FY 2026



● Female ● Male

1. Our total workforce is 30,481, which includes 24,474 men, 5,924 women, 15 people identifying as non-binary, or 'I use another term', 12 who 'did not specify' and 56 who chose 'prefer not to say'. This figure includes both permanent staff and agency employees.
2. Executive Committee total is 11. This figure excludes Executive Committee members on the Board.
3. Executive Committee and direct reports in management roles total 140. This excludes Executive Committee members on the Board.
4. Senior management refers to the Senior Leadership Team defined as colleagues 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 total is 138.
6. Graduate intake is 294 (264 UK, 25 Australasia, 5 South Africa).
7. Non-Executive Directors are only included in total headcount and Board figures.
8. All percentages provided in the Gender balance table have been rounded to the nearest whole number.

In addition to our Senior Leadership population, we are also focusing on increasing female representation across our broader leadership community, which currently stands at 28%. Our internal goal is to reach 30% female representation within this group.

Building an inclusive, diverse and resilient workforce is a priority. We are driving gender balance through targeted efforts in recruitment, succession planning, support, retention and celebration – ensuring all colleagues can thrive.

Addressing our gender balance requires sustained, long-term action across the employee lifecycle. Our focus is on strengthening the foundations that enable more women to join, remain and progress within Babcock.

Attraction – We are increasing our focus on attracting more women into engineering, technical and emerging talent roles through targeted outreach, partnerships and STEM engagement. These actions are designed to broaden access to opportunities and strengthen the diversity of our future talent pipeline.

Recruitment – We continue to embed inclusive recruitment practices, including structured assessment processes and diverse interview panels, to support fair and consistent hiring decisions and ensure we are selecting from the widest possible pool of talent.

Retention – We are committed to creating an environment where women can build long and rewarding careers. This includes strengthening inclusive policies and support, alongside broader efforts to enhance the employee experience and ensure colleagues feel supported at key moments that matter.

Progression – We are supporting women to develop and progress through targeted development and mentoring initiatives, including programmes such as Illuminate and mentoring opportunities.

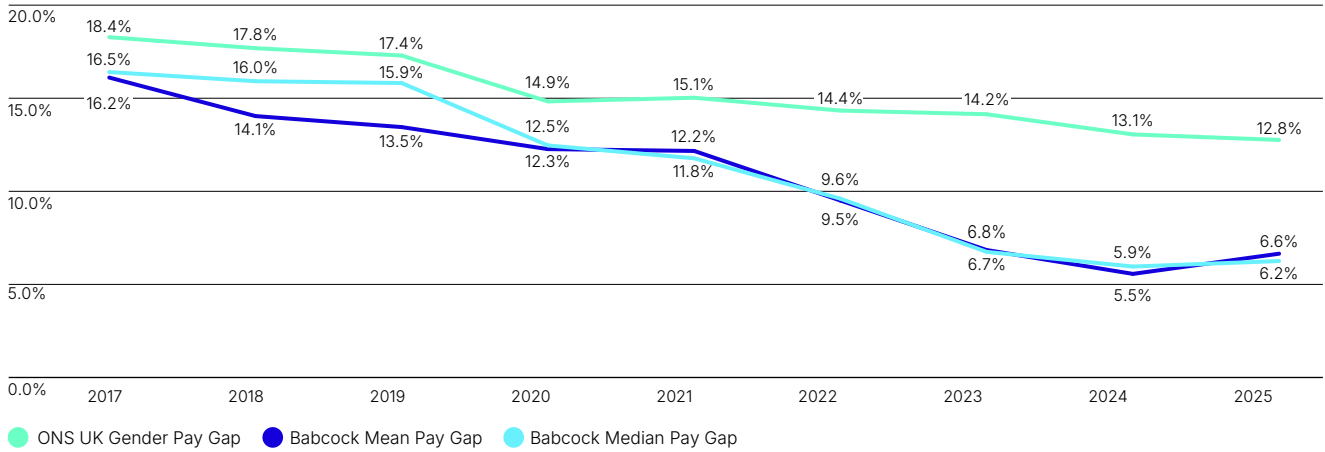
These initiatives are designed to strengthen capability, support career progression and increase representation in senior roles over time.

Sustainability (continued)

Gender Pay Gap

Our median Gender Pay Gap for 2025 stands at 6.2%, which remains significantly lower than the UK national average of 12.8%. This reflects the strength of our position and the impact of our ongoing work to support representation, progression, and equitable opportunities for all colleagues.

Gender Pay Gap (2017-2025)



Our approach is focused on strengthening representation, particularly in senior and technical roles, where the Gender Pay Gap is most pronounced. Gender Pay Gap continues to be driven primarily by representation, rather than unequal pay for equal work, with lower female representation in higher-paying roles influencing overall pay distribution.



● We publish our Gender Pay Gap data annually with full transparency on methodology trends and drivers

Support for the armed forces community

We are proud to be a longstanding and active partner to the armed forces community. As a defence company, our connection to serving personnel, veterans, reservists and military families is fundamental to who we are and how we operate.

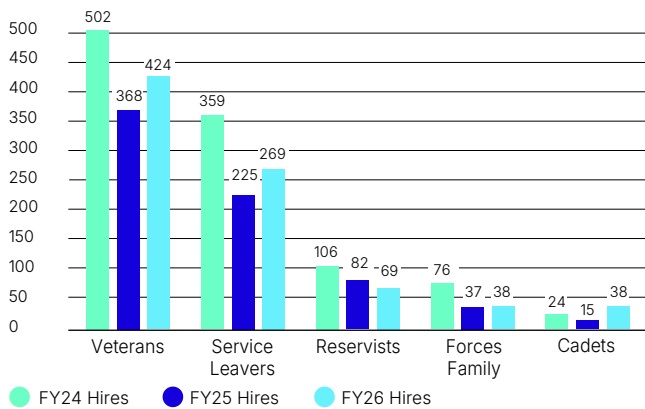
In FY26, we strengthened our position as a leading employer of veterans. We rose to joint number one in the Great British Employers of Veterans ranking and were recognised as 'Best Employer' in the Ex-Forces in Business Awards. We were also named Best Employer at the Scottish Ex-Forces in Business Awards in January. These independent accolades reflect the consistency and maturity of our approach across the UK. See page 88 for more of our awards.

We re-signed the Armed Forces Covenant during the year, reaffirming our commitment to supporting those who serve or have served. Our Gold Award status under the Ministry of Defence's Employer Recognition Scheme remains in place, recognising our sustained advocacy and practical support for the armed forces community.



Our impact is tangible. In FY26, we hired 838 individuals from the armed forces community. We also attended or created 28 armed forces recruitment events during the year, strengthening access to opportunity and building sustainable talent pipelines into critical capability areas across the Group.

Armed forces recruitment



Beyond recruitment, we continue to provide up to 10 days additional paid leave annually for reservists to fulfil training and operational duties. We maintain our sponsorship of the Inter-Service Rugby Championship, supporting men's and women's competitions and reinforcing our long-term commitment to service communities. We also continue our multi-year partnership with the Army Benevolent Fund and other military charities (see also page 90).

Through these actions, we do more than honour our Armed Forces commitments. We embed military skills, leadership capability and operational experience into our workforce, strengthening resilience and performance for our customers and shareholders.



● [Learn more about our armed forces commitment on our website](#)

Talent, skills and capability

A talent-led culture

We are building a talent-led culture where talent is actively discussed, developed and deployed across the business. This is underpinned by three clear commitments:

- Talent is a continuous priority – Talent is embedded into regular leadership conversations rather than treated as a one-off activity.
- Potential is identified and developed – All colleagues are supported to perform at their best and encouraged to take ownership of their development.
- Opportunities are visible and accessible – We promote internal mobility and talent visibility, recognising capability as a shared organisational asset.

Our talent and capability activity is delivered through a clear and consistent framework.

We use an externally recognised leadership assessment to validate talent decisions and strengthen leadership development across our senior leadership population. Over the last 12 months, we have assessed 31 senior leaders, each of whom also receives a 90-minute coaching session as part of the process. [Learn more about our succession planning refresh on page 140.](#)

Building a sustainable talent pipeline

Our Emerging Talent strategy underpins long-term workforce sustainability and supports the delivery of our growing order book. As demand across our defence and nuclear programmes continues to increase, securing early-stage capability in critical disciplines remains a strategic priority.

During the year, we transitioned from a traditional early careers model to a more flexible emerging talent framework, reflecting evolving skill demands and the need to access talent through multiple entry routes.

We welcomed 503 apprentices and 264 graduates, our largest UK intake to date, with planned growth to around 850 next year. These intakes are targeted towards disciplines directly aligned to the needs of our complex programmes, including nuclear engineering, marine systems, project management and advanced manufacturing.

The first cohort of our Group Project Management graduate programme completed their development pathway, strengthening capability in assistant project management roles that directly support contract performance and delivery milestones.

Across Devonport, Bristol, Rosyth and Clyde, we expanded apprenticeship and graduate pathways in engineering, manufacturing, electro-mechanical disciplines, data analytics, logistics and operational roles.

Programmes include:

- Pre-apprenticeship programme (Devonport and Clyde)
- T-level industry placement pathways
- Group project management graduate programme
- Engineering and manufacturing apprenticeship frameworks.

Pre-apprenticeship pathways continue to deliver strong progression into full apprenticeship roles, widening participation while addressing future workforce risk.

We also continued to strengthen alternative entry routes through targeted veterans recruitment and structured training pathways.

Science, Technology, Engineering and Maths (STEM) outreach remains central to long-term resilience. Through Festivals of Engineering, the Defence Industry Joint Council STEM pilot in Plymouth and over 300 engagement events, we reached more than 27,000 young people within the UK, strengthening future talent supply in regions critical to our operations.

Together, these initiatives provide a diversified and scalable talent pipeline, designed to mitigate medium- to long-term skill shortages and support predictable programme execution.

Sustainability (continued)

Strengthening capability and workforce resilience

In a market characterised by constrained technical labour supply and demographic concentration within specialist disciplines, proactive skills management is essential to delivery confidence.

During the year, we expanded specialist training infrastructure, including the launch of a new Apprentice Welding School in Bristol, combining traditional craft expertise with augmented learning technologies. This investment supports sustained fabrication capability aligned to our marine and nuclear programme requirements.

Graduate engineering pathways were consolidated into a single framework aligned to a professional registration, promoting mobility, consistency and technical depth across the organisation.

In Rosyth and Clyde, structured welding and fabrication development pathways support long-term workforce planning. Structured 'Train to Fit' programmes continued to build role-specific capability where labour market shortages persist.

In Scotland, collaboration through the Nuclear Skills Hub and partnership with academic institutions has strengthened postgraduate capability development, particularly in nuclear safety-case and specialist engineering disciplines. In the South West, initiatives such as Project Score and Devonport Futures have delivered measurable employability outcomes, supporting workforce expansion in key operational regions.

Project Score

Project Score is a partnership between Argyle Community Trust, Babcock and Kaefer, designed to address critical recruitment gaps while supporting individuals into sustainable employment.

Working with Jobcentres in Plymouth and Liskeard, the programme delivers a structured employability pathway, combining work-readiness training, industry exposure, essential skills, health and safety, and application support. Participants then move into paid placement with both Babcock and Kaefer, supported by mentoring, wellbeing provision and ongoing development.

The programme has created a pipeline of job-ready candidates, strengthened collaboration across our supply chain and established a scalable model aligned to real workforce demand.

Twelve months on, 80% of participants remain in employment, demonstrating the programme's impact in building sustainable careers and strengthening workforce capability.

Devonport Futures programme

Through the Connect to Work programme, we are developing a supplier-led pathway to support workforce requirements across the Devonport dockyard and wider supply chain.

The programme focuses on improving access to skilled local labour, strengthening supplier capability and building a sustainable talent pipeline aligned to operational demand, supporting long-term workforce resilience across the region.

Recognising demographic risk within elements of the nuclear workforce, we introduced a Retiree Knowledge Transfer pilot, designed to retain critical expertise and support structured succession planning.

To support consistent capability development at scale, we are introducing a new Learning and Competency Management System (LCMS). This will enable the creation and delivery of high-quality, standardised and role-specific learning across the organisation, improving accessibility, strengthening technical consistency and accelerating skills development in critical areas.

We are also enhancing workforce data, digital reporting and social value measurement platforms to improve forecasting accuracy, strengthen governance oversight and align skills investment directly to contract requirements.



● [Learn more about Team Plymouth on our website](#)

Wellbeing

Supporting the health and wellbeing of our people remains fundamental to sustain performance and operational resilience. In a complex, safety-critical environment, we know that enabling colleagues to feel well, supported and able to perform at their best is both a responsibility and an important part of delivering consistently for our customers.

Our approach is structured, preventative and informed by data. Drawing on insights from our Global People Survey and operational metrics, we continue to focus investment where it can have the greatest impact. This support spans four connected areas of wellbeing: mental, physical, financial and social, reflecting our belief that sustained performance depends on supporting the whole person.

During FY26, we continued to strengthen our wellbeing framework through improved access to care, preventative support and practical help at key moments that matter. This included enhancing colleague benefits in the UK through annual health assessments, online GP appointments and nutritional consultations, alongside continued access to a global employee assistance programme and trained mental health support across our operations. We also continued to invest in our Mental Health First Aiders network and expanded clinical mental health support through the roll-out of our colleague assistance programme and proactive wellbeing platform in Australasia and France.

We also delivered a range of tools, guidance and campaigns to promote positive everyday wellbeing support. These included initiatives covering topics such as menopause, mindfulness and suicide prevention, our Global Move More challenge and conversation guides to help managers create supportive team environments. A new peer recognition programme linked to our principles also helps strengthen the connection between wellbeing, culture and day-to-day experience at work.

We continue to enhance support for colleagues during significant life events. Building on our inclusive leave approach, we introduced both maternal and paternal fully paid neonatal leave ahead of legislative change and, in February 2026, launched premature baby leave. Through this, Babcock became the first defence company to sign the Employer with Heart Charter in partnership with The Smallest Things charity (see also page 82). These steps reflect our commitment to responsible employment practices and to supporting colleagues through complex and challenging circumstances.

Progress during the year was recognised externally through a silver award in the Reward Gateway Appreciation Awards for Best Strategy for Supporting Employee Health and Wellbeing, recognising the continued development of our wellbeing strategy and colleague benefits. See a fuller range of our awards on page 88.

To learn more about the safety element of this work, please see page 79.

Recognition and reward

Recognising and rewarding our people is fundamental to our culture and how we drive performance. Our approach to recognition and reward is designed to reinforce fairness, motivate high performance and strengthen the alignment between individual contribution, our principles and business outcomes.

Principle-aligned recognition

We recognise not only what colleagues deliver but how they deliver it. Our recognition framework is aligned to our principles and behaviours, ensuring consistent reinforcement of the culture we expect across the business.

During the year, we strengthened our UK-wide recognition programme BRAVO, evolving it into a points-based system with monetary awards. BRAVO is designed to celebrate excellence through our principles, whether that reflects delivering a complex project, demonstrating exceptional collaboration or a simple act of kindness.

This provides a consistent and accessible mechanism for recognising both everyday contributions and outstanding performance, supporting engagement and retention.

We also delivered the Ignite Awards for the second consecutive year, recognising individuals and teams whose contributions demonstrate our principles in action, delivered exceptional results, or showed exemplary leadership. Engagement continued to increase, with over 1,000 nominations submitted across the global business. The programme will be extended globally in FY27, further embedding a culture of recognition across all markets.



Sustainability (continued)

Global free share award programme

In FY26, we introduced a global free share award for eligible colleagues worldwide – a significant milestone in strengthening our ownership culture and aligning colleagues directly with the long-term success of the business.

By offering shares, we are deepening colleagues' sense of ownership and reinforcing the connection between everyday performance and long-term value creation. The programme enables colleagues to share directly in Babcock's success and, over time, to benefit from the expected appreciation in value that their collective efforts help to create. It strengthens morale, supports retention and further aligns colleagues with shareholder interest.

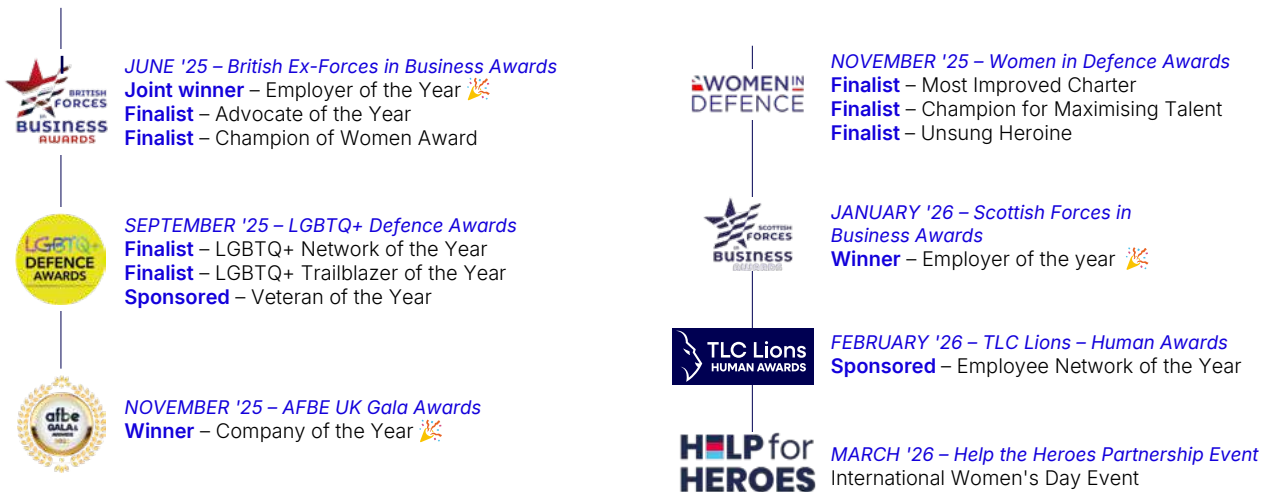
In jurisdictions where local, legal or tax administrative constraints prevent the award of traditional shares, equivalent phantom awards were implemented to mirror the value of Babcock's shares, ensuring fairness and broad participation across our global workforce.

