



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.

Contents

Strategic report

1	Financial highlights
2	At a glance
8	Investment case
10	Chair's statement
12	CEO review
16	In focus: Civil Nuclear
18	Market review
20	Strategic framework
22	In focus: Technology
24	Our business model
26	In focus: People and skills
28	In focus: Commitment to society
31	– SME Charter
32	Key performance indicators
34	Financial review
46	– Financial Glossary
52	Operational reviews
52	– Marine
56	– Nuclear
60	– Land
64	– Aviation
68	Stakeholder engagement and s172(1) statement
70	Sustainability
93	Responsible business
106	Non-financial and sustainability information statement
110	Principal risks and management controls
130	Going concern and viability statement

Governance

132	Chair's introduction to Governance
134	Board of Directors
136	Governance statement
148	Nominations Committee report
150	Audit Committee report
154	Remuneration Committee report
180	Other statutory information
186	Directors' responsibility statement



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Financial statements

187	Independent auditor's report to the members of Babcock International Group PLC
196	Group financial statements:
196	– Group income statement
196	– Group statement of comprehensive income
197	– Group statement of changes in equity
198	– Group statement of financial position
199	– Group cash flow statement
200	– Notes to the Group financial statements
269	Company financial statements
269	– Company statement of financial position
270	– Company statement of changes in equity
271	– Notes to the Company financial statements
281	Shareholder information

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

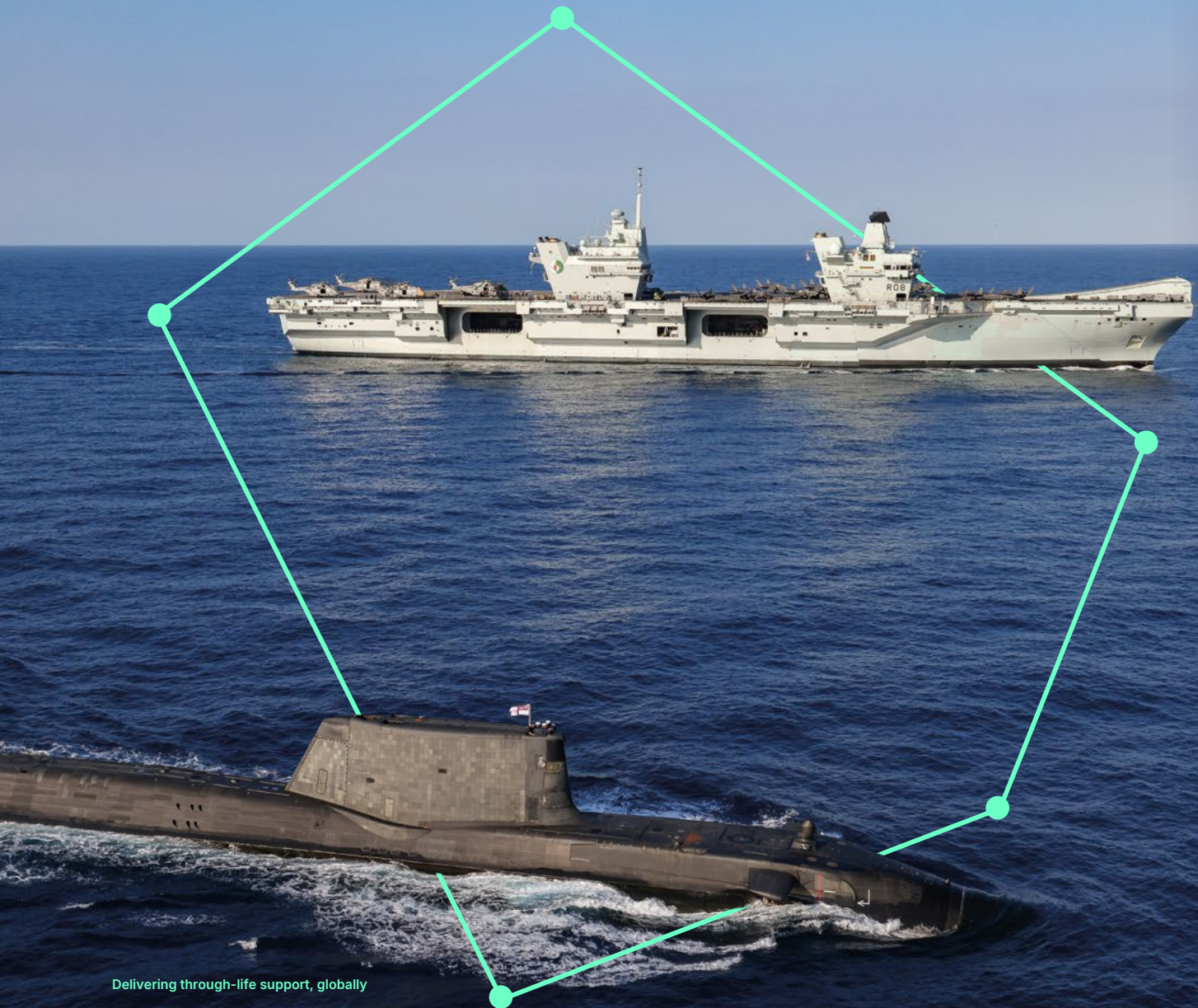
The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt and net debt excluding leases, to enable users to have a more consistent view of the performance and earnings trends of 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.

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

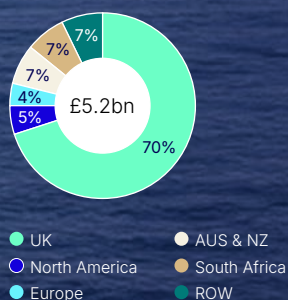
£9.8bn

FY26 contract backlog

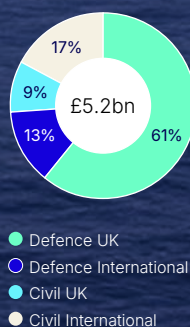
c.29,000

Employees

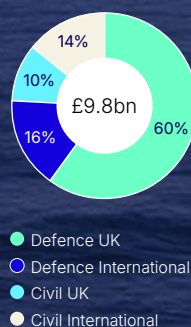
FY26 global
revenue profile



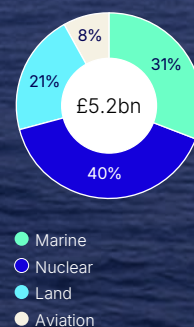
FY26 revenue
market split



FY26 contract backlog
market split



FY26 revenue
by sector



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.

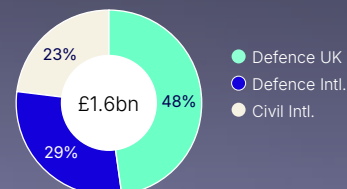




Our c.7,500-strong workforce delivers:

- 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

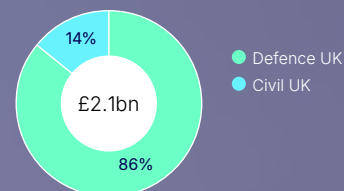
FY26 revenue profile



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

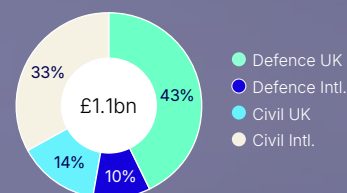
FY26 revenue profile



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

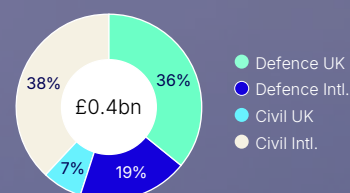
FY26 revenue profile



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

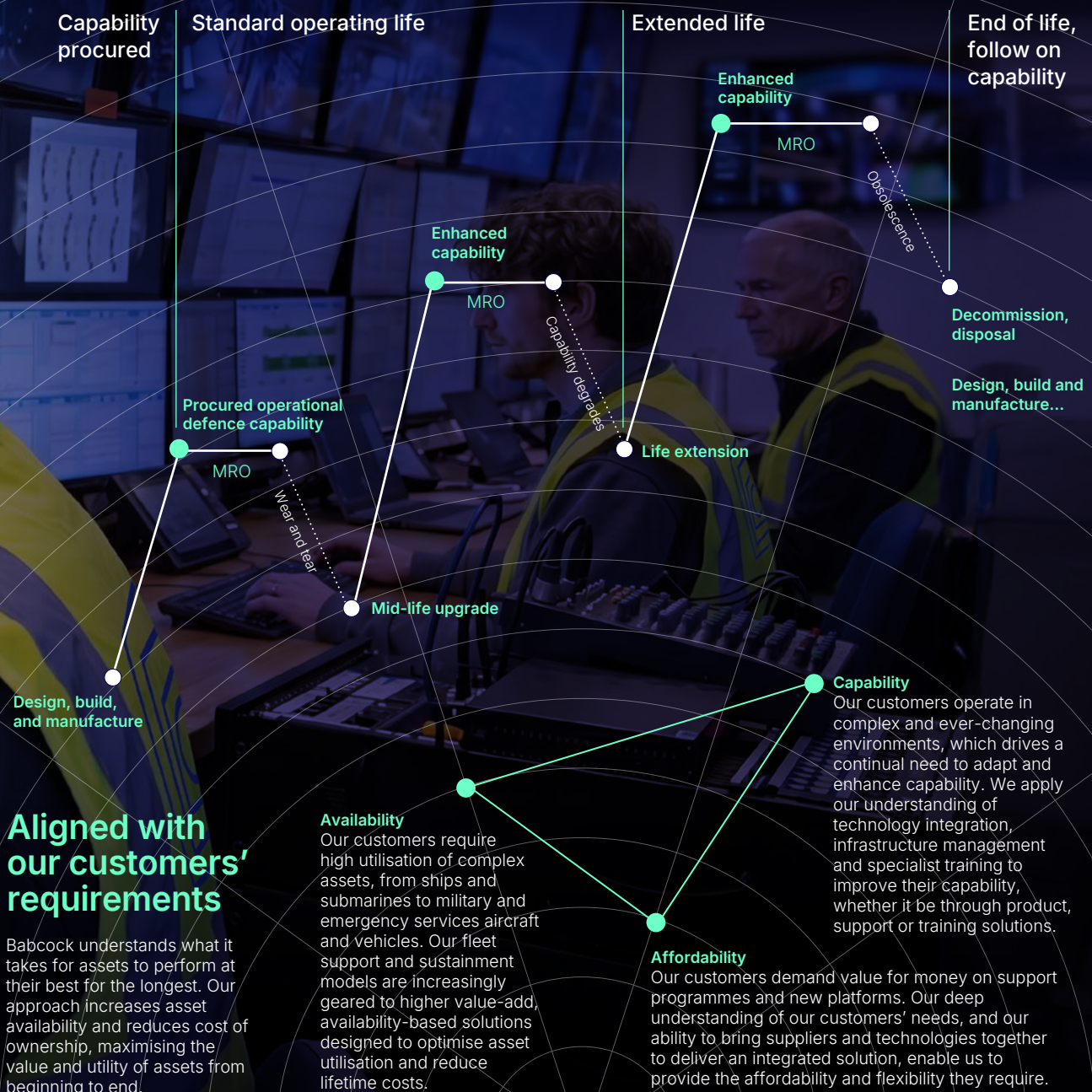
Delivering complex solutions for our defence and civil customers is about expertise, technical engineering, operational asset knowledge, and delivery excellence over decades. Typically, a capability or asset is procured for a specific and critical objective. Throughout the lifetime of the capability, 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 skills to life-extend complex assets while also integrating cutting-edge systems and technologies.

And as obsolescence finally 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.



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 $\geq 9\%$)

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 $\geq 80\%$ 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

2026

£9.8bn

Contract backlog

2026

£433m

Underlying operating profit*, see page 36

2026

8.2%

Underlying operating margin*, see page 36

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.

* 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.



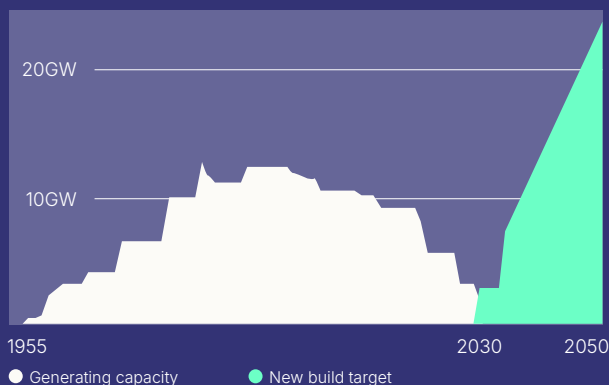
Engineering the next generation

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

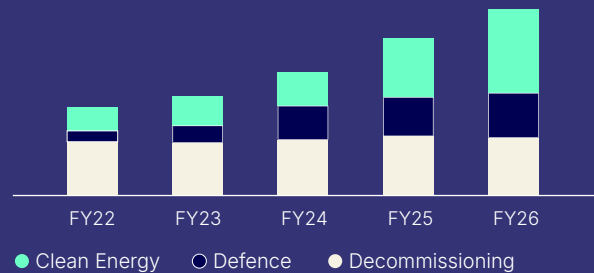
c.£380 m

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

38%

5-year revenue CAGR
(FY22-FY26)