This initiative reflects our belief that shared success should be tangible and inclusive. It is helping to build a more connected organisation in which colleagues can clearly see the impact of their work on performance and enterprise value. Please see the Remuneration report on page 154 for further information.

External recognition and awards

External recognition provides an important benchmark for progress on the impact of our people and culture initiatives. During the year, we received a number of awards and accreditations reflecting the strength of our approach across areas including wellbeing, inclusion and support of women in defence, and the armed forces community.

While we remain focused on continued improvement, these external endorsements demonstrate the progress we are making and reinforce our position as a responsible and inclusive employer.



Focus for FY27

As we enter the next phase of delivery, our focus is on strengthening the organisational capability required to execute our strategy at scale. This means embedding our People Strategy consistently across the Group, aligning workforce planning to future demand and accelerating the development of critical technical and leadership capability.

We will continue to invest in leadership effectiveness and accountability, ensuring our leaders are equipped to drive performance, develop their teams and foster inclusive, high-engagement environments. Insights from the Global People Survey will inform targeted action at local and functional level, with clear ownership for outcomes.

Building on the global free share award, we will further reinforce our ownership culture, helping colleagues connect operational performance and long-term value creation. Transparent performance measures, disciplined execution and strong line leadership will underpin this approach.

Alongside this, we will maintain momentum in emerging talent and skills development, strengthening pathways into the business, and ensuring we remain competitive in attracting and retaining the capabilities essential to our future growth.

Our ambition is straightforward: to be the destination for talent in the defence sector, create an environment where talented people choose to build long-term careers, where leaders are accountable for performance and culture, and where every colleague understands how their contribution drives sustainable success.



Supporting our communities

Priority target – Spend 50,000 hours volunteering

As a major employer, we play an important role in our communities, often operating in deprived areas. Beyond employment, we contribute through our supply chain, local partnerships, volunteering and educational initiatives, creating positive and lasting impacts in the regions we serve.

The needs of our communities vary, and our approach reflects this – empowering local teams to respond to what matters most while maintaining a strong and consistent culture of community engagement across the business.

In our most recent GPS, our score against the question “Babcock’s commitment to social sustainability allows us to make a positive difference (eg, volunteering, inclusion, charity/ community outreach)” increased significantly by +10 percentage points, showing our engagement is bringing our colleagues with us.

Working with SMEs and local suppliers

Babcock recognises the essential contribution that small and medium-sized enterprises (SMEs) make in creating a sustainable and resilient supply chain. Collaborating with smaller enterprises strengthens our adaptability, innovation and cost-effectiveness, as they can respond rapidly to shifting market demands and bring specialist capabilities in areas such as advanced materials, cyber security, unmanned aerial systems, AI and additive manufacturing. These partnerships help build strong, mutually beneficial relationships that support high standards of service and reliability. Supporting local SMEs also stimulates employment and economic growth within our communities, benefiting the local economy.

An example of how Babcock supports local suppliers is our involvement in the Find it in Plymouth initiative, a commitment to strengthening the local supply chain and widening opportunities for local suppliers. Babcock uses the platform to make Devonport-related opportunities more visible and accessible to local businesses, helping them compete for work and build long-term capability.

Through this partnership, Babcock encourages transparent procurement, supports skills development across SMEs and community organisations, and ensures that more economic value is retained within the region, ultimately reinforcing the resilience of the Devonport supply chain and delivering broader social and economic benefits for the local community.

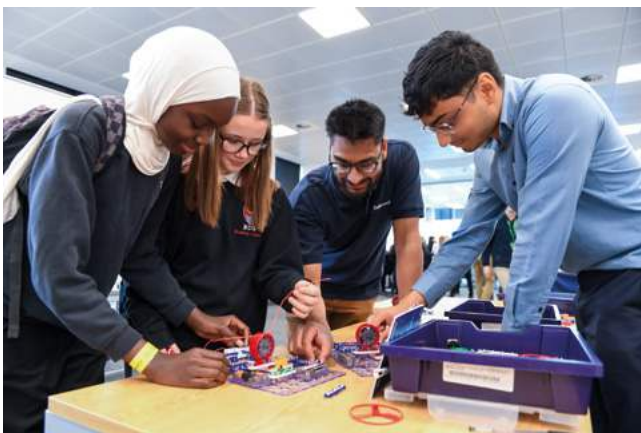
Following on from the completion of our report with the University of Exeter on Unlocking SME Potential in Defence, we have developed a 10-point industry SME Charter, designed to reshape how SMEs engage with the UK defence sector. To strengthen our overall collaboration with SMEs, Babcock has reviewed the way we onboard SMEs and identified several improvements to streamline the process, making it easier for SMEs to work with us.

Building on the 31% SME spend achieved in FY25, SME spend was sustained at 30% in FY26, demonstrating continuity in our engagement with SME suppliers.

See our SME Engagement Charter on page 30.



● [Learn more about how Babcock unlocks SME potential on our website](#)



Sustainability (continued)

Charity

Our charitable strategy works at different levels, with community always at its heart.

Local

At a local level, our individual sites support the communities that surround our sites, and from which we draw our employees. For example, in Rosyth employees made the most of their Be Kind Days by supporting The Big House Multibank, helping redistribute surplus goods from retailers to vulnerable families – preventing over one million items from going to landfill. Our Rosyth volunteers also lent their support to EATS Rosyth, a local charity dedicated to sustainable growing practices, biodiversity, and wildlife conservation.

Sectors

At the next level up, our sectors work with several charities supporting both serving and veteran military communities that are linked with their primary service area. For example, our Land sector has a long-standing relationship with the Army Benevolent Fund (ABF) where it continues to sponsor the Operation Bletchley codebreaking challenge, this year expanding it to develop a STEM activity for use in schools. It also supports the RAF Association (RAFA) where our colleagues have supported the RAFA Rides event, veteran outreach calls and RAFAKidz nurseries through volunteering, fundraising and corporate donations.

Meanwhile, our Marine sector continues to support the Royal Navy and Royal Marines Charity (RNRMC) where, as a Platinum Partner in the Bridge Partnership scheme, Babcock is directly supporting initiatives that enhance the wellbeing of sailors, marines, and their families. Our commitment helps strengthen critical programmes that provide lifelong care, resilience, and support to those who serve.

International

Internationally, our Direct Reporting Countries (DRCs) have a long-standing commitment to the communities in which they operate. In Australia this is reflected in more than a decade of partnership with both MESHA (Military and Emergency Services Health Australia), supporting the mental health and wellbeing of military and emergency service communities, and Yalari, providing educational opportunities for Aboriginal and Torres Strait Islander students.

Meanwhile, South Africa supports organisations such as the Thandulwazi Trust, supporting women in leadership alongside our Student Sponsorship Programme (SSP) and St Dunstan's College partnership, enabling students from underprivileged backgrounds to gain access to quality education.

We have also supported for the Vine Trust, an international development charity working with isolated and vulnerable communities in the Amazon and on Lake Victoria, for many years. In FY26, it had its 40th Anniversary which we celebrated with an event supported by HRH The Princess Royal, Patron of the Vine Trust. At the event, we signed a Memorandum of Understanding further strengthening our relationship as we look forward to future projects together.

Group

This focus on the communities that support us and those impacted by our sites and operations continues at a Group level where we look to national initiatives and charities across the UK. This includes our support for the tri-service Soldiers', Sailors' and Airmens' Families Association (SSAFA), where this year our contributions have helped fund five successful mentoring courses, fully training 98 individuals to provide non-judgemental, holistic mentoring to veterans transitioning into civilian life.

We also support Scotty's Little Soldiers, a charity dedicated to supporting bereaved military children and their families. As a three-star member of its Scotty's Business Heroes Club, our funding has been spent on respite breaks, one-to-one emotional support and educational grants.

Rapaid is another national charity supported at a Group level with a community impact. With Babcock's support, it has successfully rolled out its life-saving emergency bandages into Plymouth's taxis and has been able to kit out 300 taxi cabs in Edinburgh alongside a scheduled roll-out onto the city's trams. This is coupled with a plan to roll out its emergency kits to Bristol's taxis in the coming year.



Volunteering

Volunteering remains a key part of how we contribute to our communities while strengthening colleague engagement and pride.

Progress towards target

Through our global **Be Kind Day**, colleagues are given one paid day each year to support a charity or community organisation of their choice. Participation continues to grow with more colleagues using their volunteering day to support local initiatives across our regions. In FY26, volunteering activity increased by 20% over FY25, with 10,624 hours requested.

To further embed a culture of giving back, we have a Company-wide target of 50,000 hours of volunteering per year in our communities by 2030.

We are also improving how volunteering is recorded and assessed, simplifying processes and enabling more accurate tracking of impact. This will allow us to better understand our progress and continue to build momentum across the business.

Alongside this, our Global People Survey shows a continued increase in positive responses to our commitment to social sustainability, reflecting the growing impact of volunteering, inclusion and community outreach activities.

We introduced an internal volunteering hub to help colleagues easily find local and virtual opportunities. Alongside this, we celebrate international volunteering day by sharing stories from across the business, showcasing the difference our colleagues make in their communities.

Inclusive communities and global belonging

We are committed to building inclusive communities that reflect the societies in which we operate and which support our long-term business performance. Across our global footprint, we focus on creating equitable access to opportunity, strengthening skills and employment pathways and working in partnership with local communities.

Our approach combines clear Group-wide standards with locally relevant action. This includes engagement with Indigenous and historically disadvantaged communities in Canada, South Africa and Australasia, where we continue to work with partners, educators and suppliers to deliver meaningful social and economic impact.

In the UK, we are signatories to the Race at Work Charter, and promote awareness and inclusive leadership through our Race Equality Network, formerly known as the B4ME Network. The network supports open dialogue, education and practical action across the organisation, helping to embed inclusion into everyday leadership and decision-making. Learn more about our networks on page 82.

Canada

In Canada, our approach to inclusion is centred on long-term partnership, workforce development and inclusive economic participation. We recognise that meaningful engagement with Indigenous communities is essential in reflecting the communities we serve and supporting sustainable outcomes.

Babcock Canada participates in the Canadian Council for Indigenous Business's Partnership Accreditation in Indigenous Relationships (PAIR) Programme, and achieved Bronze Status in 2025. The PAIR framework provides independent assessment of corporate performance across leadership, employment, business development and community engagement, and supports our continued progress towards stronger Indigenous relations.

We invest in Indigenous skills and education through multi-year partnerships with academic institutions and foundations, supporting access to STEM education and career pathways through co-operative placements, internships and apprenticeships. These initiatives are designed to strengthen long-term employability and broaden participation in high-value skills.

Alongside this, we are expanding Indigenous participation within our supply chain, particularly in support of Emergency Health Services operations in British Columbia. This focus on inclusive procurement complements our wider commitment to responsible business practices and community partnerships.

Learn more about Babcock Canada's Indigenous peoples policy on page 108.

South Africa

In South Africa, our approach to diversity, equity and inclusion is aligned to Broad-Based Black Economic Empowerment (B-BBEE) objectives and the communities in which we operate. It focuses on socio-economic transformation through inclusive education, employability and enterprise development, supporting both national priorities and long-term business sustainability.

During the year, we strengthened our Employment Equity framework in response to the legislative change. Employment Equity objectives are embedded within workforce planning, recruitment, development and succession, supporting a balanced approach to compliance transformation and sustainable capability.

Community initiatives are focused on improving access to education and employment opportunities within the communities where we operate. We continue to support youth employability through participation in the Youth Employment Service (YES) programme, providing a structured workplace experience that supports skills development and long-term employability.

STEM education remains a strategic enabler, supporting future skills development and improved gender representation, particularly within technical and leadership pipelines. Our long-standing partnership with the Thandulwazi Trust supports mathematics, science and leadership capability alongside pathways for secondary education into tertiary study.

Supply chain development supports inclusive economic participation and operational resilience. Through our Entrepreneurship Development Programme, delivered in partnership with the Student Sponsorship Programme (SSP), we continue to support small and medium-sized enterprises within our supply chain, with an increasing number transitioning into active suppliers within the Group.

Sustainability (continued)

Together these activities demonstrate a consistent and integrated approach in South Africa, contributing to inclusive growth while strengthening long-term business resilience.

Australasia – community engagement and capability

In Australia, our community engagement activity is focused on strengthening workforce capability, widening participation in STEM and supporting the wellbeing of defence and emergency services communities.

We have supported Military and Emergency Services Health Australia (MESHHA) for over a decade, expanding our partnership in 2025 to support its growth in Western Australia. This includes establishing a locally based lived-experience workforce and piloting a programme tailored to regional service personnel and their families, ensuring accessible, evidence-based support where it's needed most.

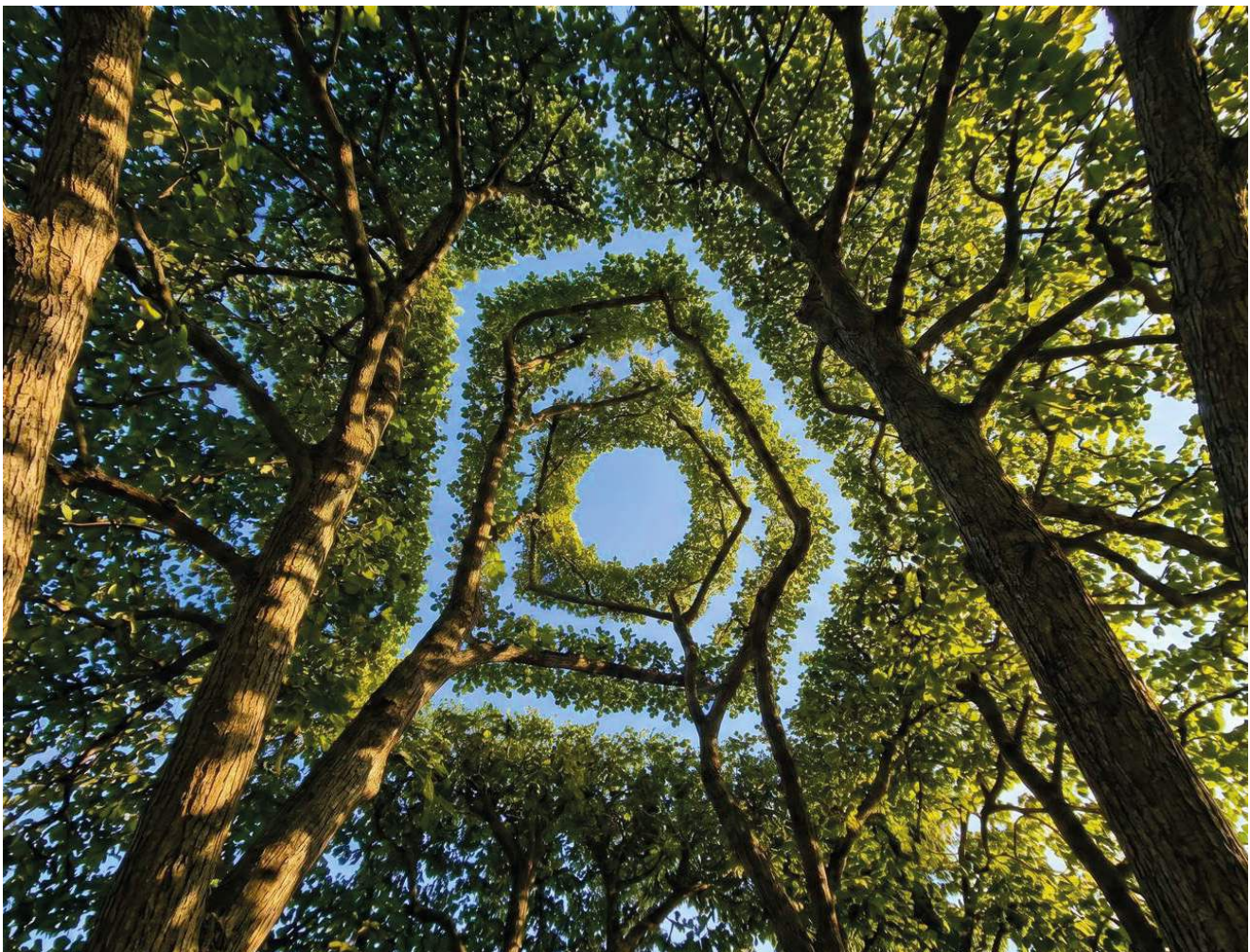
Developing future engineering capability remains a priority. Since 2018, we have supported Engineering Aid Australia's Indigenous Australian Engineering School (IAES) programme, introducing First Nations secondary students to engineering and technology careers through immersive workshops, mentoring and industry engagement. This partnership contributes to building practical skills and strengthening the diversity and sustainability of the future workforce.

In 2025, we marked 10 years of partnership with Yalari, supporting Aboriginal and Torres Strait Islander students from remote, rural and regional communities through access to secondary education, including the Rosemary Bishop Indigenous Education Scholarship. We also continue our national partnership with Eat Up, combining financial support and colleague volunteering, with more than 10,000 sandwiches prepared and delivered to schools across Sydney, Melbourne and Perth in 2025.

Supporting women in STEM remains central to our long-term capability strategy. We have extended our partnership with Auckland University of Technology's Women in Tech programme and continue to support the University of Adelaide's Women in STEM careers (WiSC) programme, providing financial and in-kind support, industry site visits and direct engagement with engineering professionals to strengthen career pathways for female students.

Collectively these partnerships reflect our focus on inclusive growth, sustainable skills development and long-term workforce resilience.

Learn more about Babcock Australasia's Indigenous Peoples policy on page 108.



Responsible business

Commercial integrity

We are committed to conducting our business to the highest standards of honesty and 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 corrupt or unethical behaviour.

Our policies

To support good governance and ethical behaviour across our Group, our actions and those of our colleagues, suppliers and partners are guided by a series of Group policies. These include our Code of Business Conduct and Anti-bribery and Corruption/Ethical policy (see page 108), Human Rights policy (see page 107) and Modern Slavery Statement (see page 107) which are available on our website. Other policies such as our Fraud Risk Management policy and Anti-Trust (Competition) Law policy are available to colleagues through our internal Business Management System. To learn more about these policies, please see our Non-financial and sustainability information statement from page 106.

Our policies are periodically reviewed to ensure that they continue to meet current best practice principles and legislative needs. By establishing transparent policies and procedures, we can reduce risk to our business and to our customers. We treat breaches of our Codes or associated guidance seriously. 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 107 and our website) mean 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.

Whistleblowing

Our Whistleblowing policy encourages colleagues to come forward and voice any concerns they have about suspected breaches of the Babcock Code of Conduct. It is the responsibility of every Babcock colleague to bring to the attention of appropriate management any concerns they have that our Code or its associated guidance is not being followed, and they can do this 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 (see also page 109). Further details are available on our website.

Supply chain governance

Strong supply chain governance remains central to Babcock's business strategy, underpinning ethical, sustainable and transparent operations. We underline this commitment through our Supplier Assurance Handbook, giving suppliers clearer visibility of our assessment, audit and development processes. This transparency supports effective collaboration and encourages responsible practices across our supply chain.

We utilise the Joint Supply Chain Accreditation Register (JOSCAR) to access ESG ratings for over 3,000 suppliers, evaluating their environmental performance, social responsibility and governance standards including ethical practices. These ratings help suppliers understand where improvements can be made, reinforcing our sustainability ambitions, boosting supply chain resilience, reducing environmental impact and supporting global sustainability objectives.

Our AI-driven risk resilience solution further enhances our risk control and visibility of our supply base, providing real-time monitoring of our key supply chain. Continuous development ensures that the system delivers the most current and relevant insights, enabling us to identify and address potential disruptions proactively.

Ethical practices remain fundamental to our supply chain governance. Through adherence to our Supplier Code of Conduct (updated during 2025), we emphasise the Babcock expectations that suppliers uphold fair labour standards, respect human rights and demonstrate environmental responsibility. This ethical foundation reduces risk, protects our reputation and supports long-term value creation. Combining strong ethical standards with on-time delivery, cost efficiency, compliance and quality is essential to Babcock's success. Reliable delivery keeps projects on schedule, cost efficiency maintains competitiveness, and high-quality standards ensure we consistently provide exceptional products and services to our customers.

Our broad network of more than 9,500 global suppliers continues to be a significant asset to support our delivery. Robust due diligence, ongoing improvement initiatives and continuous monitoring enable strong compliance and effective risk management. This includes comprehensive supplier assessments, regular audits and consistent oversight to maintain alignment with our standards.

To further strengthen this governance framework, we have implemented a unified data platform that integrates procurement and supply chain information from multiple internal and external sources. Providing real-time insights, it automates reporting and facilitates live supplier performance scorecards, enabling leaders to identify trends, manage risks, and make informed decisions to optimise value. We are continuing to develop the platform to enable dynamic risk management through alerts and scenario planning. By transforming fragmented data into actionable intelligence, the platform enhances decision-making across our procurement function and reinforces our commitment to responsible, resilient and high-performing supply chain management.



● See our [Supplier Assurance handbook for more information](#)

Responsible business (continued)

Fair operating practices

Babcock is committed to upholding fair and responsible operating practices across our supply chain, aligning business activities with our ethical standards as defined within our Supplier Code of Conduct. This commitment underpins the integrity, transparency and sustainability of our operations, fostering trust and accountability among suppliers, customers and stakeholders. We expect all suppliers to be able to demonstrate they operate ethically and in full compliance with applicable requirements, thereby mitigating risk, protecting reputations and supporting long-term value creation.

Our suppliers are required to demonstrate fair labour practices, environmental stewardship, social responsibility and respect for human rights. To uphold these expectations, we conduct compliance assessments during supplier onboarding and undertake periodic revalidations, utilising our due diligence tool to reinforce high standards of accountability and sustainability. In 2025, we revised and enhanced our Supplier Code of Conduct to more accurately reflect our ethical operating requirements across the supply chain.

Babcock is committed to treating suppliers with fairness and respect, providing clear guidance, timely payments and appropriate development support. These practices strengthen partnerships, enhance collaboration and contribute to a resilient, responsible and sustainable supply chain.

Payments to suppliers

By ensuring the prompt settlement of invoices, we cultivate strong, trust-based relationships with our suppliers, relationships that are essential to maintaining a stable and resilient supply chain. Babcock upholds the principles of the Fair Payment Code, reflecting our commitment to ethical business conduct and corporate responsibility. Timely payments support suppliers' cash flow, enabling them to sustain operations, invest in innovation and continue delivering high-quality products and services.

We also actively encourage our suppliers to adopt prompt payment practices throughout their own supply chains, thereby promoting financial stability and reinforcing trust across the broader network. In FY26, we achieved an average supplier payment term of 19.3 days, remaining within agreed payment terms and broadly consistent with prior periods.

Cyber security

Babcock acknowledges the significant threat posed by cyber-attacks and the potential consequences, such as operational disruption, unlawful access or theft of information, and damage to our reputation. To mitigate and reduce cyber-related risks, Babcock has established a Cyber and Information Security Framework that provides governance, direction and assurance that the Company's security posture is both appropriate and effective.

We recognise that the increased use of artificial intelligence (AI) may contribute to cyber risk by making social engineering more convincing and enabling some forms of attack activity to be scaled more quickly. We are responding through strengthened governance and secure-by-design controls for the use of AI, enhanced monitoring and threat intelligence, and ongoing colleague awareness to help reduce the likelihood and impact of AI-enabled attacks.

Collaboration with both external stakeholders and the internal Group Executive Risk and Controls Committee ensures that cyber and information risk management is appropriately managed across all levels of the organisation. Our security risk appetite is underpinned by a set of unified security controls which can be implemented across our corporate technology stack. Processes and controls are pragmatic, replicable and auditable, to protect Babcock and our customers' assets through their lifecycles and adhere to the principles of secure-by-design.

Babcock adheres to all required international and government security standards for the secure installation and operation of information systems. Cyber security operations are in place to identify threats and protectively monitor risks to information, systems and networks.

We are committed to ensuring that our core IT services maintain their ISO 27001 (Information Security) and ISO 22301 (Business Continuity) certifications. In relation to our UK Government contracts, we remain focused on upholding our Cyber Essentials Plus certification and are actively working towards meeting the requirements of the UK Defence Cyber Certification and Defence Standard 05-138 Issue 4.

We engage with our colleagues and external customers and our supply chain to ensure that security principles are embedded within programmes of work. Security enables the effective and efficient delivery of projects and programmes, and provides our customer community with confidence in our security practices and capabilities.

Babcock informs and empowers our colleagues to be knowledgeable about information security risk and cyber threat both at work and at home, to better prepare them for an increasingly interconnected digital environment. Babcock actively seeks to address the challenges faced by the cyber industry to source suitably qualified experts through investment and development of its own workforce.

Learn more about cyber security on page 118.

Climate-related Financial Disclosures

Babcock remains dedicated to managing climate-related risks, reducing greenhouse gas emissions, tackling climate-related challenges and seizing opportunities that arise from climate change. We have made ongoing efforts to enhance our reporting to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

In accordance with Listing Rule 6.6.6 (8), we provide disclosures for each of the TCFD's four pillars: governance, strategy, risk management, and metrics and targets. We confirm that these disclosures follow the TCFD guidance and align with all 11 TCFD recommendations.

Since FY25, we have made improvements to the following sections of the report:

- Governance – we have added a climate change organisation chart to clearly outline lines of responsibility and accountability relating to identification, assessment and management of climate-related risks and opportunities.
- Strategy – we have conducted a financial quantification exercise to assess how climate-related risks and opportunities might impact our business strategy under different scenarios. We have also assessed our ability to control the risks and the resulting financial impact post controls.
- Risk management – we have refreshed and enhanced our approach to risk identification and assessment, and have integrated that with Babcock's Enterprise Risk Management framework.
- Metrics and targets – we have updated our metrics and targets to align with identified climate-related risks and opportunities, where possible.

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

TCFD recommendations	Updates in FY26	Section / Page
Governance		
Board's oversight of climate-related risks and opportunities	Inclusion of climate change organisation chart.	96
Management's role in assessing and managing climate-related risks and opportunities	As above.	96
Strategy		
Climate-related risks and opportunities the organisation has identified over the short, medium and long term	Enhanced the Group's approach to the identification and assessment of risks and opportunities. Reviewed and updated climate-related risks and opportunities.	97
The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Conducted a financial quantification assessment of climate-related risks and opportunities.	98
The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Updated our resilience assessment in line with findings from our enhanced approach.	98
Risk management		
The organisation's processes for identifying and assessing climate-related risks	Enhanced the Group's approach to the identification and assessment of risks and opportunities.	99
The organisation's processes for managing climate-related risks	As above.	99
How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	As above.	99
Metrics and targets		
The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Updated to align with identified climate-related risks and opportunities. Reviewed and updated climate-related risks and opportunities.	103
Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Updated figures stated.	105
The targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Updated to align with identified climate-related risks and opportunities.	73

Responsible business (continued)

Governance

Climate change is a principal risk for Babcock, and we have effective governance, oversight and management of our climate-related risks and opportunities. The following details the role Babcock's Board plays in overseeing climate-related risks, as well as Executive management's role in assessing and managing these risks.

The Board has ultimate responsibility for the Company's strategy and risk management. The Board oversees climate-related risks and opportunities and discusses Group-wide sustainability matters as an integral part of Board strategic discussions, with a dedicated session once a year as a minimum.

Board oversight on climate change



Audit Committee

Oversees ESG reporting, ensuring data reliability, to integrate sustainability into strategy through enhanced internal controls and external assurance.

Remuneration Committee

Determines and applies the Remuneration policy where environmental considerations are linked to remuneration awards as outlined by the Committee.

Nominations Committee

Ensures the Board has the right skills for long-term value, linking Board composition directly to sustainable governance and performance.

Group Executive Committee

The Executive Committee has direct oversight of climate-related risks and opportunities via the Corporate Sustainability Committee, Executive Safety Committee, and Group Executive Risk and Controls Committee. These matters are then in turn reported to the Board.



Principal Management Committees

Corporate Sustainability Committee

Monitors Group-wide sustainability initiatives, the management of climate-related issues, and driving the wider sustainability strategy including monitoring climate-related metrics and targets. Meets on a quarterly basis.

Executive Safety Committee

Considers the current and short-term expected impacts of climate change on health, safety and environmental protection. Meets on a quarterly basis.

Group Executive Risk and Controls Committee

Oversees actions required to further climate-related risk management activities in line with Babcock's Enterprise Risk Management (ERM) framework. Meets on a quarterly basis.

Strategy and operations

Group Sustainability Team

Directs and co-ordinates Babcock's approach to sustainability and climate risk management, working closely with operational sustainability professionals throughout the business.

Climate Risk Working Group

Responsible for the process for identifying, assessing, and managing climate- and nature-related risks and opportunities across physical, transition and systemic risks, and enabling Babcock to align with the Task Force for Climate-related Financial Disclosures (TCFD) and Taskforce for Nature-related Financial Disclosures (TNFD).

Sectors, DRCs and Functions

Responsible for managing and controlling their respective climate-related risks as an integrated part of enterprise risk management. Utilise the insights and results from climate risk assessments to identify actions that ensure effective implementation of control measures.

Throughout FY26, the Board and the Executive Committee conducted multiple evaluations of the Group-led sustainability initiatives, which included updates to the sustainability strategy, climate scenario analysis, principal risks and materials controls, decarbonisation efforts, and energy-saving opportunities.

How we manage climate-related risks

Babcock continues to employ a top-down, bottom-up approach for managing climate risks. The top-down approach involves setting policies and strategies at the Group level, providing a unified direction. Meanwhile, the bottom-up approach assigns responsibility for implementation to sectors and Direct Reporting Countries (DRCs), enabling them to leverage local insights and outputs from climate risk assessments to identify necessary actions for meeting corporate climate impact reduction targets.

Our Enterprise Risk Management (ERM) framework incorporates the identification and assessment of climate risks, ensuring they are reported, escalated, and overseen at the corporate level. Every quarter, the Climate Risk Working Group reviews and reports on climate-related risks and opportunities, tracking both individual and thematic issues across the organisation. This quarterly process includes updates on proposed and existing control measures. Climate risks identified by specific sectors and countries are examined quarterly by the Group Executive Risk and Controls Committee, reported to the Audit Committee each quarter, and presented to the Board annually.

How we identify and assess climate-related risks and opportunities

Over the past year, we have refined and enhanced our approach to identifying and assessing climate-related risks and opportunities, with support from external sustainability specialists. The work included extensive stakeholder engagement to identify material risks and evaluate their impact, enhancing our understanding of the climate-related risks and opportunities our business is exposed to.

As part of refreshing our approach to climate risk and opportunity assessment, we conducted a range of activities. This included a thorough review of our existing climate risk registers, review of our Environmental Management Systems' aspects and impacts registers, review of climate risks disclosed by peer organisations, extensive review and research of technical literature, and engagement with industry specialists. We utilised a leading global climate risk analytics platform to plot over 100 key sites across Babcock's global operations, to identify and assess our exposure to nine physical climate-related hazards (including flooding, wildfire, heat stress etc).

An alternative approach was adopted for the transition risk identification, where a tool was not considered appropriate. Our teams undertook extensive internal stakeholder engagement, with support from industry specialists, to review and assess a range of potential transition risks. Subsequently, we developed a comprehensive list of relevant climate-related risks, which was debated and refined to arrive at the final shortlist. This process enabled us to prioritise our climate-related risks, focusing our assessment on the risks most material to the organisation. The following is the shortlist of climate risks and opportunities included within our assessment:

- Extreme weather
- Coastal flooding
- Supply chain disruption
- Carbon taxation and pricing
- Energy prices
- Changing demand for services resulting from the Net Zero transition*

- Products becoming uncompetitive*
- Market expectations on decarbonisation
- Growing demand for services responding to the changing climate*
- Growing demand for products and services supporting the Net Zero transition*
- Market expectations on decarbonisation.

To assess the climate-related risks and opportunities, we conducted extensive stakeholder engagement and workshops to debate and map the potential impacts to the organisation across a range of scenarios and time horizons. Control measures were also explored to mitigate the risks and unlock the opportunities. Details of the time horizons used and our approach to climate scenario analysis are described below. As part of this enhanced approach, we conducted financial analysis of the climate risks and opportunities identified. We evaluated the potential financial impacts of each risk under two climate scenarios described below, over each time horizon. We assessed impacts both pre and post controls (referred to as controlled and uncontrolled below), enabling us to explore the improved resilience of our business resulting from our control measures.

As part of the financial analysis, risk impact distributions were created in collaboration with our internal stakeholders during facilitated workshops. These sessions helped establish key assumptions and provided a foundation for quantifying the expected lower- and higher-end impacts under the scenarios we analysed. We then used a proprietary tool to model the combined effects of individual risk impact distributions. This tool utilised Monte Carlo analysis[^] to generate indicative aggregate impact distributions, enabling us to address some of the uncertainties inherent in long-term climate impact forecasting.

Assessing business resilience across different time horizons

We analyse and model climate risks across different timeframes:

- short term (now until 2030)
- medium term (2030 to 2040)
- long term (2040 to 2055)
- very long term (2055 to 2100)

These periods correspond with our near-term science-based targets for 2030, decarbonisation goals for 2040, and our Net Zero target for 2050. The use of the 'very long term' time horizon allows us to model and evaluate certain risks across our strategic and critical assets over an extended timeframe and informs long-term infrastructure planning.

* In the table on page 101, these four risks and opportunities are grouped under the heading "Changing demand for products and services".

[^] Monte Carlo analysis is a statistical technique to model uncertainty by running many simulations with randomly sampled inputs from defined probability distributions. It produces a range of possible outcomes and their likelihoods, helping quantify risk rather than relying on a single estimate.

Responsible business (continued)

Scenario analysis – financial quantification of climate risk

Scenario analysis is a powerful tool that allows organisations to assess how climate change may impact business strategy. This year, we have advanced our approach to scenario analysis by quantifying the impact of climate change in financial terms. This will also help us to align with the requirements of IFRS S2 and UK SRS S2.

Two scenarios were developed for assessment of the impact of climate risks and opportunities:

- **Lower warming:** In this world, we can expect strong global policy action and the successful implementation of Net Zero commitments. Global emissions are rapidly reduced, limiting warming to 1.5°C, resulting in relatively lower physical climate risks but higher transition risks due to significant changes in regulation, technology, and market expectations.
- **Higher warming:** In this world, there are no new policies added, and policy action is limited to current commitments. As a result, Net Zero goals are not fully achieved. Global emissions decline slowly, leading to warming of 3°C, with higher physical climate risks and lower transition risks due to less regulatory and technology disruption.

For coastal flooding we also assessed impacts in a third scenario:

- **Very high warming:** In this world, there is no/minimal global policy action and no meaningful progress toward net zero. Emissions continue to rise, resulting in warming exceeding 4°C and very high physical climate risks, while transition risks remain low due to the absence of significant decarbonisation efforts.

See table below for the agreed scenarios and their alignment to third-party scenarios.

In addition, for coastal flooding we assessed a fourth time horizon, the very long term (2055 to 2100). This enabled the consideration of a wider range of threat magnitude for the business's marine operations, some of which involve very long-term contracts and comprise a substantial portion of Group-level revenues.