c.£300 m

FY30 medium-term
revenue guidance

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

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

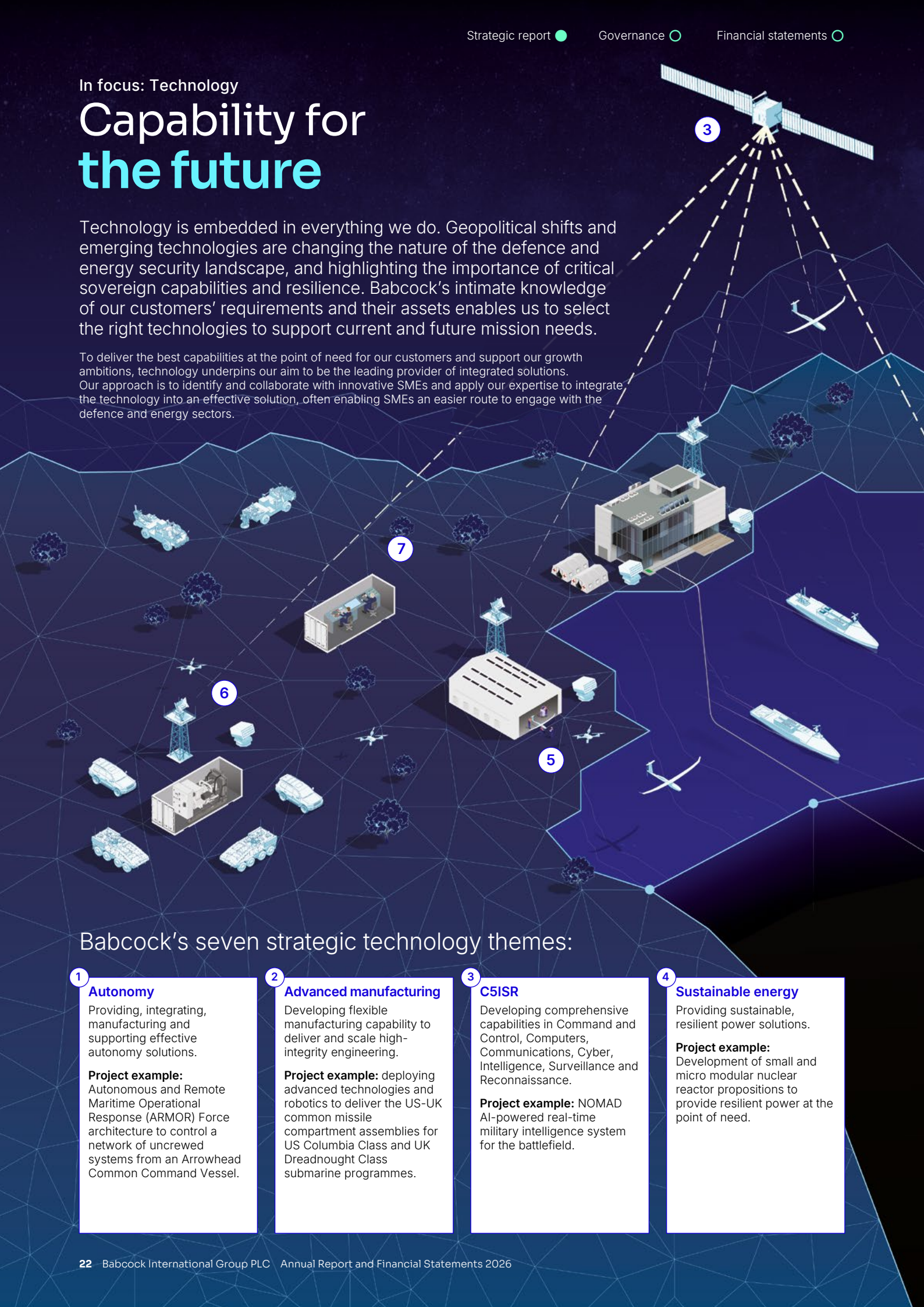
In focus: Technology

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.



SME Engagement Charter

The next line of defence



Discover & Engage

01 Clear Path to Engagement

We will make engagement simple and consistent, giving clear advice, with a single digital interface and named points of contact, guiding suppliers to opportunities and decision-makers.

02 Scout & Signal

We will proactively scout novel sovereign capabilities and publish clear demand signals and requirements, collaborating with industry partners to match high potential SMEs to real problems earlier.

03 Best Solution Wins

We will choose the best solution based on the mission, not incumbent status or company size. Transparent criteria, challenge-led processes, fair evaluations and feedback will create a level playing field, prioritising agility, merit and outcomes.

Contract

04 Proportionate Partnerships

We will adopt a risk-proportionate approach to commercial terms where appropriate with simplified contracts and proportionate liability aligned to the size, scope and risk of work. Intellectual property will be respected and default license in models will be prioritised to preserve SME value where required.

05 Cashflow Confidence

We will ensure cashflow confidence by paying SMEs promptly and transparently, targeting to pay 95% of invoices in 30 days or less, aiming for the Gold Standard for the Fair Payment Code and supporting their business and enabling their investment in growth and R&D.

Validate & Pull Through

06 Sandbox to Battlefield

We will aim to provide accessible physical and digital 'sandboxes' for low-burden experimentation and integration, enabling secure collaboration environments for SME partners.

Build & Scale

07 Embedded Expertise

We will share practical expertise through mentoring, mutual secondments and targeted training, building real-world capacity and providing hands-on support to help SMEs meet standards and win work.

08 Investment & Scaling Pathways

We will actively support the growth of high-potential SMEs by helping to pilot financial instruments, including co-investment, to crowd-in private capital and bridge from prototype to deployment.

Industry Ecosystem

09 Inspiring Future Generations

We will continue to champion defence as a high-tech, purpose-driven career for young people and diverse talents across all communities and regions, supporting sector-wide reforms to attract the next generation of innovators.

Govern & Improve

10 Accountability

We will embed the principles from this Charter throughout our organisation and will aim to publicly track our performance. This Charter is a lived commitment, providing tangible proof of our dedication to fostering a collaborative and supportive defence ecosystem.

The next line of defence | © 2026 Babcock International Group



● 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

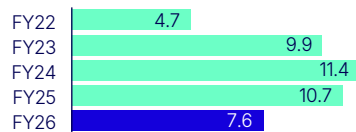
Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures.

● 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%.

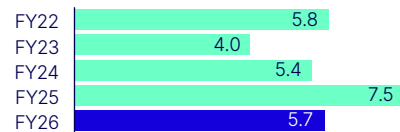
● See our commentary on page 35

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%.

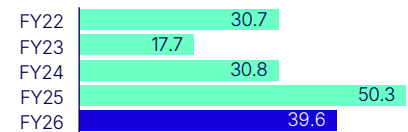
● See our commentary on page 36

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

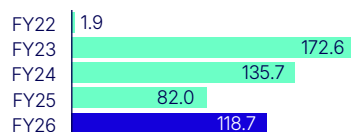
Underlying EPS decreased due to lower underlying operating profit for the year driven by the £140 million Type 31 charge. Excluding the Type 31 charge, Group underlying EPS was 60.5 pence.

● 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.

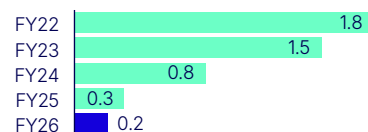
● See calculation on page 38

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

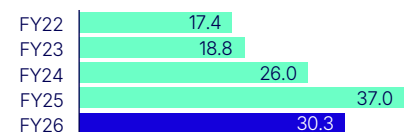
Net debt/EBITDA (covenant basis) reduced to 0.2x, due to strong underlying free cash flow.

● 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



Link to Glossary



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.