Scenario	Risk type	Alignment		
		IPCC	NGFS	IEA
Lower warming	Physical	SSP1-2.6	Below 2°C	Announced Pledges Scenario (APS)
	Transition	SSP1-1.9	Net Zero 2050	Net Zero Emissions by 2050 (NZE)
Higher warming	Transition and physical	SSP2-4.5	Current Policies	Stated Policies Scenario (STEPS)
Very high warming	Coastal flooding only	SSP5-8.5	N/A	N/A

Climate-related risks and opportunities

We evaluated the potential financial impacts of each risk under the two climate scenarios, over each time horizon. We assessed impacts both pre and post controls (controlled/uncontrolled, as described below), enabling us to explore the improved resilience of our business resulting from our control measures. We modelled the combined (aggregate) impacts, including expected values using lower and higher estimates, to accommodate some of the uncertainty inherent in forecasting climate risk and the significant judgement and assumptions incorporated into the assessment. The financial impacts of the risks and opportunities are assessed to be either a threat (where there is a negative financial impact) or an opportunity (where there is a positive financial impact).

Key:

Uncontrolled In which no controls are implemented

Controlled In which controls are implemented to mitigate the threats, and proactive actions are taken to unlock opportunities

Financial impact scale – threat and opportunity

A threat represents a negative financial impact:

- Low – Less than 10% reduction in operating profit
- Moderate – Between 10% and 25% reduction in operating profit
- High – Greater than 25% reduction in operating profit

An opportunity represents a positive financial impact:

- + Low – Less than 10% increase in operating profit
- + Moderate – Between 10% and 25% increase in operating profit
- + High – Greater than 25% increase in operating profit

Evaluated using median values of annual impact within a range of uncertainty between lower and higher estimates.

We present our climate-related risks and opportunities that could have a material financial impact on the business in the table below:

Risk/Opportunity	Description	Assessment and quantification of uncontrolled risk	Control measures	Assessment and quantification of controlled risk
Extreme weather	Increasing occurrence of extreme weather could lead to disruption to our staff and operations. This in turn could lead to an increase in operating costs associated with additional staff requirements and repairs to damaged facilities, and reduced revenue due to business interruption.	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Whilst our analysis indicates that the risk to our business is greater in the higher warming scenario, the threat remains low.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> 1. Insurance cover 2. Contractual protections 3. Infrastructure enhancements 	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>The control measures lower the risk exposure. However, given the nature of physical risks, post mitigation there still remains a low threat.</p>
Coastal flooding	<p>An increased risk of coastal flooding due to sea-level rise exacerbated by increased frequency of extreme weather events could impact dockyards owned/operated by Babcock.</p> <p>This in turn could lead to an increase in costs associated with repairs to damaged facilities and loss of revenue due to business interruption.</p>	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term ⊖ Very long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term ⊖ Very long term <p>The impact of coastal flooding only materialises in the very long term in the higher warming scenario. The expected impact is greatest in the very high warming scenario, equating to a high threat in the very long term.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> 1. Insurance cover 2. Infrastructure enhancements – site drainage systems and flood defences 	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term ⊖ Very long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term ⊖ Very long term <p>The control measures lower the risk exposure, however given the nature of physical risks, post mitigation there still remains a low threat, particularly over the very long term.</p>
Supply chain	Climate change could disrupt our supply chain and in turn increase procurement costs and cause interruption to the business.	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊕ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>The low threat changes to a low opportunity in the lower warming scenario over the long term, due to the assumption suppliers address their own climate-related risks and opportunities leading to reduced costs. The impact is highest in the higher warming scenario over the long term as the impact of extreme weather worsens.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> 1. Diversified supply chain 2. Effective supply chain risk management 3. Supplier engagement – climate awareness training and support being provided to suppliers 	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊕ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Our analysis indicates that the mitigation measures would reduce the threat impacts and enhance the opportunity over the lower warming scenario.</p>

Responsible business (continued)

Financial impact scale – threat and opportunity

A threat represents a negative financial impact:	An opportunity represents a positive financial impact:
<ul style="list-style-type: none"> ⊖ Low – Less than 10% reduction in operating profit ⊖ Moderate – Between 10% and 25% reduction in operating profit ⊖ High – Greater than 25% reduction in operating profit 	<ul style="list-style-type: none"> ⊕ Low – Less than 10% increase in operating profit ⊕ Moderate – Between 10% and 25% increase in operating profit ⊕ High – Greater than 25% increase in operating profit

Evaluated using median values of annual impact within a range of uncertainty between lower and higher estimates.

Risk/Opportunity	Description	Assessment and quantification of uncontrolled risk	Control measures	Assessment and quantification of controlled risk
Carbon taxation and pricing	<p>Operating costs sensitive to climate-related taxes and carbon pricing mechanisms could increase.</p> <p>This may happen due to:</p> <ol style="list-style-type: none"> Direct exposure to carbon taxation Indirect exposure resulting in higher costs for carbon-intensive products in the supply chain <p>The shortlist of carbon-intensive products considered comprised: steel, cement, aluminium, glass and energy.</p>	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>The cost of the uncontrolled risk increases in the lower warming scenario, driven entirely by global carbon price projections.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> Implementation and delivery of decarbonisation initiatives and targets Delivery of energy efficiency targets 	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊕ Medium term ⊕ Long term <p>Our analysis indicates that the control measures will reduce exposure to projected carbon costs across all scenarios and timeframes.</p> <p>Under the higher warming scenario, given the impact of carbon taxation and pricing is less significant, the threat is transitioned to a small opportunity, as the savings delivered from decarbonisation initiatives and the reduction in energy usage more than offset the impact of carbon taxation and pricing.</p>
Energy prices	<p>Energy costs could increase, driven by climate-related factors including supply volatility, Net Zero regulation, and extreme weather impacts on energy infrastructure.</p>	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>The cost of the uncontrolled risk increases in both scenarios, reaching moderate levels in the lower warming scenario, due to potential cost increases associated with a quicker phase-out of fossil fuels.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> Delivery of energy- and carbon-reduction initiatives Long-term energy arrangements (such as Power Purchase Agreements) Onsite energy generation 	<p>Lower warming</p> <ul style="list-style-type: none"> ⊖ Short term ⊖ Medium term ⊖ Long term <p>Higher warming</p> <ul style="list-style-type: none"> ⊕ Short term ⊕ Medium term ⊕ Long term <p>Our analysis indicates that the control measures will reduce the exposure to potentially increasing energy prices across all time horizons.</p> <p>Under the higher warming scenario, given the impact of energy price increases is less significant, the threat is transitioned to an opportunity, as the savings delivered through energy reduction and onsite generation initiatives more than offset the energy price increases.</p>

Risk/Opportunity	Description	Assessment and quantification of uncontrolled risk	Control measures	Assessment and quantification of controlled risk
Changing demand for products and services	<p>Demand for services linked to fossil fuel consumption and large energy-intensive assets will vary significantly between high- and low-carbon futures, impacting customer needs and strategic positioning particularly with regards to:</p> <ol style="list-style-type: none"> 1. Engineering services at combustion plants 2. HGV and mining truck dealership business 3. Liquid Gas Equipment (LGE) business 4. Civil nuclear services 	<p>Lower warming ⚪ Short term ⚪ Medium term ⚪ Long term</p> <p>Higher warming ⚪ Short term ⚪ Medium term ⚪ Long term</p> <p>Whilst the threat to our business is moderate, this risk is greatest in the lower warming scenario, with shifts away from fossil-powered trucks and liquefied fossil-fuel gas shipping impacting profits in the long term.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> 1. A diverse portfolio of services 2. Innovation to support customers' changing demands 3. Capitalising on high-growth sustainable business opportunities 	<p>Lower warming ⊕ Short term ⊕ Medium term ⊕ Long term</p> <p>Higher warming ⊕ Short term ⊕ Medium term ⊕ Long term</p> <p>Across both the lower and higher warming scenarios, Babcock has significant opportunities to transition a potential risk into a moderate to high opportunity over the medium to long term, particularly in markets such as clean nuclear power and green shipping.</p>
Market expectations on decarbonisation	<p>Customer-imposed decarbonisation criteria could affect the award of future contracts leading to a reduction in market share if the Group doesn't demonstrate its commitment to decarbonise or comply with relevant reporting requirements.</p>	<p>Lower warming ⚪ Short term ⚪ Medium term ⚪ Long term</p> <p>Higher warming ⚪ Short term ⚪ Medium term ⚪ Long term</p> <p>Without controls in the lower warming scenario, risks are present from non-UK defence, global civil and UK competitive defence business areas.</p> <p>In the higher warming scenario, the impact in the long term is lower, reflecting a lower general level of decarbonisation expectations from customers.</p>	<p>Control measures to mitigate the risk include:</p> <ol style="list-style-type: none"> 1. Delivering Babcock's Net Zero targets 2. Strong stance and action on mitigating climate change impacts 3. Effective stakeholder engagement 	<p>Lower warming ⚪ Short term ⚪ Medium term ⚪ Long term</p> <p>Higher warming ⚪ Short term ⚪ Medium term ⚪ Long term</p> <p>Achieving our decarbonisation targets would mean the risk is fully mitigated, resulting in no financial impact.</p>

Aggregate financial quantification

The heatmaps below illustrate the aggregate impacts of risks and opportunities under the two scenarios:

	Lower warming		
	Short	Medium	Long
Uncontrolled	⚪ Moderate threat	⚪ High threat	⚪ High threat
Controlled	⊕ Low opportunity	⊕ Low opportunity	⊕ High opportunity
	Higher warming		
	Short	Medium	Long
Uncontrolled	⚪ Low threat	⚪ Moderate threat	⚪ High threat
Controlled	⊕ Low opportunity	⊕ Moderate opportunity	⊕ Moderate opportunity

Responsible business (continued)

The enhancements we have made this year have provided greater ability to understand and assess business resilience against climate-related risks and opportunities.

If uncontrolled, climate-related risks present a moderate to high threat over the medium to long term under both the lower and higher warming scenarios. The greatest financial threats come from extreme weather, energy prices, carbon pricing and market expectations on decarbonisation.

Individually, the risk threats are generally classified as low, though the aggregate impacts rise to moderate to high. In both scenarios, transition risks are dominant. However, in the very long term, there is an increased risk and high threat associated with coastal flooding.

Controlling the threats and unlocking the opportunities presents a high and moderate opportunity in the long term under the lower and higher warming scenarios respectively. Control measures will enable us to reduce the negative impacts and realise the significant opportunities to grow products and services that help society transition to net zero and adapt to climate change.

To summarise, Babcock is exposed to a range of climate-related risks which could, over the medium to long term, result in a moderate to high threat. However, Babcock also has significant opportunity. With appropriate control of risks and unlocking of opportunities, this could result in a net moderate to high opportunity for Babcock over the medium to long term.

Over the coming year, our teams plan to further develop the maturity of our approach to climate risk management, including working with the business to assess, plan and deliver mitigation activities as appropriate to reduce risks and unlock opportunities.

As in previous years, we have reviewed our climate risks and opportunities register for potential impacts on financial reporting, particularly concerning critical accounting judgements or estimation uncertainties, though currently no material impact is identified.



Metrics and targets

This year we have expanded our climate-related metrics and targets to include those related to the implementation of a broader set of controls, focused on surrounding our sustainability strategy to manage the risks and opportunities. The table below describes our current metrics and targets:

Metric	Details	Target	Progress against the base year / Progress in FY26
GHG emissions (Absolute Scope 1 and 2 emissions – tCO ₂ e)	Reduction of Babcock's Scope 1 and 2 emissions, and delivery of Net Zero targets. Risks controlled <ul style="list-style-type: none"> • Carbon taxation and prices • Market expectations on decarbonisation 	42% reduction by 2030 Net Zero by 2040	20.1% reduction against 2021 baseline 11.1% reduction year on year Details relating to the progress can be found on our factsheet through the QR code on page 105
GHG emissions (Absolute Scope 3 emissions – tCO ₂ e)	Reduction of Babcock's Scope 3 emissions, both upstream and downstream, and delivery of Net Zero targets. Risks controlled <ul style="list-style-type: none"> • Carbon taxation and prices • Market expectations on decarbonisation • Changing demand for products and services resulting from the net zero transition • Supply chain 	Net Zero by 2050	14.8% increase against 2021 baseline 3.7% reduction year on year Details relating to the progress can be found on our factsheet through the QR code on page 105
Renewable energy (% of electricity derived from renewables)	Powering Babcock's operations with renewable energy through both on-site and off-site renewable energy generation. Risks controlled <ul style="list-style-type: none"> • Carbon taxation and prices • Energy prices • Supply chain 	No stated target	2024 – 33% 2025 – 31% During 2025, we experienced a small increase in electricity consumption at sites which do not have renewable energy supplies
Executive remuneration (% of Executives with remuneration linked to climate-related metrics)	Inclusion of climate-related metrics within executive remuneration assessments. The FY25 and FY26 metric is the energy efficiency metric as detailed below. Risks controlled <ul style="list-style-type: none"> • Carbon taxation and prices • Energy prices • Changing demand for products and services resulting from the net zero transition • Market expectations on decarbonisation 	See below	FY25 – 100% FY26 – 100%

Responsible business (continued)

Metric	Details	Target	Progress against the base year / Progress in FY26
Energy efficiency (Energy consumption divided by revenue – kWh/£k)	<p>Reducing energy wastage and leakage across the organisation, whilst allowing for sustainable growth. This is a newly added metric, and is the metric used within executive remuneration.</p> <p>Risks controlled</p> <ul style="list-style-type: none"> • Carbon taxation and prices • Energy prices • Changing demand for products and services resulting from the net zero transition • Market expectations on decarbonisation 	15% by 2030 against a 2024 baseline	<p>14.1% improvement year on year</p> <p>Details relating to the progress can be found on page 76.</p>
Capital deployment	<p>Delivery of initiatives to deliver on Babcock's energy efficiency and carbon-reduction objectives.</p> <p>Risks controlled</p> <ul style="list-style-type: none"> • Carbon taxation and prices • Energy prices • Market expectations on decarbonisation 	No stated target	We track and disclose the delivery of energy-saving and emissions-reduction initiatives in line with requirements of the Energy Saving Opportunity Scheme to the Environment Agency. We monitor and track the associated delivery cost as an internal metric only.
Internal carbon price	<p>Babcock has implemented a shadow carbon price to assess and highlight the potential exposure to carbon pricing. The assessment is completed at the end of the financial year, utilising the reported Scope 1 and 2 emissions and a spot price on the UK Emissions Trading Scheme.</p> <p>Risks controlled</p> <ul style="list-style-type: none"> • Carbon taxation and prices • Changing demand for products and services resulting from the net zero transition • Market expectations on decarbonisation • Supply chain 	No stated target	<p>Babcock's shadow carbon price is based on the UK market cost of carbon and is considered internally.</p> <p>The shadow carbon cost to the business has reduced in line with the reduced emissions.</p>

We recognise the role of insurance as a crucial control measure in mitigating exposure to physical risks such as flooding and extreme weather. Whilst we have insurance contracts in place, we are not yet in a position to disclose specific metrics and targets, which we are looking to develop in the coming years. Additionally, we understand the significance of establishing targets relating to the financial impact of climate-related risks and opportunities on our business.

The initial quantification of climate risks we have conducted this year has helped us understand the potential impact of risks and opportunities. We will consider developing appropriate targets in due course.

As a result of the refinements and enhancements made in our approach to climate risk assessment, we now have a clearer, up-to-date understanding of our key climate-related risks and opportunities, along with a structured process for identifying and prioritising them, in alignment with TCFD recommendations.

Babcock Group energy consumption and emissions

	Units	2021	2022	2023	2024	2025
UK						
UK Scope 1 ¹	tCO ₂ e	45,043	35,357	28,136	28,367	28,419
UK Scope 2 (Location-Based)	tCO ₂ e	70,846	79,223	79,952	71,581	51,799
UK Scope 2 (Market-Based)	tCO ₂ e	70,593	79,648	76,792	70,651	57,355
Total UK Scope 1 and 2 (Market-Based)	tCO ₂ e	115,636	115,005	104,927	99,019	85,774
Underlying Consumption	kWh	365,787,410	353,031,427	339,959,428	329,216,281	303,144,225
Global (excluding UK)						
Global (excl. UK) Scope 1 ¹	tCO ₂ e	16,891	18,838	18,588	19,072	18,021
Global (excl. UK) Scope 2 (Location-Based)	tCO ₂ e	3,715	4,147	3,418	4,174	4,901
Global (excl. UK) Scope 2 (Market-Based)	tCO ₂ e	4,390	4,614	5,946	5,001	5,594
Total Global Scope 1 and 2 (Market-Based)	tCO ₂ e	21,281	23,452	24,534	24,073	23,615
Underlying Consumption	kWh	84,272,429	92,267,640	91,757,355	92,605,206	94,706,634
Babcock Group Total² (UK and Global)						
Total Scope 1	tCO ₂ e	61,935	54,195	46,724	47,439	46,440
Total Scope 2 (Market-Based)	tCO ₂ e	74,983	84,263	82,737	75,653	62,949
Total Scope 1 and 2 (Market-Based)	tCO ₂ e	136,917	138,457	129,461	123,092	109,389
Total Scope 3 (excluding pensions) ³	tCO ₂ e	4,660,147	4,963,553	5,474,611	5,556,341	5,350,707
Total Value Chain Emissions (Scope 1, 2 and 3)	tCO ₂ e	4,797,065	5,102,010	5,604,072	5,679,433	5,460,097
Adjusted Revenue ⁴	£m	3,263	3,853	4,369	4,682	5,121
Intensity Ratio ⁵	tCO ₂ e/£m	1,470	1,324	1,283	1,213	1,066

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. The reporting period for our energy consumption and GHG emissions is the calendar year (01 January to 31 December) due to availability of data to meet annual reporting timescales. Our base year is 2021, aligned to our approved science-based targets. Our reporting exceeds the Streamlined Energy and Carbon Reporting (SECR) requirements, including a full Scope 3 footprint. Scope 3 emissions have been calculated in line with the GHG Protocol Corporate Value Chain (Scope 3) Standard and include elements of future emissions from sold products. Total emissions are based on market-based Scope 2 emissions, since they are more representative of our energy supply contracts. Figures for UK operations follow conversion factors published by the Department for Energy Security and Net Zero (except the supplier-provided energy from waste factors). Non-UK operations use emission factors applicable to the emission source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. In line with our base year recalculation policy, emissions data for prior years has been adjusted in line with methodology and organisational changes and includes corrected or additional data unavailable in previous Annual Reports. Material methodology changes in this report are: use of the supplier-provided energy from waste factors for location-based emissions as well as market-based, increases to the energy from waste factors to account for sale of renewable certificates to third parties by the supplier, and revised policy on operational control. Emissions figures include an element of estimated data. Certain data, estimated to be immaterial to the Group's emissions, has been omitted as it has not been practical to obtain (including some historical fuel data in South Africa and energy at the Winnipeg Airport site). Certain data has been excluded on the basis of exceptional sensitivity. In line with SECR requirements, figures reported for the previous period must be stated as disclosed in the report in the preceding year (despite these figures no longer being comparable with our current reporting period or our revised baseline): UK Scope 1 emissions – 27,196 tCO₂e, UK Scope 2 emissions – 57,477 tCO₂e, UK underlying energy consumption – 333,153,659 kWh. Global (excluding UK) Scope 1 emissions – 15,518 tCO₂e, Global (excluding UK) Scope 2 emissions – 3,339 tCO₂e, Global (excluding UK) underlying energy consumption – 76,302,062 kWh, Babcock Group total (UK and Global) Intensity Ratio – 783.9 tCO₂e/£1m revenue. For the FY25 reporting period, we disclosed the following energy efficiency improvements: "we delivered a number of improvement initiatives including 'low-hanging fruit' energy conservation measures, reduced use of diesel, reduced aviation operations and improvements to our energy management practices". During FY26, the reporting financial year, we delivered a number of improvement initiatives including 'low-hanging fruit' energy conservation measures, a behaviour change "Energy – It all adds up" campaign, reducing the use of diesel generators, and solar photovoltaic installations in South Africa. Further details are included on page 75.