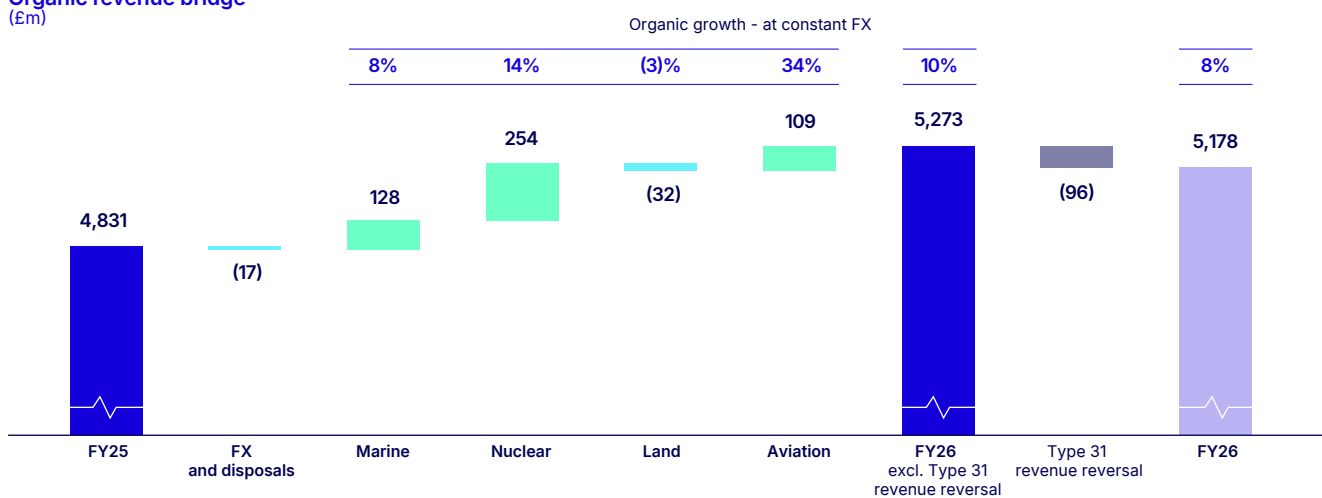
Income statement

	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



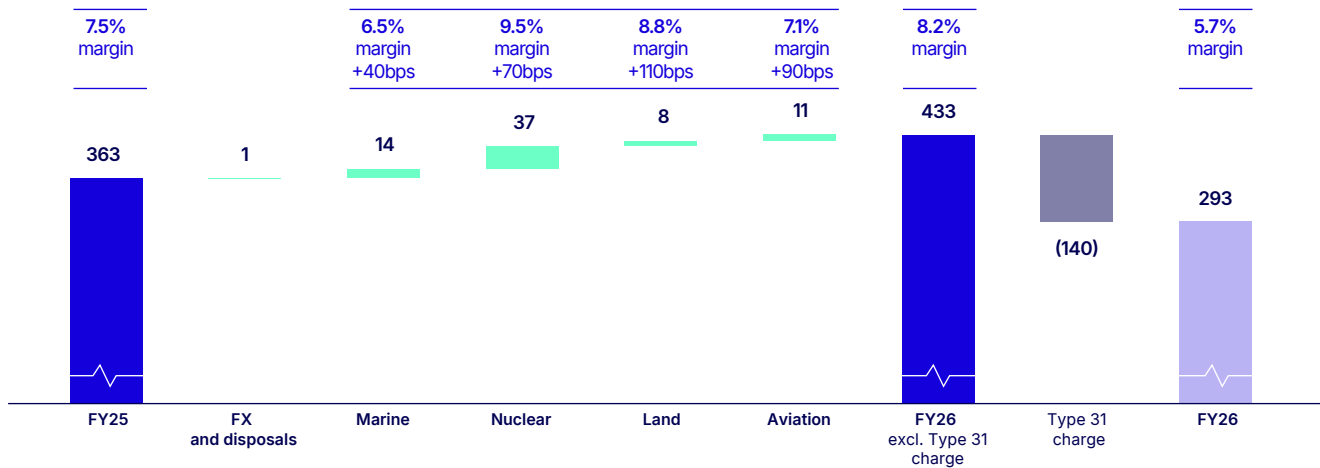
All figures rounded

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.

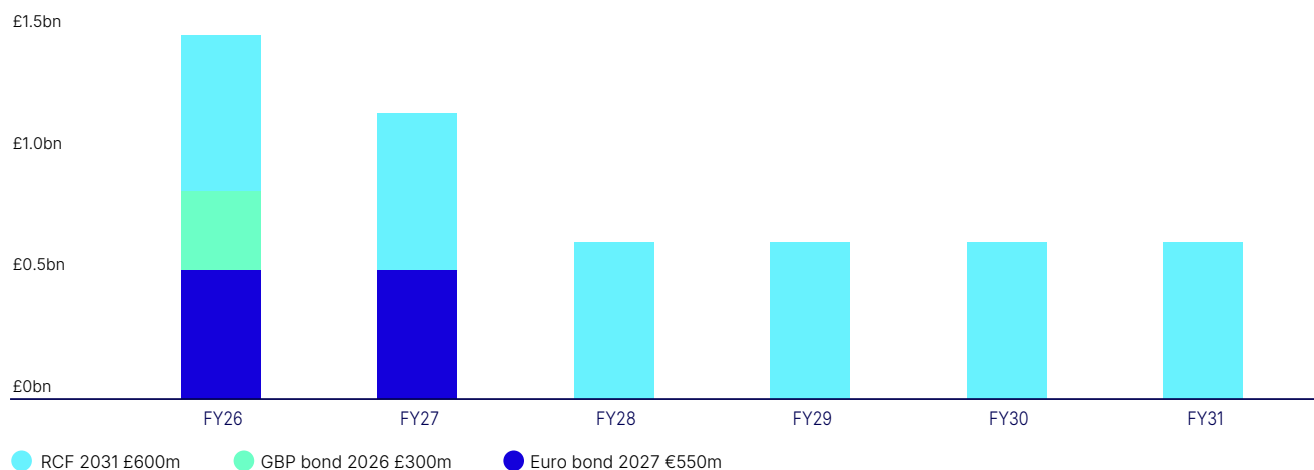
Updates

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
Underlying operating margin	(1.9)%	9.5%	8.8%	7.1%	5.7%
Underlying operating margin excluding Type 31 charge	6.5%	9.5%	8.8%	7.1%	8.2%
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

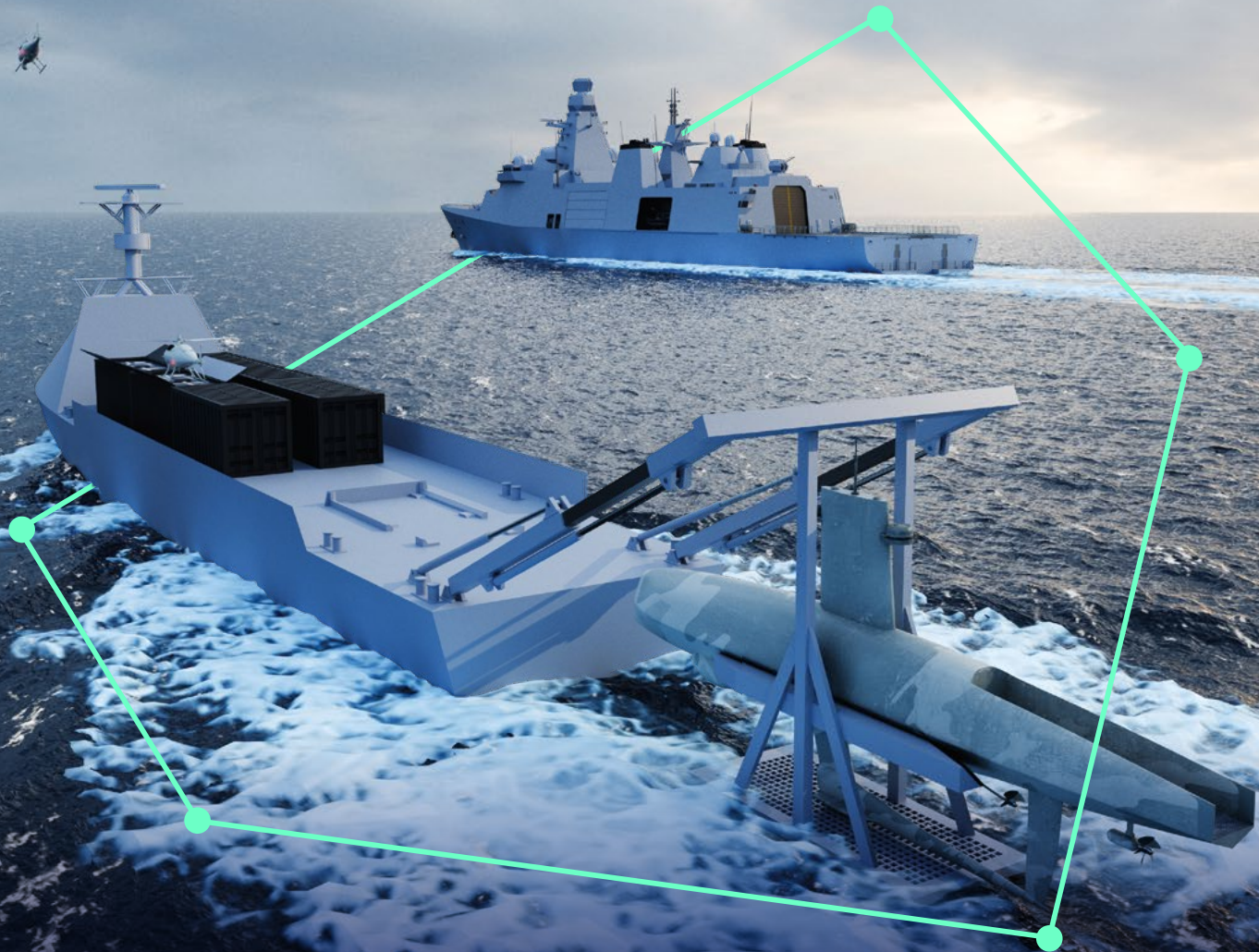
Closest equivalent IFRS measure: No direct equivalent

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

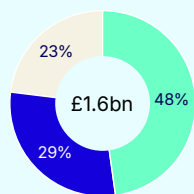
Support

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

Operational highlights

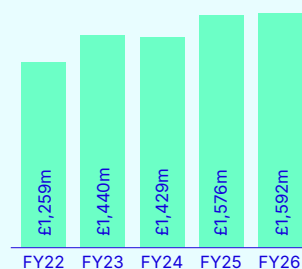
- Two UK Type 31 Inspiration Class frigates now floated-off and in outfitting phase, ships three and four in build
- Signed Maritime Partnership Programme framework agreement with Indonesia, worth up to £4 billion
- Awarded initial engineering contract on US Virginia Class nuclear submarine build programme
- 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

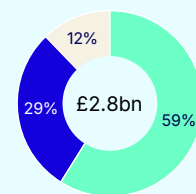


● Defence UK
● Defence International
○ Civil International

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

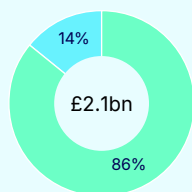
Our c.11,100 employees provide complex through-life engineering support to the entirety of the UK's nuclear submarine fleet. We own and manage critical national infrastructure and provide engineering integration support to AWE. We operate across UK civil nuclear, including new build, generation support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



Operational highlights

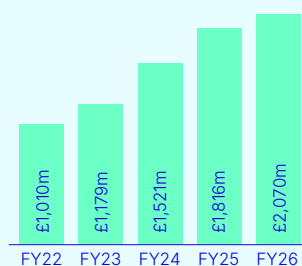
- Signed a six-month FMSP bridging agreement with the UK MOD to continue delivery of critical submarine support and naval base management until the expected replacement contract in FY27
- Devonport's 9 Dock complete with HMS Victorious docked down to continue deep maintenance programme
- Ramped up activity 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

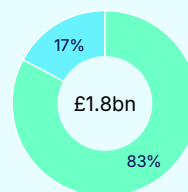


● Defence UK
● Civil UK

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.

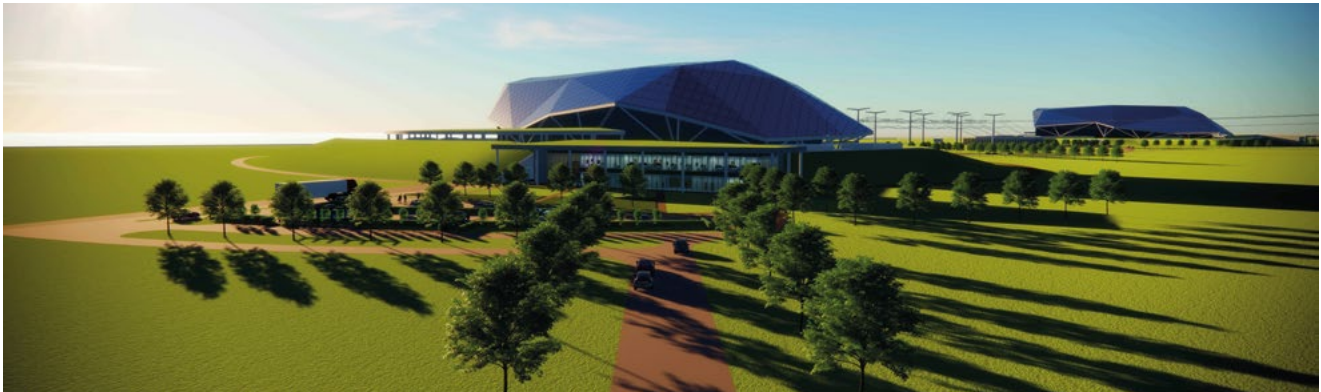
At AWE Aldermaston and Burghfield sites, work continues on the design, installation and commissioning of complex plant and engineering equipment in support of the Continuous at Sea Deterrent (CASD).

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

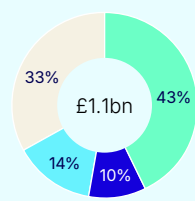
Support

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

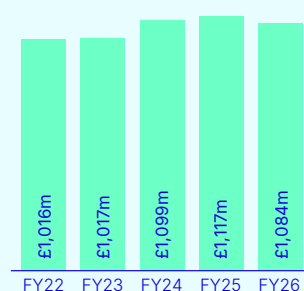
Operational highlights

- 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

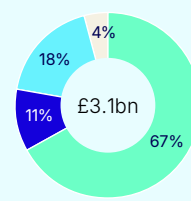
FY26 revenue market split



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

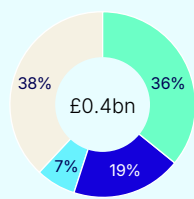
Critical air operations

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

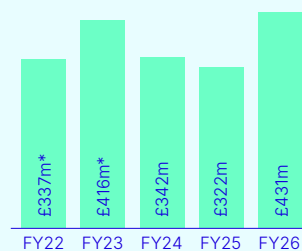
Operational highlights

- 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

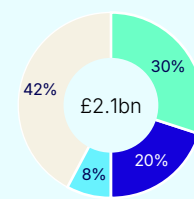


Five-year revenue history



* Excluding divested businesses (FY23, FY22)

FY26 contract backlog market split



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	• Driving sustainable growth (pages 8 and 24) • Sustainability strategy (page 70)
b. the interests of the Company's employees	• 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	• Stakeholder engagement (page 68) • Commercial integrity (page 93)
d. the impact of the Company's operations on the community and environment	• 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	• Responsible business (page 93)
f. the need to act fairly between members of the Company	• 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.

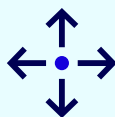
To help safeguard our planet and support our people and communities

Strategic Priorities



Tackling climate change

● See page 72



Managing our resources responsibly

● See page 75



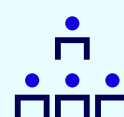
Protecting the natural environment

● See page 77



Ensuring the health, safety and wellbeing of our people

● See page 79



Building an inclusive, diverse and resilient workforce

● See page 81



Supporting our communities

● See page 89

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.

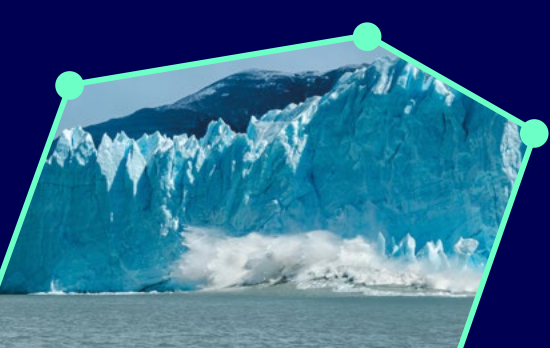
We completed detailed assessments of our physical and transitional climate risks, creating a robust approach that ensures the business is well positioned for the future.