- Scope 1 emissions exclude biogenic emissions. Our Outside of Scopes emissions from biodiesel HVO and forecourt petrol and diesel fuel in 2025 were 4,820 tCO₂e.
- Figures are presented rounded to the nearest whole number, so may not sum precisely to totals (which are based on unrounded figures).
- Category 15 emissions associated with pensions investments have been calculated, but we have elected not to include these in our total Scope 3 figures. Further detail is available on our website GHG factsheet or can be viewed on the QR code below.
- The revenue figures detailed have been adjusted for disposals and acquisitions. The revenue figures are calendar year to align with the emissions periods.
- The intensity ratio is based on the recalculated total value chain emissions and adjusted revenue figures.



● [Read our GHG factsheet here](#)

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 Babcock and our ability to generate value for all our stakeholders. We disclose non-financial information in the Sustainability report and throughout the Strategic report.

The following summarises where to find further information on each of the key areas of disclosure required by Sections 414CA and 414CB of the Companies Act. This includes the requirement to include Climate Financial Disclosures (CFD) within the Annual Report and Financial Statements. These have been incorporated throughout our TCFD disclosures. See from page 95.

Policy / Statement	Description
Environment	<p>**Sustainability policy The policy explains that it delivers through the Group sustainability strategy, which identifies six strategic priorities (three environmental and three social priorities) and associated targets which address the sustainability issues that are most material to the business. Sectors, Direct Reporting Countries (DRCs), and functions may develop their own sustainability programmes appropriate to their operations in alignment to this policy. All parts of the business must undertake relevant actions, including identified 'enterprise projects', to ensure the Company meets these targets. Finally, the policy clarifies that all parts of the business must report relevant sustainability data to ensure compliance with corporate reporting requirements.</p> <p>● Learn more on page 70</p>
	<p>**Environmental Sustainability policy The Environmental Sustainability policy details the Group's three strategic environmental sustainability priorities: Tackling climate change, Managing our resources responsibly and Protecting the natural environment. This policy establishes a framework across the Group to co-ordinate actions to deliver against our targets, whilst also providing the flexibility for our businesses to address their local challenges and unlock opportunities.</p> <p>● Learn more on page 70</p>
	<p>**Sustainable Procurement policy Our supply chain is key to successfully delivering our sustainability plan. When selecting suppliers and subcontractors, we seek evidence of their ability to meet our requirements against 12 priorities for sustainable procurement. The effectiveness is assured through our Supplier Information Management process, where suppliers are required to agree to our sustainability standards. To further ensure adherence, we have incorporated sustainability criteria into our supplier audits and assessments, and maintain continuous engagement with our suppliers.</p> <p>● Learn more on page 93</p>
	<p>CFD disclosures s414CB(2A) See Climate-related Financial Disclosures.</p> <p>● Learn more on page 95</p>
Employees	<p>** Safety, Health and Environmental Protection policy Babcock aims to ensure the highest Safety, Health and Environmental Protection (SH&EP) standards in all its activities by meeting and exceeding global regulatory requirements associated with SH&EP and those additionally pertinent to Aviation and Nuclear. The SH&EP policy ensures we manage the risks of harm to people and the planet through organisational arrangements, and have competent people working within an engaged safety culture. Our risk controls are assessed by routine and risk-based, internal and external assurance throughout the value chain to verify compliance and identify areas of learning and improvement.</p> <p>● Learn more on pages 78, 79 and 87</p>
	<p>**Code of Business Conduct The Code of Business Conduct states clearly that Babcock will conduct its business to the highest standards of honesty and integrity. It sets out the minimum expectations for the behaviour of our colleagues, business advisors and business partners. This includes treating others with respect, ensuring the safety of others at work, being honest in our dealings and complying with the law. The Code of Business Conduct must be displayed at all Babcock facilities and be included in all new colleagues' induction packs. See also Anti-Bribery and Corruption below.</p> <p>● Learn more on page 93</p>

Policy / Statement	Description
** Be Kind Day – volunteering policy	<p>At Babcock, we want to make a positive impact in the communities and environments in which we operate. As such, we have set a Company-wide target of '50,000 hours of volunteering per year in our communities by 2030'. We'll further support colleagues in volunteering with a new volunteering policy and associated guidance which enables activities to take place during working hours or reclaimed as time off. Volunteering is available through three avenues (Be Kind Days, Contractual, or other Locally Agreed Volunteering). To improve colleague experience further and to support our ability to record and report more accurately, we'll be streamlining the way colleagues request hours – simplifying the process so it sits in our absence recording system. This allows us to track and review our progress towards our target, on a monthly basis.</p> <p>● Learn more on page 91</p>
***Gender Pay Gap report	<p>Our Gender Pay Gap report reflects our ongoing commitment to building an inclusive and equitable working environment, where opportunity is accessible to all. We support this through the implementation of inclusive policies, the strength of our employee networks, targeted development and mentorship initiatives, and active collaboration with industry partners. Together, these actions underpin our progress and reinforce our focus on building a diverse and sustainable workforce.</p> <p>● Learn more on page 84</p>
Human rights	
**Supplier Code of Conduct	<p>This responsible sourcing policy was updated in 2025 as part of our regular review process and outlines the principles and expectations we hold for our suppliers, reflecting our commitment to ethical, responsible and sustainable business practices. Aligned with global best practices, this details our shared responsibility in creating a transparent, inclusive and resilient supply chain. The effectiveness of our policy is assured through our Supplier Information Management process, where suppliers are required to agree to our policy or provide equivalent standards they will adhere to. To ensure further adherence, we conduct regular audits and maintain continuous engagement with our suppliers.</p> <p>● Learn more on page 93</p>
**Human Rights policy	<p>We recognise our responsibility to conduct our dealings with the utmost integrity. We are committed to the protection of human rights and we comply with all national laws in the jurisdictions in which we operate, in our operations across the world. Where national law and international human rights standards differ, we will, where possible, follow the higher standard; where they are in conflict, we will adhere to national law, while seeking ways to respect international human rights to the greatest extent possible. The effectiveness of our policy is assured by assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed.</p>
***Modern Slavery Transparency Statement	<p>Our annual Modern Slavery Transparency Statement sets out the approach taken to understand the potential modern slavery risks associated with our business, and explains the actions taken to prevent slavery and human trafficking within the Group's operations and supply chains. We continue to believe that our exposure to the risks of modern slavery is low within our own business and supply chain. This assessment is under continuous review so that we can determine if circumstances change that require us to take additional actions. Our strategic Risk Resilience tool enables real-time monitoring through AI and machine-learning technology. It enables us to map our supply chain ecosystem, monitor activities, and proactively identify hidden risks in our sub-tier supply chain, tracking and generating alerts for indicators such as unethical labour practices, including modern slavery. Additionally, approximately 1,000 suppliers are monitored for their ESG scores, inclusive of individual attribute scores for forced and child labour as well as human rights, to identify any exposures in our supply chain. Our statement is available on our website or through the QR code at the end of this section.</p>

Non-financial and sustainability information statement (*continued*)

	Policy / Statement	Description
Social	*Australasia Indigenous Peoples Engagement policy	<p>This policy outlines the overarching Indigenous Peoples Engagement commitments for the region. Babcock Australasia strives to improve social and economic outcomes for Indigenous peoples within the region, to create a more equitable and fair future for all, and is committed to embedding opportunities for Indigenous peoples and their businesses in our day-to-day business. We recognise that specific initiatives are required for the geographic areas in which Babcock Australasia operates. For the geographic area of Australia, this refers to Aboriginal and Torres Strait Islanders, and for New Zealand, Māori and Pasifika.</p> <p>● Learn more on page 92</p>
	*Canada Indigenous Peoples policy	<p>As a corporate citizen doing business within Canada and working in areas that are protected and lived on by Indigenous peoples, Babcock Canada is committed to strengthening relationships with Indigenous peoples and their communities. Babcock Canada is recognised by the Canadian Council for Indigenous Business (CCIB) as achieving Partnership Accreditation in Indigenous Relations (PAIR) Bronze Status. In 2025, Babcock was certified as an Indigenous Procurement Champion by the CCIB. Aligned with those CCIB PAIR criteria, our policies and actions focus on corporate leadership action, Indigenous workforce investment, business engagement with Indigenous communities and community outreach to strengthen existing relationships. These are responsive to the spirit and intent of the reconciliation frameworks within the United Nations Call to Action 92 to Canada's corporate sector and leaders. Oversight of the operation of the Indigenous Peoples policy is managed by the Indigenous Relations and Participation Governance Committee. It, along with the Canada EXCO, ensures that awareness training and functional strategies support the Company's continual improvement against the CCIB PAIR certification objectives.</p> <p>● Learn more on page 91</p>
	**Charities policy	<p>Babcock is committed to the communities in which we operate and the broader interests of the customers we serve. We want to make a positive impact on the communities in which we operate. Sectors and DRCs retain responsibility and management of their charitable donations / sponsorship from their own budget, to ensure it goes where it can serve the greatest need and be of most value to that community within our guidelines and criteria. Our Group Charities policy aligns with Babcock's corporate Purpose "To create a safe and secure world, together", permitting donations and charitable sponsorship under two broad criteria: military charities and events; and supporting our local communities. Oversight of the operation of the policy is managed by the Corporate Sustainability Committee.</p> <p>● Learn more on page 90</p>
Anti-bribery and anti-corruption	**Anti-Bribery and Corruption / Ethics policy	<p>The intent of this policy is to ensure that Babcock at all times acts responsibly and ethically when pursuing and awarding business, and that we fulfil the principles expressed in our Code of Business Conduct relating to avoiding acts of bribery and corruption. The policy contains rules, procedures and guidelines that Babcock colleagues must follow in order to help ensure that we do not become involved, either directly or indirectly, in bribery or corruption and that we do what we reasonably can to reduce the risk of those we work with engaging in corrupt or unethical activities in connection with their dealings for us. It sets out the Group's zero tolerance policy in relation to bribery and corruption, including prohibitions on improper and facilitation payments, and penalties for breach of policy. The effectiveness of the Code of Business Conduct and Anti-Bribery and Corruption policy is assured by the annual training of our staff and the monitoring of compliance through full-year and half-year letters of representation from all sectors and Direct Reporting Countries. Whistleblowing lines are in place in all jurisdictions for reporting any wrongdoing. See also Code of Business Conduct above.</p> <p>● Learn more on page 93</p>

Policy / Statement	Description
**Whistleblowing policy	Encourages colleagues to report any concerns they may have in relation to unethical, unfair, dangerous or illegal behaviour or any breaches of the Code of Business Conduct, and sets out how to do so. The policy also confirms no action will be taken against a colleague who alerts management to these concerns if they turn out to be unfounded so long as the information and any allegations made were passed on in good faith; in the genuine belief that they were substantially true; with no intention of personal gain; and without malice. The effectiveness of our policy is assured by the availability and promotion of the whistleblowing lines throughout the business, ongoing review by the Group Company Secretary and regular reporting to the Board. ● Learn more on page 93
*Data Protection policy	Babcock International Group PLC and its subsidiary undertakings need to collect and use certain information about individuals in order to run our businesses effectively. This information comes from colleagues, workers, job applicants, students, customers, suppliers, and other individuals with whom Babcock communicates and does business. Our Data Protection policy sets out Babcock's commitment to its colleagues, other personnel and individuals whose information Babcock processes, and the ways in which each colleague must process personal data to ensure that Babcock, and the colleagues themselves, do not breach their obligations under the data protection laws. In support of our policy, specialist staff have been appointed and colleagues are required to complete mandatory data protection training on an annual basis.
*Supply Chain Cyber Security policy	As part of the Babcock commitment to creating a safe and secure world, our supply chain security is vital. Any compromise of information poses a serious threat to the reputational and economic standing of Babcock and our customers. Our Supply Chain Cyber Security policy ensures that the cyber security arrangements among delivery partners, third-party suppliers and supply chains are appropriate to the requirements of the goods and services being procured. This includes appropriate governance and management arrangements to manage risk, monitor compliance, report and respond effectively to any security incidents. Babcock's approach to ensuring security in our supply chain includes through-life management. All purchases of goods and services must follow the appropriate Babcock process, ensuring due diligence is carried out and managed throughout the supplier's relationship with Babcock in accordance with policy requirements. The effectiveness of our policy is assured by external ISO 27001 certification. ● Learn more on page 94
Description of principal risks and impact on business activity	**Group Risk Management policy See "Principal risks and management controls" ● Learn more on page 110
Description of our business model	See "Our business model" ● Learn more on page 24
Non-financial KPIs	See "Key performance indicators" ● Learn more on page 32

* Available to employees through the Babcock intranet but not published externally.

** Available on the Babcock website and available to employees through the Babcock intranet.

*** Available on the Babcock website.



● [Read our Modern Slavery Transparency Statement here](#)

Principal risks and management controls

Our principal risks and management controls

“In FY26 we have continued our journey to improve the maturity of our risk and control environment, underpinned by our Provision 29 readiness work.”

David Lockwood
Chief Executive Officer

Risk and internal control enhancement highlights in the year

- Identification and enhancement of material controls to address the requirements of Provision 29 of the 2024 UK Corporate Governance Code
- Continued maturity of the Group Executive Risk and Controls Committee leading to an enhanced level of focused debate and discussion into the principal risks, the relevant controls and the future control enhancements.
- Development of the Fraud Risk Management Framework in response to the requirements of Economic Crime and Corporate Transparency Act 2023.
- The roll-out of the next-generation IT security platform.
- The migration of businesses to the Group's common Enterprise Resource Planning (“ERP”) solution.
- The strengthening of controls across the delivery lifecycle including gate reviews and delivery reviews.

Risk management continues to be an integral part of the Group's activities

The Risk Management Framework exists to manage the risk and opportunities inherent within the Group's strategy. Risk management continues to be at the core of the Group's management practice and an integral part of all activities, helping to deliver our commitments to customers, colleagues and communities.

FY26 saw further improvement in the quality of the Group's Risk Registers with a particular focus on the underlying control activities, specifically those identified as material controls under Provision 29 of the 2024 UK Corporate Governance Code. The Group Executive Risk and Controls Committee has continued to develop Enterprise Risk Management (“ERM”) practice with a healthy level of cross-functional challenge around principal risks and their associated material controls.

Effective risk management starts with the right conversations, to enable better risk-based decision-making. The Group's 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.

Provision 29 of the 2024 UK Corporate Governance Code

Provision 29 of the 2024 UK Corporate Governance Code introduces the requirement for a declaration on the effectiveness of the material controls at the balance sheet date, a requirement effective for the FY27 Annual Report and Financial Statements. Work continues to address the new requirements, and more detail is included in the Provision 29 readiness case study on page 114.

Enterprise Risk Management Framework

The ERM Framework is used consistently across the Group, clarifying ownership and the differing levels of assurance required for each risk. The Group has invested in continuous improvement of the Global Risk Management policy and User Requirements manual, which are embedded via tailored training and awareness sessions across the Group.

The Board sets the Group's strategy on page 21. To help deliver this strategy, the Board has in place procedures for identifying, evaluating and managing the inherent risks to the strategy, alongside the emerging risk landscape. As part of those procedures, the Board reviews and approves the principal and emerging risks on an annual basis. It makes this determination using a consistently applied risk-rating matrix, which assesses the likelihood and impact of each risk occurring and its target state, after taking into consideration the controls and mitigations in place. The Board also conducts at least two risk deep dives a year.

Co-ordinated by a network of Global Risk Leads, the Group builds the hierarchy of risk by bringing together the risk registers of our sectors, Direct Reporting Countries (“DRCs”) and functions. These registers include principal, strategic, operational and emerging risks and are compiled using the Global ERM Framework for consistency in approach. The framework requires the risks to be described, along with the measures in place to control or manage each risk, an assessment of their effectiveness and the inherent and current rating of each risk as well as the target state. The Group Risk function consolidates the registers to prepare the Group's risk register. Risks are monitored for adherence to risk appetite ratings and those that fall outside of this are managed back to appetite with oversight from Group Risk. Risk ratings measure risks for likelihood and impact, using a five-by-five matrix as set out below.