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.



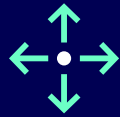
● Watch our video to learn more

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.

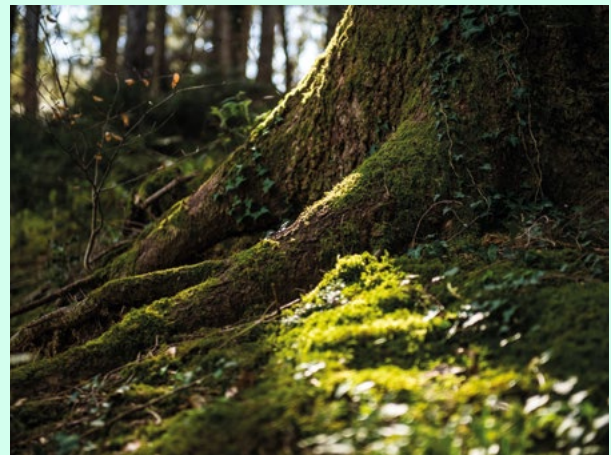
Focus for FY27

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 Greeson 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.

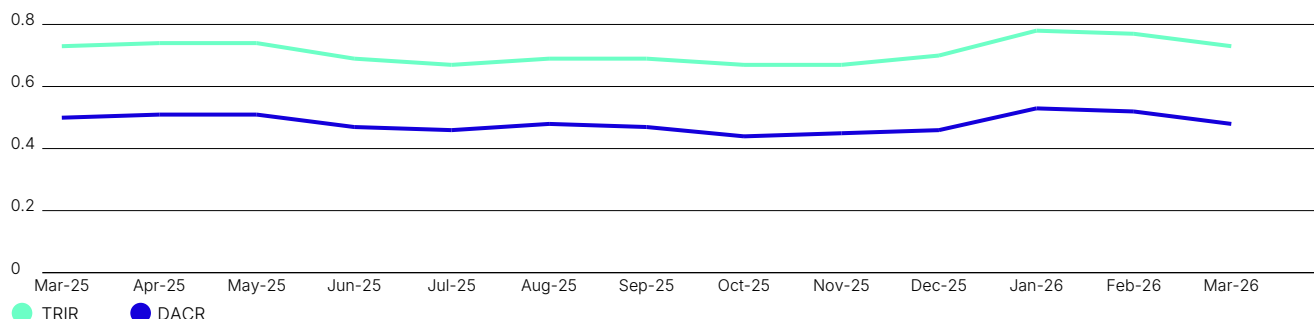
Safety, Health and Environmental Protection strategic vision

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.

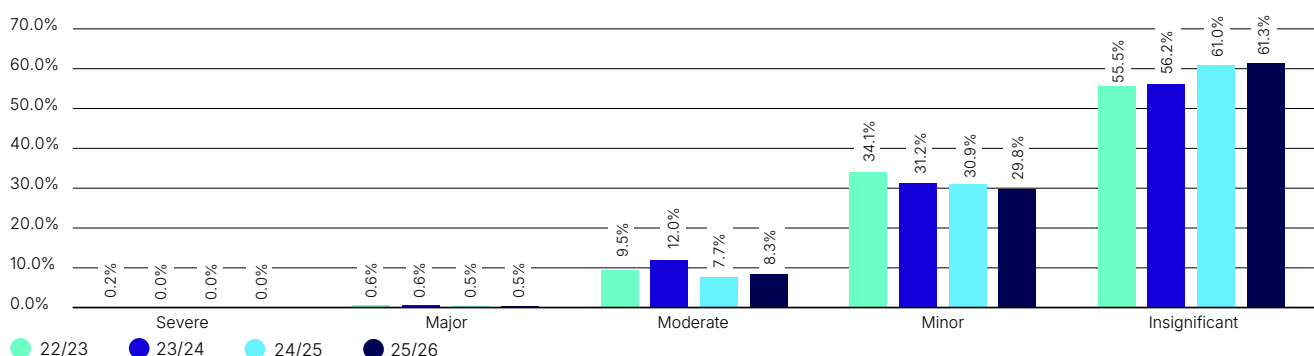
Total Recordable Injury (TRIR) and Days Away Case (DACR) rates



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

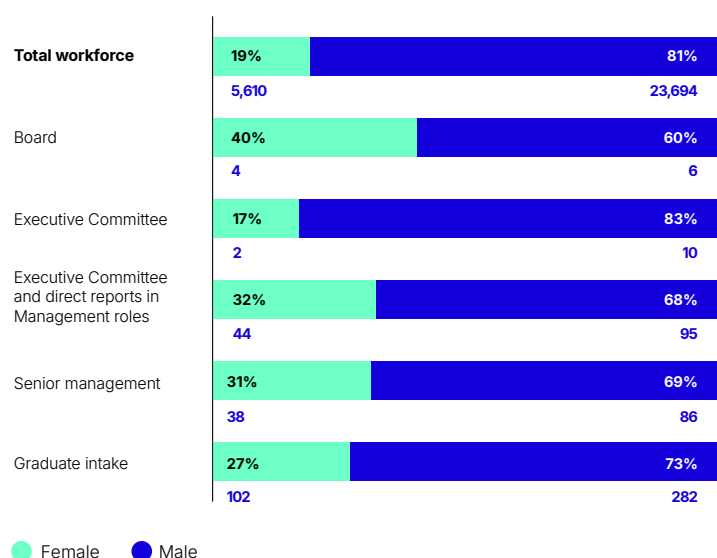
Progress towards target

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

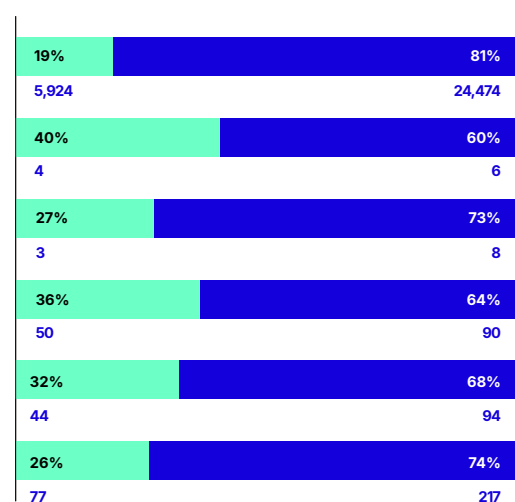
female representation in senior positions, representation across the whole workforce remains static, reflecting the structural challenges within the defence sector and the time required for interventions to translate into workforce change.

Gender balance

FY 2025



FY 2026



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.

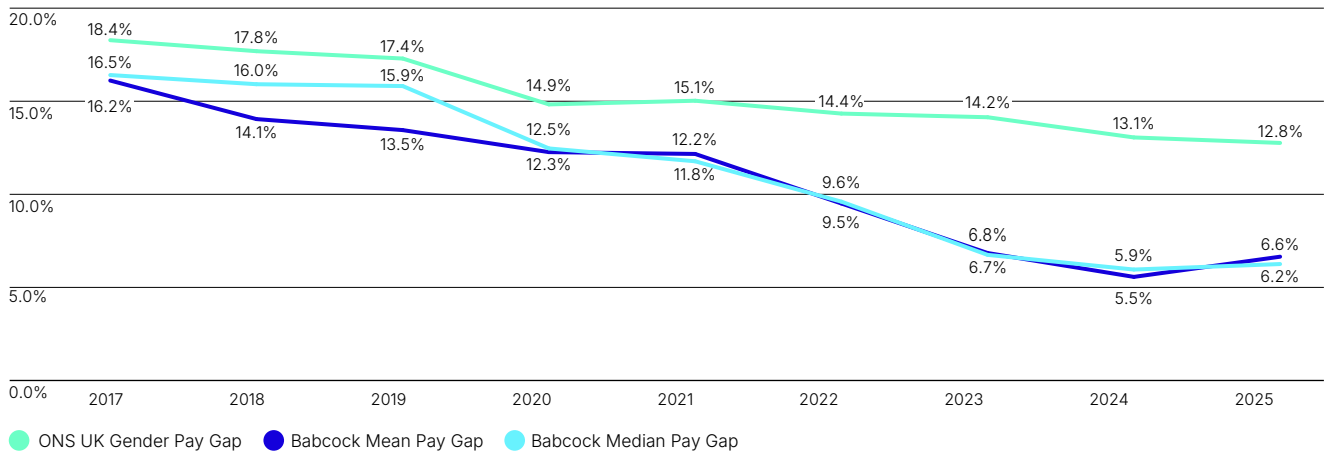
These initiatives are designed to strengthen capability, support career progression and increase representation in senior roles over time.