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, DRCs and functions at least quarterly, providing guidance and ensuring a common approach as to how to measure likelihood and impact. The Group has included the current rating for each principal risk alongside its description on page 116.

The Group Executive Risk and Controls Committee provides executive management leadership and oversight of the Group's ERM Framework, acting as an interface between the Audit Committee and the business. The Committee has as its principal deliverable the review and challenge of the mitigation and control of the principal risks. All principal risks have an allocated Committee member owner and are presented and discussed on a rolling basis. Discussion includes the risk, risk appetite, mitigating controls and their associated effectiveness. On an annual basis, the Committee reviews the risk scoring matrix for the Group's principal risks and, following its evaluation, the matrix is reviewed by the Board. The Committee also has standing agenda items considering Corporate Governance Code requirements, a review of significant operational risks as articulated in the bottom-up risk register process, and consideration of fraud and fraud risk. During the year, the Committee undertook an externally facilitated session on emerging risk to provide thought leadership on this important area.

Risk appetite

As part of the ERM framework, consideration is given to the risk appetite associated with individual risks. The risk appetite defines the level of risk that the Group is willing to take on and manage. The Group adopts the following risk appetite levels:

- **Low** – Avoidance of risk and uncertainty with low, or in some cases no, 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.

Internal control environment

In FY26, the Group has continued to enhance 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 the business model and the delivery of the 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, delivery management, information security, trade controls, contracting requirements, financial transactions and financial reporting.

The Document of Controls continues to be the cornerstone of internal control systems over financial, reporting and compliance controls, operating as the risk and control matrix for the Group, defining the risk, control description and other relevant control attributes, including, for example the control owner and control operator. The key focus throughout the year has been on the determination and refinement of the Group's material controls and more information is included in the Provision 29 readiness case study.

A number of specific control enhancements have been set out on the pages covering the individual principal risks. Certain notable enhancements include the strengthening of gate reviews and delivery reviews and the roll-out of associated training, the roll-out of our next-generation IT security platform, the migration of businesses to our common ERP system, enhancing the use of third-party tools in procurement and supply chain to provide better and more targeted risk alerts, and the roll-out of a Group-wide incident management and emergency notification plan.

The internal audit function has continued to operate as an independent third line of assurance. The status of the internal audit work programme and the results of each audit are presented periodically to the Audit Committee.

Risk and internal control assurance

The Group uses a three lines model to provide assurance over the management of the risks we face. The first line 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 the work performed by the Group Internal Audit team.

Risk management and internal control annual review

To provide assurance, the Audit Committee performs an annual review of the risk management and internal control systems to assess their effectiveness. After this year's review, the Committee concluded the Group has successfully implemented several planned control improvements and has a plan in place to drive further improvement in FY27. The Committee also concluded that the risk management process within the Group provides effective management of the principal, emerging and underlying risks. This assessment allows the Board to monitor and review the effectiveness of these processes in adherence to the UK Corporate Governance Code.

Forward-looking risk and control priorities – FY27

- Continued training and reinforcement of the requirements of the Group's material controls to ensure full operating effectiveness.
- Execution of the assurance plan to underpin the declaration of effectiveness of material controls.
- Continued review and refinement of the broader Document of Controls.
- Continued maturity of the internal audit function, both to support the declaration of effectiveness of material controls and provide underlying assurance.

Principal risks and management controls (continued)

Our ERM framework

Board

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

Audit Committee

- Reviews and monitors the adequacy and effectiveness of the Group's ERM Framework and internal control environment.
- Approves the Annual Audit Plan for the external and internal audits.
- Authorised to provide the internal audit function with the appropriate authority, role and responsibilities, and ensure adequate funding and headcount.

Group Executive Committee

- Provides consistent, visible and positive tone from the top, and ensures risk management is integrated into all Babcock's activities.

Group Executive Risk and Controls Committee

- Provides executive management leadership and oversight of the Group's ERM Framework and acts as an interface between the Audit Committee and the business.
- Committee members sponsor and own the principal risks.
- Reviews and monitors the Group's principal and emerging risks including an understanding of the risk, the risk appetite, the risk scoring, the mitigating controls and their effectiveness, and the further actions required to reduce the risk rating to target.
- Performs a review of the principal risks and emerging risks prior to the annual review and approval by the Board.
- Maintains oversight of all legislative requirements associated with risk and controls.

Sectors, Direct Reporting Countries and functions

- Projects, programmes, portfolio and operational risks are managed and escalated to their sectors, DRCs and functions as appropriate.
- Sector, DRC and function strategic risk registers are reported to Group Risk on a quarterly basis, with individual risks or changes highlighted as appropriate to the Group Executive Risk and Controls Committee.
- Global Risk Leads Forum for sharing risk, feedback from governance meetings, reviewing the effectiveness of the ERM Framework and process, sharing of good practice and development of risk visualisation reporting tools, reviewing central policies and processes to consider specialist and regional applications, and organisational learning.

Our risk assurance – Three Lines Model

First Line

Management

- Identifies and evaluates risks.
- Implements internal controls as defined by second line management.
- Applies risk appetite, delegated authorities, policies and procedures.
- Reports risks and operational and financial performance through the Group structure ultimately to the Board.
- Twice a year completes a letter of representation to confirm compliance with the Group's policies and a control effectiveness self-assessment.

Second Line

Internal assurance

- Independent of the first line and performs oversight of underlying risk management and control activities.
- Sets policies and internal control requirements.
- The Board and Group Executive Committee review the Group's operational and financial performance on a regular basis.
- The Group Risk function provides risk expertise and support, and the Group Executive Risk and Controls Committee oversees application of the ERM Framework.
- Group functions and specific committees monitor certain risks such as health and safety, security, sustainability, pensions, tax and treasury.
- The Group Director of Controls reviews the letter of representation and control self-assessment submissions, and oversees a programme of controls effectiveness testing performed by independent management.
- The Group maintains a comprehensive international insurance programme.

Third Line

Independent assurance

- Internal Audit, which reports directly to the Audit Committee, performs risk-based audits with its scope encompassing all principal risks.
- Other external regulators and 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.
- The whistleblowing line allows employees to report any concerns they may have. All incidents together with investigation conclusions are presented to the Board.

Principal risks and management controls (continued)

Provision 29 readiness case study

Following the publication of the 2024 UK Corporate Governance Code, the Group has performed significant work to ensure compliance with the requirements of Provision 29 for the year ending 31 March 2027. This case study provides an overview of our approach and the key milestones to achieve compliance.

Approach

The detailed programme to respond to the changes introduced by Provision 29 is being led by the Group Director of Controls, a newly created role to ensure appropriate focus is dedicated to this important area. The Group CFO is the executive sponsor, with oversight and governance provided by the Group Executive Risk and Controls Committee and ultimately the Group Audit Committee.

Our approach has been, wherever possible, to leverage the existing processes, controls and assurance processes already in place, with the focus on strengthening any gaps and further defining and enhancing what we currently do.

Identifying material controls

In order to identify the material controls, an exercise has been performed to review and assess the Group’s principal and other risks and to assess the heightened areas of risk associated with financial and non-financial reporting. Against each of these areas, individual transactional material controls or a framework of controls have been identified through engagement with risk owners, members of the finance community and relevant individuals responsible for areas of non-financial reporting. The initial list of material controls was presented to and reviewed by the Audit Committee in April 2025.

During FY26, efforts have been focused on refining the underlying control attributes that underpin the material controls, including the detailed control description and the underlying evidence required to demonstrate the control has operated

effectively. As risks and controls have been further defined, discussed and challenged, the underlying number and make-up of the material controls has changed. Given the dynamic nature of risks, the material controls will continue to be re-assessed to ensure they remain up to date and appropriate. The Audit Committee has been updated on the changes throughout the year, and Internal Audit performed a high-level review of the underlying approach adopted.

FY26 has also included a significant focus on briefing and training underlying control operators, and working with the respective control and governance leads in each sector and DRC to ensure underlying controls are effectively operated and embedded across the business.

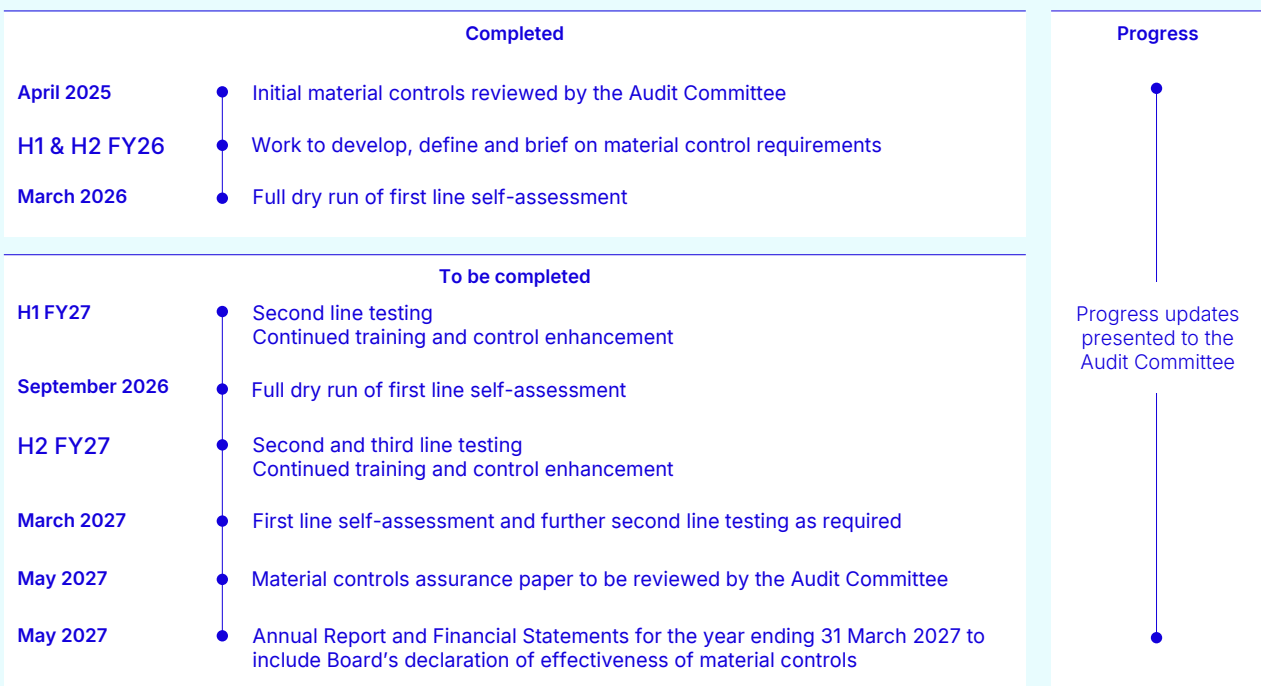
Assurance

In order to provide the Board with the necessary comfort to sign the declaration of material control effectiveness, an assurance plan has been developed and agreed with the Audit Committee. This plan places reliance across all three levels of our risk and controls assurance model:

- First line (management self-assessment) – as part of the existing Document of Controls self-assessment process, all material controls will be self-assessed by relevant management twice a year.
- Second line (independent management testing) – all material controls will be subject to a level of independent management testing performed by a combination of the Group Controls team, central Group functions and control and governance leads in the sectors and DRCs.
- Third line (Internal Audit) – A sample of material controls will be tested by Internal Audit each year.

The results of the testing performed are shared with the Audit Committee once available.

Key activities and milestones to compliance



Principal and emerging risks

The ERM Framework is described on page 112. Using this framework, the Board has identified on pages 117 to 128 the principal risks that it currently believes to be of greatest significance to the Group, as they have the potential to undermine our ability to achieve our strategic goals and to have a detrimental effect on our financial performance. As part of the Group's ongoing risk analysis, two emerging risks have been identified which are kept under review by the Group Executive Risk and Controls Committee.

Identification and reporting of emerging risk themes or issues is encouraged across Babcock, with the process detailed in the ERM Group Manual including the tools to support emerging risk identification. The key part of the process involves discussion and debate at the Group Executive Risk and Controls Committee. The following two risks are demanding particular focus.

Emerging risk	Description and management
Geopolitical tension	The Group mostly operates in, or exports to, stable and peaceful democracies, closely allied with the UK through NATO or other structures. Nevertheless, the international geopolitical situation is constantly evolving, so work is performed with governments and independent advisors to keep abreast of global developments. For new territories, this due diligence includes country risk reports and a formal approval process requiring Board-level authorisation to proceed. In the short to medium term, there are many factors causing volatility within domestic and global markets. These include, but are not limited to, the ongoing wars in Ukraine and the Middle East, growing instability in the Euro-Atlantic and Indo-Pacific, changes in governments and political policy shifts resulting in changing political priorities and defence posture, and changes to the foreign and trade policies of the US Administration. This volatility could increase commodity prices, disrupt supply chains and increase cyber threats from state actors. The changing threat environment is driving a significant increase in expenditure on defence globally, although some markets, including the EU, are also adopting a more protectionist approach to defence procurement. The changing nature of warfare may also see a reprioritisation of budgets away from traditional large, complex platforms to smaller, uncrewed platforms and cyber.
Speed of technology advancement including AI	The speed of technology evolution across multiple domains, including AI, is very significant and this brings with it heightened levels of risk and opportunity. Opportunities can include productivity gains, new and enhanced capabilities, and speed to market, among others. However, if adequate time is not given to identifying, understanding and managing the potential risks to within acceptable levels, the benefits of new technology will be offset by potentially significant negative unintended consequences arising from privacy, ethical, sustainability, data and information security, technical integrity, product safety, cost and compliance issues. The Group is adopting a proactive and responsible approach to development and adoption of advanced technologies through appropriate technical governance and assurance processes, and a 'responsible-by-design' approach where potential risks are identified and mitigated early in the engineering and technology lifecycle.

Changes to the principal risks

Last year's principal risks and uncertainties remain relevant and appropriate. Of last year's fourteen principal risks, three have decreased in risk score as follows:

- Defined benefits pension risk likelihood has decreased following the improved funding position of the three main schemes, as reflected by reduced technical provision deficits, and the collaborative working of the Trustees and the Group to ensure sustainable long-term funding agreements are in place.
- Climate and environmental sustainability risk impact has decreased following the detailed risk assessment and financial quantification exercise performed during the year, allowing a better determination of the potential impacts and associated controls and opportunities. The risk likelihood has been increased, reflecting the fact extreme weather events are likely to occur on a more frequent basis.
- Resourcing, retention and skills risk likelihood has decreased following the positive progress that has been made during the year to improve the underlying processes and controls across future workforce visibility, the recruitment process and underlying reward and engagement policies.

One principal risk has increased in risk score as follows:

- Safety, health and environmental protection risk likelihood has increased following the changing nature of our operations and increased visibility of our control performance as our assurance processes mature.

Whilst on a net basis, the other risk scores are unchanged, progress has been made on improving underlying controls, but it is either felt the progress does not yet warrant a change in score or other external factors have separately increased, offsetting the overall score.

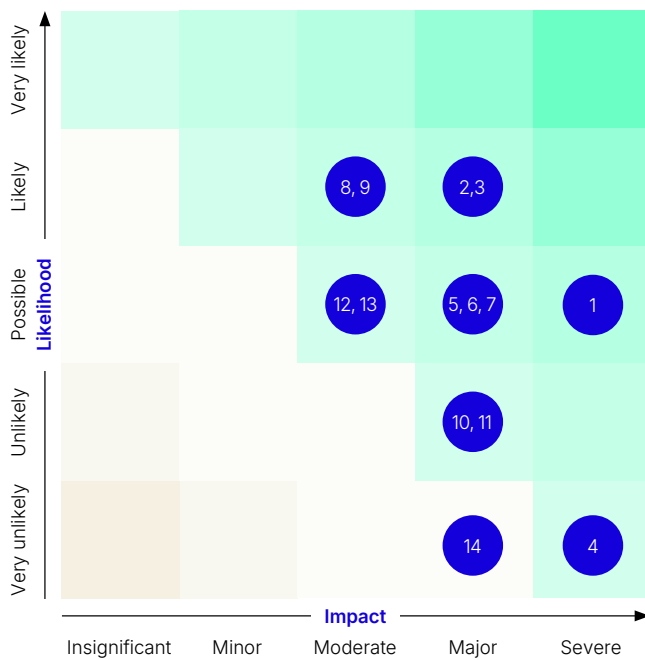
The risk previously called Corporate Technology Disruption has been renamed IT and Data Architecture to better reflect the risk associated with digital change, both from an IT and data architecture perspective.

Principal risks and management controls (continued)

Principal risk trend

The Group operates in a complex global environment and is exposed to a wide range of risks that may undermine our ability to execute our strategy.

Enterprise Risk Management is an evolving and dynamic process; therefore, the Group might identify new risks, or better understand the significance of existing risks, or identify a change in a risk. This means that the risks identified on pages 117 to 128, which are listed as per the table below, are not and cannot be an exhaustive list of all principal risks that could affect the Group. Risks are plotted on a net basis including current mitigations.



	2025 Principal risks	2026 Principal risks	Overall annual risk score trend
1	Safety, health and environmental protection	Safety, health and environmental protection	↑
2	Cyber and information security	Cyber and information security	↔
3	Engineering integrity, product technology disruption and product safety	Engineering integrity, product technology disruption and product safety	↔
4	Compliance with legislation or other regulatory requirements	Compliance with legislation or other regulatory requirements	↔
5	Contract and project performance	Contract and project performance	↔
6	Market	Market	↔
7	Operational resilience and business interruption	Operational resilience and business interruption	↔
8	Climate & environmental sustainability	Climate & environmental sustainability	↓
9	Supply chain management	Supply chain management	↔
10	Defined benefit pensions	Defined benefit pensions	↓
11	Corporate technology disruption	IT and data architecture	↔
12	Resourcing, retention and skills	Resourcing, retention and skills	↓
13	Acquisitions and divestments	Acquisitions and divestments	↔
14	Financial resilience of the Group	Financial resilience of the Group	↔

Key	↑ Increased	↓ Decreased
	↔ No movement	

Principal risks, their impact and mitigation

1. Safety, health and environmental protection

Likelihood: **Possible** ↑Impact: **Severe** ↔Risk appetite: ●○○○ **Low**

For moral, financial and reputational reasons, we keep the risk of harm as low as reasonably practicable.

Description

The Group's operations involve colleagues and contractors working in potentially hazardous environments, with hazardous materials, high-energy systems and in challenging locations around the world. Many of the activities undertaken are in high-hazard industries with inherent risk of harm, such as aerial emergency services and heavy industrial production including shipbuilding. There is also a risk to our workforce from external targeting as a direct consequence of the sector in which we operate. The risks associated with the Group's activities and workplace can cause harm to our people, those affected by our operations and the environment; we work to minimise the risk of harm to as low as reasonably practicable.

The Group has moral, regulatory and legal obligations to prevent harm to people and the planet, and there could be significant impacts if we fail to reach the standards and mandated requirements to adequately mitigate safety, health and environmental risks. Accidents and debilitating health conditions can have major, long-term impacts on the lives of those directly affected, and on their families, friends, colleagues and community. Releases of harmful chemicals and emissions can have significant effects on our local environments and wildlife. The Group 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 justified or not). The Group could be prevented from operating due to colleagues being unavailable for work, workplaces being unusable, investigations being conducted, or if regulatory approval, permits and certification are withdrawn. These could potentially lead to contractual penalties due to loss of productivity or inability to deliver the contract, which could lead to a loss of business or future opportunities.

These impacts could occur if we cause or contribute to an incident due to a failing on our part; or it is found that we have failed to meet the requirements to adequately mitigate these risks, even if an incident did not occur. These could be caused by failing to prevent critical equipment failure; inadequate information and communication; poor training and supervision; or the inadequate management of change and learning from previous events.

Mitigation

Safety, health and environmental protection remains a top priority with mitigation focused across the areas that could lead to harm, including the working environment, the tools and equipment in use, people's behaviours and the organisation and its processes. The key mitigation activities include:

- The presence of policies, procedures and management systems, delivered and certified to international standards, to clearly define standards and expectations and drive consistency and quality across the Group.
- Oversight by the Board and Executive Committee through monthly review of events and monitoring of leading and lagging performance indicators, and a quarterly Executive Safety Committee where performance and improvement actions are reviewed in-depth.
- A centrally led function with teams in each sector and DRC working under the direction of the Group Director and the Corporate Safety Leadership Team to support operations to implement improvements in safety, health and environmental protection performance through both central and local improvement plans.
- Induction and task-specific training to build competency of colleagues.
- Reviews to ensure that tools, equipment and personal protective equipment are appropriate.
- Recognised safety risk assessment processes that are task-specific and seek to ensure hazards are identified, classified and controlled prior to activities taking place.
- Health surveillance and support programmes to assist workers to protect themselves in the short and long term, whilst at home, on sites and working away.
- A global management system enabling reporting and investigation of all events, near misses, observations and findings to identify and address issues and causes, and to share learnings.
- The focus on safety behaviours aligned to our engaged safety culture and "Home Safe Every Day" commitment. This includes Safety Stand-Downs, safety summits and visible leadership safety tours.

During the year, a reset has been undertaken in relation to the risk and its corresponding controls, together with investment in leadership development, new technology to reduce risk exposure, the provision of technical training and increased workforce engagement.

Principal risks and management controls (continued)

2. Cyber and information security

Likelihood: **Likely** ⇐Impact: **Major** ⇐Risk appetite: ●○○○ **Low**

Given the nature of the information the Group holds, the potential consequences associated with any breach could be very significant.

Description

A key factor for the Group's customers, suppliers and employees is the ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information.

The nature of the Group's operations and the requirement to hold and process sensitive and confidential information on behalf of customers makes the Group, and its supply chain, a target for cyber attackers. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security attacks being successful in their attempts to breach or compromise IT systems and misappropriate sensitive and confidential information, or otherwise cause destructive or disruptive harm to the Group. The risk is also increasing through the ongoing developments in Artificial Intelligence.

The Group may be seen as a threat target for attack by 'state actors' from overseas countries because of the nature of the Group's activities for its government customers. In addition, failure to invest in IT infrastructure, for example in replacing legacy systems or introducing new technologies, could create vulnerabilities that may lead to a breach.

The impact of an IT or cyber security breach or compromise may be loss of reputation, loss of business advantage, disruptions in business operations or inability to meet contractual obligations.

The risk of loss of information or data by other means (such as physical loss) is also a risk that we cannot entirely eliminate. Significant data breaches or losses could lead to litigation and fines for breach of applicable regulations such as data protection laws. This could have an adverse effect on the Group's operations and its ability to win future contracts, which may affect our overall financial condition.

Mitigation

The Group seeks to assure cyber security through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. The key mitigation activities include:

- The presence of formal security and information assurance governance structures to oversee and manage IT, cyber and information assurance risks.
- To maintain organisational awareness, cyber security education is provided to all staff, which includes awareness of social engineering and insider threat.
- The presence of security controls to manage access into underlying systems and ongoing staff-vetting procedures as appropriate.
- Protective monitoring of activity on the core networks via the Group's Security Operations Centres.
- The employment of specialists in threat intelligence and the conduct of comprehensive internal and external testing and remediation of potential vulnerabilities.
- The performance of risk-based due diligence and assurance over the supply chain, and (where relevant) requiring suppliers to comply with cyber security-related contractual provisions.
- The presence of business continuity plans that are regularly tested, covering a range of scenarios including loss of IT availability.
- The presence of cyber insurance in the event of any incident.

During the year, work has continued to roll out the Group's next-generation security platform which is further enhancing underlying IT security.

3. Engineering integrity, product technology disruption and product safety

Likelihood: **Likely** ↔Impact: **Major** ↔Risk appetite: ●○○○ **Low**

The realisation of the risk could have significant consequences for the Group, including physical harm and customers and end-users losing confidence in the integrity of the Group's technical products and services.

Description

It is important the Group, customers and shareholders have confidence that the Group's technical products (goods and services) have high levels of technical integrity and safety. This means they are safe to own, operate, maintain, store and dispose of over their life, perform as they are intended to, are secure from physical and cyber threats, and are of high quality. Without that confidence, the Group and others are exposed to potentially significant safety, compliance, financial, reputational and legal risk.

Safety risks can materialise if products cause harm to people or the environment. Financial risks can result from re-work and product recalls as well as from non-compliance. Legal risks, including to the Group's licence to operate in regulated areas, can arise from product safety issues or contractual issues associated with a non-compliant product. Reputational issues can arise from any of these, or from poor quality and/or poor performance of products, for example, if products do not meet customer expectations and requirements around capability, reliability or availability (among others).

The nature of the complex technical work the Group undertakes also means it needs to be embedded in the forefront of advanced technology deployment to ensure the products and services do not lag behind those of the competition. However, this must be done in a responsible way. This means identifying, understanding and managing the uncertainties and potential risks and opportunities associated with rapidly evolving technologies. These considerations include areas such as privacy, ethics, sustainability, data and information security, technical integrity, product safety, cost and compliance.

Mitigation

The Group continues its journey to further implement a technical risk management framework. The key parts of the framework are as follows:

- The presence of a global set of engineering policies and processes.
- The presence of a network of suitably qualified and experienced people, both within the business and across the extensive network of partners and supply chain.
- The involvement of appropriately qualified technical engineering experts in bid gate reviews and delivery reviews, to ensure technical engineering is appropriately considered on a timely basis.
- Review and approval of technical designs both at the outset and throughout the product lifecycle.
- An end-to-end product quality control process to ensure products conform to their approved designs and specifications.
- Independent Technical Authority sign off prior to a product being delivered to a customer, confirming compliance in both design and quality.
- The performance of horizon scanning and innovation reviews by the Technology function, to discuss and agree future innovation and technical investment required to deliver the Group's strategic objectives.

During the year, progress has been made to continue to build and expand the Engineering Integrity team, re-assessing and updating policies and procedures. This has specifically increased emphasis on product quality and product cyber assurance, expanding the engineering focus of the business / delivery lifecycle and enacting technical assurance reviews and cross-functional deep dives on critical programmes and contracts.

Principal risks and management controls (continued)

4. Compliance with legislation or other regulatory requirements

Likelihood: **Very unlikely** ↔Impact: **Severe** ↔Risk appetite: ●○○○ **Low**

The impact of a legal or regulatory issue could be very significant and wide-ranging.

Description

As a diverse global organisation, the Group operates in multiple highly regulated industries for customers with specialist requirements. The compliance landscape is vast and complex with many regulations, legal obligations, contractual and certification requirements in each area, including export controls, data protection and site licences. The laws and regulations that the Group is subject to include, but are not limited to, disclosure regulations, 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, loss of substantial business streams, possible damages claims, and loss of opportunities for future business. If an applicable law or regulation changes, it may cause the Group substantial expenditure to comply, which may not be recoverable (either fully or at all) under customer contracts.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all, for example in the Nuclear and Aviation businesses.

Given the nature of the Group's customers, the markets in which it operates and the services provided, 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 this reputation with that customer or more generally.

Mitigation

- The Group maintains internal policies and procedures to ensure compliance with applicable laws and regulations.
- The Group has a Code of Conduct together with an Ethics policy to set out clear expectations of our employees. These messages are reinforced through training, and employees are encouraged to use the whistleblowing reporting lines if they see evidence of behaviour which is not in keeping with the Group's values.
- The identification of suitably qualified and experienced colleagues with clear accountability for all areas of legal and regulatory compliance.
- Expert external advisors to provide assistance and advice as and when necessary.
- Assurance programmes to ensure compliance with operational regulatory requirements.
- Training programmes for employees to ensure they understand and comply with the relevant requirements.
- Relevant Board and operational management oversight of compliance and of any issues arising, including Board review of all investigations into unethical behaviour.
- The Group holds indemnities from the UK Nuclear Decommissioning Authority and the UK MOD for nuclear risks, to protect against liability for injury or damage caused by nuclear contamination or incidents.

During the year, work has continued to strengthen the underlying control environment principally through enhanced documentation of the specific controls in place.

5. Contract and project performance

Likelihood: **Possible** ↔Impact: **Major** ↔

Risk appetite: ●●○ **Medium**

The Group strategically accepts and manages a level of risk that is within its control to mitigate, in order to achieve an appropriate level of margin.

Description

The Group's business model revolves around securing and executing long-term, high-value contracts for complex, integrated programmes. Whilst the aim is to understand, accept and minimise the risks that are within its control to mitigate to a manageable level, it is important to acknowledge that uncertainties are inherent in project delivery and, despite the significant efforts taken, some level of risk remains unavoidable. The Group prioritises robust risk management to mitigate these uncertainties, ensure successful outcomes and achieve an appropriate margin.

Contract terms from the Group's customer base (including government departments) can be stringent, with sometimes onerous terms and conditions. Underestimating or under-pricing risk exposure, unforeseen costs or supply chain disruptions can impact the contract delivery costs. Fixed-price contracts can exacerbate this, especially if actual costs exceed projections due to factors like inflation or extended programme durations. Future changes to the Single Source Contract Regulations, and how they are implemented, could also impact the level of margin earned (both up and down).

The Group's projects and extensive supply chains expose the Group to risks such as shortages in raw materials or electronic components, or failures in supplier delivery schedules or quality, which can lead to increased costs or missed deadlines. Furthermore, long-term contracts often undergo changes in scope or emergent work, requiring diligent change management to avoid additional costs, avoid or minimise schedule delays to the customer and maximise contract opportunities. If key risks materialise, they can escalate the delivery costs, trigger penalties or cause reputational damage, jeopardising current and future contracts.

As the Group continues to move up the integration value chain, the nature of the risks taken on will become increasingly complex and require increasing focus to ensure they are appropriately mitigated.

Mitigation

- A thorough gating process in advance of taking on new contracts, ensuring alignment with the Group's capabilities and risk appetite. This includes strict acceptance criteria for all new contracts identified as fixed price.
- The monitoring of contractual performance through delivery reviews at contract, business unit, and (where appropriate) sector and Group level, continuously managing risks and opportunities through contract lifecycles. Remediation plans are implemented when performance falls short.
- A specific programme of Group-level reviews for the most significant and high-risk contracts.
- A programme of Group-initiated and resourced deep dives conducted by resources independent of the business area, to challenge assumptions and maintain best practices.
- The risk assessment and ongoing monitoring of supply chain performance (refer to the Supply chain management principal risk).

During the year, several enhancements have been made to the controls across the delivery lifecycle including the strengthening of gate reviews and delivery reviews, continuous improvement of the framework governing all types of delivery, design and implementation of what will be an ongoing programme to enhance and mature our risk approach across the Group, and the roll-out of a training programme to enhance the effectiveness of delivery reviews.

Principal risks and management controls (continued)

6. Market risk

Likelihood: **Possible** ↔Impact: **Major** ↔
Risk appetite: ●●○ **Medium**

The successful pursuit and maintenance of a secure and assured pipeline is essential for continued growth, and therefore certain market risks that can be confidently and securely managed may be accepted.

Description

The Group relies on winning and retaining large contracts in both existing and new markets, often characterised by a relatively small number of major customers, which are owned or controlled by local or national governments.

Major customers, particularly those government-owned or with government backing, have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As governments in stable democracies own, fund or are many of the Group's 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.

Unforeseen social, political, economic or geographical developments (for example armed conflict and the subsequent impact on the economy, trade and defence requirements, social/political unrest, climatic or geographical events, pandemics, changes in governments and significant political / policy shifts resulting in changing political priorities and defence posture) whilst potentially presenting opportunities can also present the following risks in the way customer policies and budgets can change:

- 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 small or medium-sized suppliers or adopting a more transactional rather than a cooperative, partnering approach to customer/supplier relationships.
- Favouring overseas competitors, potentially benefiting from lower production costs and state ownership or subsidies.
- Increased focus on sovereignty and the favouring of domestic suppliers.
- Imposing new or extra eligibility requirements or tariffs as a condition of doing business with the customer that we may not be able readily to comply with, or that might involve significant extra costs, thereby affecting the profitability of doing business with them.

All defence contracts have regulations covering contract terms and pricing. A number of the Group's 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. Future changes to these regulations and how they are implemented, could impact the level of margin earned (both up and down).

The Group may face challenges in securing contracts in new markets. These include the risk of failing to ensure the required level of market understanding or customer intimacy to anticipate and shape future market requirements; failure to align approaches with customer expectations; and a preference for, or state funding of, domestic suppliers. The delivery of contracts may be further challenged by commercial, legal and licensing issues which have the potential to impact bidding success, operations and recruitment.

Mitigation

- The Group's focus on its four key markets (Marine, Nuclear, Land and Aviation) together with its geographical presence, provides a degree of portfolio diversification and potential upside to changing market dynamics.
- The Group has a clear business strategy to maintain a substantial bid pipeline, both in the UK and, increasingly, internationally. The Group bids for contracts that are aligned to the Group strategy and where there is a realistic chance of success.
- As appropriate, the Group invests in the development of capabilities, innovation and people, to ensure products and services are competitive, and meet global market and customer requirements.
- The Group pursues ongoing dialogue with key customers to understand their requirements, objectives and constraints, in order to remain as aligned to them as possible.
- In the principal markets and to assess the ongoing instability in the Euro-Atlantic region, the Indo-Pacific and the Middle East, the Group works with governments and uses in-house and external advisors to monitor developments from across the political spectrum.
- The Group monitors expenditure changes in key markets to allow appropriate adjustments to be made. In the UK, the Group maintains a public listing, as it is believed to be an important factor in winning contracts and retaining an appropriate business position, particularly with government customers.
- When seeking business in new territories, due diligence includes country risk reports and a formal approval process requiring Board-level authorisation to proceed.

During the year, the Group has enhanced its focus on technological development and strengthened the in-house team responsible for managing international government relations.

7. Operational resilience and business interruption

Likelihood: **Possible** ↔Impact: **Major** ↔
Risk appetite: ●○○○ **Low**

Ineffective operational resilience arrangements can undermine safety, financial stability and regulatory compliance, as well as damaging the Group's reputation.

Description

The Group provides critical support to governments and commercial customers, operating in an increasingly volatile, uncertain and complex environment, where a diverse range of internal and external threats could disrupt the business, affecting the Group's ability to operate safely, effectively and to the high standards expected by customers, regulators and partners.

Operations can be disrupted by the loss of key dependencies, including people, infrastructure, utilities, information, technology and supply chain provisions. In highly regulated domains, approvals to operate are critical dependencies, requiring robust resilience measures to maintain compliance.

Following any operational incident, the Group's ability to respond and recover effectively is vital to minimising operational, financial and reputational consequences. Ineffective response and recovery measures can amplify business disruption, leading to increased costs, regulatory scrutiny and potential penalties.

Mitigation

- A clearly defined Operational Resilience strategy, policy and framework focused on increasing standardisation, alignment and proactive resilience across the Group.
- Appointed Operational Resilience leads across the Group ensure governance, collaboration and accountability for resilience initiatives.
- The Group maintains established resilience disciplines including business continuity, emergency response, and crisis management to protect its operations. Across sectors, DRCs and sites, emergency response and business continuity plans and crisis communication protocols are in place, aligned to the specific risks and regulatory requirements of each operational area.
- The Group's IT services continue to provide secure technology and access to information, supported by a range of IT Disaster Recovery Plans accredited to the ISO 22301 standard, ensuring critical systems and data can be restored within agreed recovery time objectives.
- Operational resilience plans and procedures continue to be developed and validated through regular exercises and drills, conducted in collaboration with key stakeholders and relevant authorities. These exercises ensure that resilience capabilities remain effective, well-practised and continuously improved.