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.

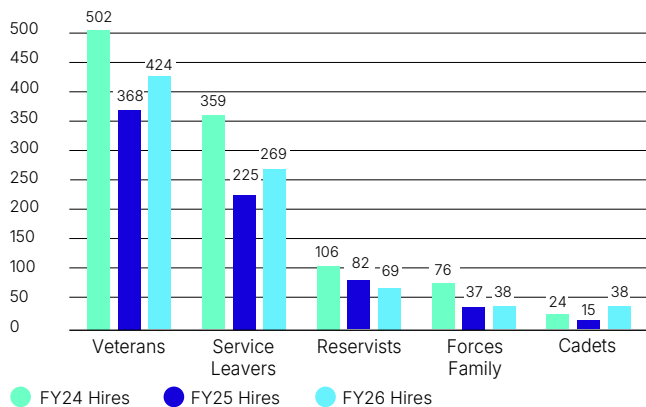


**EMPLOYER
RECOGNITION
SCHEME**

GOLD AWARD

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.

TEAM PLYMOUTH Defence-driven growth

In the UK, our STEM outreach is helping build a stronger future talent pipeline. In Plymouth, our teams have worked with Plymouth City Council on the 5E model, designed to raise aspiration and encourage engagement with STEM from an early age. With more than 300 activities planned across the South West, this work is helping widen access to opportunity and support the long-term development of critical skills.



● 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.

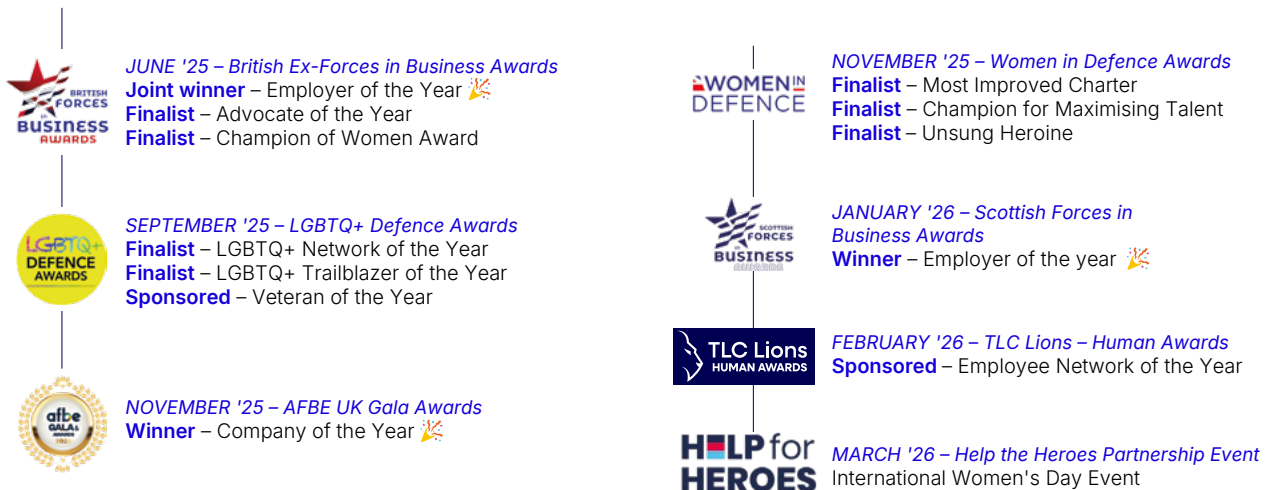
In jurisdictions where local, legal or tax administrative constraints prevent the award of traditional shares, equivalent phantom awards were implemented to mirror the value of Babcock's shares, ensuring fairness and broad participation across our global workforce.

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.

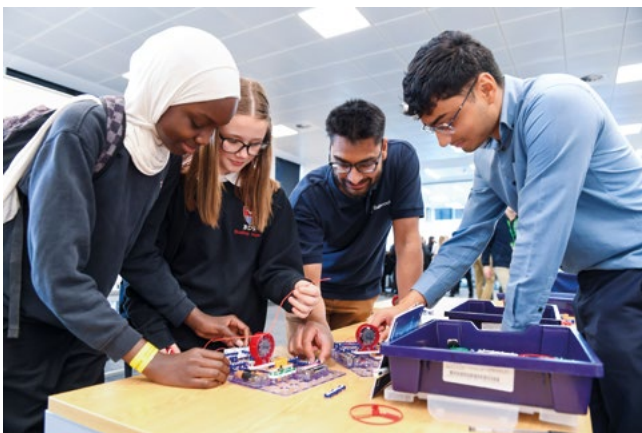
Following on from the completion of our report with the University of Exeter on Unlocking SME Potential in Defence, we have developed a 10-point industry SME Charter, designed to reshape how SMEs engage with the UK defence sector. To strengthen our overall collaboration with SMEs, Babcock has reviewed 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 (MESHA) 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.