During the year, work has continued to strengthen resilience arrangements to ensure they remain appropriate as and when required. This has included the roll-out of a Group-wide incident management and emergency notification system, enhanced risk assessments across key workplaces and facilities to better understand critical vulnerabilities, and the transition to updated Group standards. The Group has also introduced a new crisis management plan to further strengthen its strategic response and recovery capabilities.

Principal risks and management controls (continued)

8. Climate and environmental sustainability

Likelihood: Likely ↑

Impact: Moderate ↓

Risk appetite: ●○○○ Low

Climate change has the potential to cause profound consequences and have a significant impact on the Group's operations.

Description

Climate-related risks have the potential to cause significant harm and disruption on a global scale. Risks are typically categorised as either physical or transition risks:

- Physical climate risk describes the potential for physical damage and disruption to people, property and productivity as result of the increased exposure to hazards driven by climate change, such as coastal flooding, wildfires and heat stress.
- Transition risk describes those risks associated with the transition to a low-carbon economy, including policy and legal changes, technological advancements and market movements to address mitigation and adaptation requirements.

Over the past year, work has been ongoing to mature the climate risk management system, improve the understanding of the climate-related risks the business is exposed to, and to assess the severity of the risks. Climate change may also present a range of opportunities for the Group to support its customers and lead the sustainable transition.

Acknowledging the inherent uncertainties surrounding climate change impacts, an effective approach to identify, assess and quantify (using scenario analysis and statistical analysis) the climate-related risks and opportunities has been developed.

Without controls, climate change presents a moderate to high adverse financial impact to the Group over the medium to long term. Through implementing appropriate controls and realising opportunities, climate change presents a moderate to high financial opportunity for the business over the medium to long term.

Full details of Babcock's approach to climate risk management, and the risks and opportunities identified, are included within the Sustainability section of the Annual Report and Financial Statements on page 70.

Mitigation

- Ensuring adequate insurance is in place for potential physical climate impacts.
- Further development and integration of the Group's climate risk management system, and embedding of climate risk considerations within the Group's commercial processes and operational delivery.
- Delivery of decarbonisation aligned to the Group's science-based targets for net zero.
- Enhanced due diligence associated with the Group's estate and assets (including acquisitions and developments).
- Detailed physical climate change risk assessments across critical sites and assets for specific hazards.
- Infrastructure improvements to increase resilience to physical risks as appropriate (eg, flood defences).
- Robust supply chain strategy to manage exposure to cost escalations, materials shortages and logistic disruptions.

During the year, work has been performed to improve the climate risk management system, enhancing the understanding of the Group's climate-related risks and opportunities. Moving forward, further work will be performed to mature the approach, ensure controls are effective, and take action to unlock opportunities.

9. Supply chain management

Likelihood: **Likely** ↔Impact: **Moderate** ↔

Risk appetite: ●○○○ **Low**

Supply chain risk could have significant consequences on the Group's ability to deliver its contractual commitments.

Description

The Group is dependent on the timely and satisfactory delivery of services and materials by its supply chain partners, in order to successfully deliver its contracts. Supply chain disruption could occur in several ways described below, potentially leading to increased costs, programme delays and penalties, and the associated reputational impact.

Volatile economic conditions, including persistent inflationary pressures, fluctuating energy costs, and tight labour markets, continue to challenge supplier financial stability. These factors can erode profitability, strain fixed-price contracts, and introduce uncertainty into long-term planning. Suppliers may face increased difficulty in maintaining operational continuity, meeting contractual obligations, or accessing affordable credit, all of which pose risks to supply chain resilience and performance.

Ongoing global conflicts and geopolitical tensions in regions such as the Middle East and Eastern Europe pose significant risks to the global economic outlook. The evolving landscape of global trade, marked by reciprocal tariffs and trade wars, adds further uncertainty to international relations. These disruptions may have a significant impact on suppliers, impacting their ability to meet contractual obligations and maintain operational stability.

Global supply chains can face disruption from a range of external events. Natural disasters such as floods, hurricanes and wildfires can damage infrastructure and delay transportation, while economic-driven labour actions and workforce reductions introduce volatility into production schedules. Additionally, congestion and instability at key logistics choke points, including major shipping canals and straits, can lead to extended delivery times, increased costs, and reduced reliability.

Cybersecurity threats present notable risks to supply chains, as increasingly sophisticated attacks, such as ransomware and AI-powered cybercrime can disrupt operations and compromise sensitive data. Weak security protocols, reliance on sub-tier suppliers and outdated technologies can also increase these vulnerabilities.

Supporting ageing customer assets presents increasing challenges as critical components become obsolete or unavailable due to high costs or extended lead times, impacting the ability to ensure timely repairs and continued functionality.

The Group continues to adapt its supply chain model to support its global expansion whilst at the same time continuing to support our local suppliers. Underutilisation of small and medium enterprises will reduce agility and innovation, while over-reliance may introduce scalability and resilience concerns. As the Group increases its development and manufacturing activity, both in the UK and overseas, the growing requirement for goods and materials will heighten supply chain dependency and the associated risk.

Mitigation

- The presence of procurement and supply chain policies, risk management reviews and underlying governance processes to monitor and mitigate the risks.
- Risk-based due diligence, for both new and existing suppliers, is carried out with reference to a range of financial and non-financial factors.
- Ongoing monitoring and risk assessment of the supply chain using third-party tools including supplier disruption alerts, financial alerts, credit monitoring and risk resilience assessments.
- Ongoing assurance and performance management of the supply chain through the setting and measurement of key performance indicators, regular communication and the performance of supplier quality assurance reviews.
- The use of flexible contract terms to minimise the impact of market volatility, inflation and global tariff changes.

During the year, work has been performed to enhance the use of third-party tools to provide better and more targeted alerts and risk assessments, in addition to the strategic upskilling of the procurement and supply chain function.

Principal risks and management controls (continued)

10. Defined benefit pensions

Likelihood: Unlikely ↓

Impact: Major ↔

Risk appetite: ●○○○ Low

The Group has significant defined benefit pension schemes, which, if not managed appropriately could have a significant financial impact on the Group.

Description

The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members. Member and employer contributions paid into the 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 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 the assets in the pension schemes are insufficient to meet the liabilities, or if the Group's balance sheet strength does not meet the pension trustees' expectations, they may require increased contributions and/or lump sum cash payments into the schemes or the provision of additional security from the Group. The toughening stance of the UK Pensions Regulator may influence the pension trustees' perspectives. Increased contributions or lump sum cash payments may reduce the cash available to meet other obligations or business needs of the Group and may restrict future growth.

Accounting standards 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 Group. 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 the Group's defined benefit schemes, corporate bond-related discount rates are used 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

- Senior management strategic monitoring and review of the assets and liabilities of the pension schemes, and engagement with the scheme trustee chairs and 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 by using longevity swaps to limit exposure to increasing life expectancy. The Trustees also use professional advisors to assist in the hedging of risks.

Over the last few years, the funding positions of the three main schemes have continued to improve as reflected by reduced technical provision deficits. Collaborative working with the Trustees has also ensured that sustainable long-term funding agreements are in place.

11. IT and data architecture

Likelihood: **Unlikely** ↔Impact: **Major** ↔
Risk appetite: ●○○○ **Low**

The risk associated with an IT or data issue could have a significant impact on the Group.

Background

The way in which the Group's IT and data architecture is managed and evolves potentially exposes various risks.

To the extent the Group does not respond to digital change, it could reduce opportunities to augment existing contracts or build new commercial offerings. The Group's ability to be responsive to the advancement of modern IT and solutions, in a commercially sensitive and secure way, has a material impact on its ability to unlock new business and enhance existing contracts. The Group's products and services could lag behind competitors and customer requirements if it is unable to incorporate appropriate data and technology-enabled capabilities. Older technology and systems are also typically slower and less stable, increasing the risk of operational inefficiencies and system outages.

The ability to manage and manipulate data is also becoming an important differentiator in the market. As the quantity of data and information increases, there is an increased risk associated with data management and compliance. The consequences of a data breach or compliance incident could be very significant causing potential fines, operational disruption and significant reputational damage.

Mitigation

- An established programme is in place and ongoing to move all employees to the Group's next-generation digital platform.
- The establishment of a centralised IT architecture department for scanning, assessment and implementation, where relevant, of industry best practice.
- Working with suppliers to understand the potential of new technologies on the market.
- The establishment of a centralised AI Centre of Excellence to drive technical transformation.
- Continuing the programme to migrate away from older technology and systems both to reduce the quantity and to ensure global adoption of standardised solutions.
- The continued development of a data governance framework to clearly define standards and expectations, and drive consistency and quality across the Group.
- The use of data monitoring tools to review and manage the underlying data that is retained.

During the year, significant progress has been made in migrating employees to the next-generation digital platform, migrating businesses to the common ERP solution, and setting up a centralised AI Centre of Excellence.

12. Resourcing, retention and skills

Likelihood: **Possible** ↓Impact: **Moderate** ↔
Risk appetite: ●●○○ **Medium**

Some risk is accepted given the increased cost associated with avoidance and the potential mitigations within the Group's control, such as sharing capability across the global business and compensating for skills shortages in particular areas through investment in training and early careers.

Description

The Group's business delivery and future growth depend on its ability to recruit, develop and retain an experienced, highly skilled and diverse leadership team and workforce across a broad range of disciplines. A number of the competencies and skills relied on are deeply specialist and in scarce supply in the territories in which the Group operates.

This is exacerbated by the additional restrictions related to the Group's sector, including security and nationality. Changes to visa requirements have also impacted the ability to easily transfer people from EU nations and to deploy people internationally. If the Group has insufficient qualified and experienced employees, this could impair service delivery to customers or the ability to pursue new business, with consequent risks to the financial results, growth, strategy and reputation, and the risk of contract claims. Industry salary benchmarks are increasing due to both scarcity of supply and increased demand, which could impact contract profitability.

Mitigation

- The Group recognises that its employees are key to delivering its contractual commitments and future growth. Senior management therefore proactively considers both the current and future workforce planning requirements in terms of staffing volumes, capabilities and geographies.
- Well-established graduate and apprentice programmes to build a pipeline of skilled, motivated talent.
- Investment in people through skills and leadership training and upskilling throughout their career to meet future requirements.
- The Group's engagement and reward strategies are regularly reviewed and updated to ensure they remain appropriate to attract and retain the required level of talent.
- The leadership transition plan is well developed and in place for both colleagues and external stakeholders to support the leadership through the transition year, ensuring strong continuity and focus.

During the year, a number of specific targeted programmes to drive attraction and retention of a more diverse pool of talent have been run, delivering accelerated development to the Group's people to enable them to progress their careers and add more value to the Group and its communities (refer to the Sustainability section for further details).

Principal risks and management controls (continued)

13. Acquisitions and divestments

Likelihood: **Possible** ↔Impact: **Moderate** ↔

Risk appetite: ●●○○ **Medium**

Whilst acquisition activity continues to be inherently high risk, some risk will be accepted, to the extent it can be appropriately managed and is balanced against the potential rewards and opportunity.

Description

The Group has built its business 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 the Group believes that a business is not 'core', the decision may be taken to sell that business.

While the Group's focus remains primarily on operational execution, potential acquisition opportunities that align with its strategy are continually reviewed.

If the Group acquires companies, the financial benefits of the acquisition may not be realised as expected, due to poor integration execution or to acquisition business cases relying on market conditions or other business assumptions that subsequently do not materialise, challenging the logic of the acquisition decision.

Those companies that the Group considers 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

- The Group has established policies and procedures in place for acquisitions including conducting appropriate due diligence, managing the acquisition process and monitoring the business integration.
- Approval of any acquisition or disposal is made at the appropriate level in the organisation according to the defined delegation of authority.

During the year, work has been performed to review and enhance the procedures required in the event of an acquisition (both acquisition and integration) to ensure the Group is ready at the appropriate time in the future.

14. Financial resilience of the Group

Likelihood: **Very unlikely** ↔Impact: **Major** ↔

Risk appetite: ●○○○ **Low**

A lack of financial resilience and the potential inability to raise finance could have a very significant impact on the business.

Description

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency and interest rates) and some of which are more specific to the Group (for example, liquidity risk, credit risk and weakening operational performance), all of which could undermine the financial resilience of the Group.

A lack of financial resilience may hinder the ability to raise debt funding to invest in existing or future business, or cause existing banks to increase the cost of funding. To the extent debt is denominated in a currency other than Sterling, movements in exchange rates may make that debt more costly when it is due for repayment.

Customers and/or suppliers may question the Group's long-term sustainability if there is a lack of financial resilience through a weak balance sheet. This may tighten the terms of business on which they are prepared to contract or, in the extreme, cause them to not award work due to their perception of risk. Credit rating agencies may downgrade our credit rating, which could increase the cost of borrowing.

A lack of financial resilience may trigger certain pension scheme financial thresholds, requiring further resource to be allocated to the schemes.

The Group could face capital allocation constraints and consequently have reduced capital to invest in the business, to meet all its obligations or to pay a dividend.

In addition, if companies working in defence or nuclear sectors were deemed not suitable for investment by certain investment funds (eg due to strict ESG policies), the cost and/or availability of capital could be adversely affected.

Mitigation

- Over recent years, through an improved trading performance and the raising of proceeds from disposals, the Group has significantly strengthened its balance sheet and the associated financial resilience of the Group. The only material debt of the Group is now the long-term Eurobonds which are uneconomic to repay.
- In respect of immediate liquidity, the Group has a committed bank revolving credit facility of £600 million which was not drawn as of 31 March 2026.
- Foreign exchange risk is managed through contractual protection and/or the hedging of the risk through derivative contracts.
- The underlying processes and controls the Group has in place to manage and monitor its underlying operational performance (including by the Board) and specifically its contract and project performance.
- A clearly defined capital allocation policy to allow the balance sheet strength to be maintained.
- The Group is proactive in its dealings with credit rating agencies and lenders, in order to maintain an investment-grade credit rating and maintain the ability to access the debt capital markets.
- The Group has a proactive ESG agenda and regularly communicates Group activities to assist in more-informed investment decisions by providers of capital.

During the year, the Group has continued to strengthen its financial resilience and balance sheet through strong operational performance combined with disciplined capital allocation.



Inspiring the next generation

Our successful STEM outreach programme continues to build future skills resilience. During the year, we delivered more than 300 engagement events across the UK, reaching 1 in every 130 UK school children.

Going concern and viability statement

Going concern

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. 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 2026.

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 pages 110 to 128. The Board also considered the mitigation measures being put in place and potential for further mitigation.

In making its going concern assessment, the Board's view is supported by:

- the Group's diverse portfolio of businesses based on well-established market positions, focused on design, manufacture, engineering support and training for complex and critical assets and infrastructure across naval, land, air and nuclear domains. In FY26, 74% of Group sales were defence-related and 26% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY26, 70% of sales were to defence and civil customers in the UK, and 30% were international;
- long-term visibility of sales and future sale prospects through an order backlog of £9.8 billion as at 31 March 2026, 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 2026, net debt excluding operating leases was £(23) million and net cash (cash and cash equivalents less overdrafts) balance was £724 million. This, combined with the undrawn amounts under our committed RCF and overdraft facilities, gave us liquidity of around £1.4 billion.

These facilities are considered more than adequate to meet current and other liabilities as they fall due and support the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting. All of the Group's facilities mature during the viability period, and therefore, in assessing liquidity in future periods, we have assumed that it will be possible to re-finance the Group's facilities at current market rates.

As at 31 March 2026, the Group's facilities and bonds totalling £1.4 billion were as follows:

- £600 million revolving credit facility (RCF), maturing July 2031
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- One overdraft facility totalling £50 million.

The RCF is the only facility with covenants attached, which are applicable if the Group has a rating of less than BBB. If applicable, the key covenant ratios are (i) net debt to EBITDA (gearing ratio) of 3.5x, and (ii) EBITDA to net interest (interest cover) of 4.0x. In the event these become applicable, they 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. The creditworthiness of the Group's relationship banks is closely monitored; based on their credit ratings, we have no credit concerns with our relationship banks. Given the importance of the RCF to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates and to the end of the five-year plan, assuming renewal of the RCF with consistent covenants to those currently applied.

Base case scenario

The base case budgets and forecasts show significant levels of headroom against both financial covenants, and liquidity headroom based on the current committed facilities outlined above. That base case largely assumes we maintain our incumbent programme positions if re-let during the assessment period, with margin recovery if they are currently below the Group average. Many opportunities available to the Group, where we do not yet have high conviction of securing the work, have been excluded from the base case to maintain a degree of caution.

The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also reflects pension deficit contributions in excess of income statement charges of around £25 million in each period of the model.

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 £376 million and the lowest net debt increase was 1,260%. The lowest required reduction in forecast EBITDA to hit the interest cover covenant was £308 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, 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.

These identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). The Board decided to reduce the aggregation of the risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period.

Conclusion

After undertaking the assessment described above, the Directors, at the time of approving the financial statements, have a reasonable expectation that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. As such, the consolidated financial statements have been prepared on a going concern basis. 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.

Viability statement

The Directors have also looked further out to consider the viability of the business. Consistent with previous years, in considering the Group's viability, the Directors 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.

In assessing the longer-term viability of the Group, the Directors have reviewed base case, downside and severe but plausible scenarios for the five-year period. The approach to modelling downside and severe but plausible scenarios for viability is consistent with the approach described for going concern above but projected over the course of the five-year assessment period.

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 20, 24 and 18 of this report and by those items highlighted within the going concern assessment above.

Based on the assessment of viability taken through the base case, downside and severe but plausible scenarios, the Directors have a reasonable expectation that the Group will be able to continue to meet its liabilities as they fall due over the next five years.