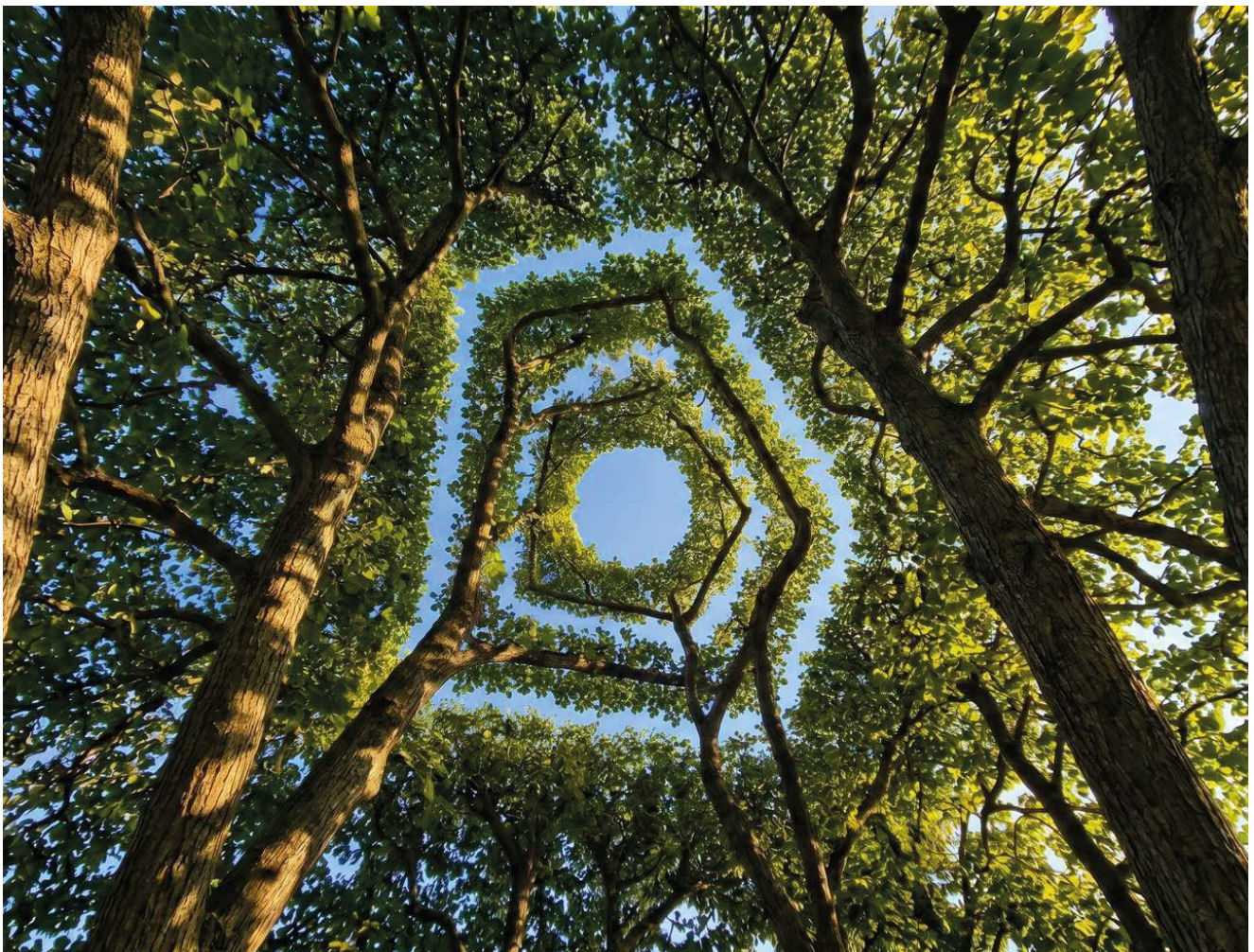
Developing future engineering capability remains a priority. Since 2018, we have supported Engineering Aid Australia's Indigenous Australian Engineering School (IAES) programme, introducing First Nations secondary students to engineering and technology careers through immersive workshops, mentoring and 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:	An opportunity represents a positive 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	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.	Lower warming ☹ Short term ☹ Medium term ☹ Long term Higher warming ☹ Short term ☹ Medium term ☹ Long term Whilst our analysis indicates that the risk to our business is greater in the higher warming scenario, the threat remains low.	Control measures to mitigate the risk include: 1. Insurance cover 2. Contractual protections 3. Infrastructure enhancements	Lower warming ☹ Short term ☹ Medium term ☹ Long term Higher warming ☹ Short term ☹ Medium term ☹ Long term The control measures lower the risk exposure. However, given the nature of physical risks, post mitigation there still remains a low threat.
Coastal flooding	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. This in turn could lead to an increase in costs associated with repairs to damaged facilities and loss of revenue due to business interruption.	Lower warming ☹ Short term ☹ Medium term ☹ Long term ☹ Very long term Higher warming ☹ Short term ☹ Medium term ☹ Long term ⚡ Very long term 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.	Control measures to mitigate the risk include: 1. Insurance cover 2. Infrastructure enhancements – site drainage systems and flood defences	Lower warming ☹ Short term ☹ Medium term ☹ Long term ☹ Very long term Higher warming ☹ Short term ☹ Medium term ☹ Long term ☹ Very long term 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.
Supply chain	Climate change could disrupt our supply chain and in turn increase procurement costs and cause interruption to the business.	Lower warming ☹ Short term ☹ Medium term ⊕ Long term Higher warming ☹ Short term ☹ Medium term ☹ Long term 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.	Control measures to mitigate the risk include: 1. Diversified supply chain 2. Effective supply chain risk management 3. Supplier engagement – climate awareness training and support being provided to suppliers	Lower warming ☹ Short term ☹ Medium term ⊕ Long term Higher warming ☹ Short term ☹ Medium term ☹ Long term Our analysis indicates that the mitigation measures would reduce the threat impacts and enhance the opportunity over the lower warming scenario.

Responsible business (continued)

Financial impact scale – threat and opportunity

A threat represents a negative financial impact:		An opportunity represents a positive financial impact:	
⊖	Low – Less than 10% reduction in operating profit	⊕	Low – Less than 10% increase in operating profit
⊖	Moderate – Between 10% and 25% reduction in operating profit	⊕	Moderate – Between 10% and 25% increase in operating profit
⊖	High – Greater than 25% reduction 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	Operating costs sensitive to climate-related taxes and carbon pricing mechanisms could increase. This may happen due to: 1. Direct exposure to carbon taxation 2. Indirect exposure resulting in higher costs for carbon-intensive products in the supply chain The shortlist of carbon-intensive products considered comprised: steel, cement, aluminium, glass and energy.	Lower warming ⊖ Short term ⊖ Medium term ⊖ Long term Higher warming ⊖ Short term ⊖ Medium term ⊖ Long term The cost of the uncontrolled risk increases in the lower warming scenario, driven entirely by global carbon price projections.	Control measures to mitigate the risk include: 1. Implementation and delivery of decarbonisation initiatives and targets 2. Delivery of energy efficiency targets	Lower warming ⊖ Short term ⊖ Medium term ⊖ Long term Higher warming ⊖ Short term ⊕ Medium term ⊕ Long term Our analysis indicates that the control measures will reduce exposure to projected carbon costs across all scenarios and timeframes. 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.
Energy prices	Energy costs could increase, driven by climate-related factors including supply volatility, Net Zero regulation, and extreme weather impacts on energy infrastructure.	Lower warming ⊖ Short term ⊖ Medium term ⊖ Long term Higher warming ⊖ Short term ⊖ Medium term ⊖ Long term 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.	Control measures to mitigate the risk include: 1. Delivery of energy- and carbon-reduction initiatives 2. Long-term energy arrangements (such as Power Purchase Agreements) 3. Onsite energy generation	Lower warming ⊖ Short term ⊖ Medium term ⊖ Long term Higher warming ⊕ Short term ⊕ Medium term ⊕ Long term Our analysis indicates that the control measures will reduce the exposure to potentially increasing energy prices across all time horizons. 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.

Risk/Opportunity	Description	Assessment and quantification of uncontrolled risk	Control measures	Assessment and quantification of controlled risk
Changing demand for products and services	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: 1. Engineering services at combustion plants 2. HGV and mining truck dealership business 3. Liquid Gas Equipment (LGE) business 4. Civil nuclear services	Lower warming — Short term — Medium term — Long term Higher warming — Short term — Medium term — Long term 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.	Control measures to mitigate the risk include: 1. A diverse portfolio of services 2. Innovation to support customers' changing demands 3. Capitalising on high-growth sustainable business opportunities	Lower warming + Short term + Medium term + Long term Higher warming + Short term + Medium term + Long term 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.
Market expectations on decarbonisation	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.	Lower warming — Short term — Medium term — Long term Higher warming — Short term — Medium term — Long term Without controls in the lower warming scenario, risks are present from non-UK defence, global civil and UK competitive defence business areas. In the higher warming scenario, the impact in the long term is lower, reflecting a lower general level of decarbonisation expectations from customers.	Control measures to mitigate the risk include: 1. Delivering Babcock's Net Zero targets 2. Strong stance and action on mitigating climate change impacts 3. Effective stakeholder engagement	Lower warming — Short term — Medium term — Long term Higher warming — Short term — Medium term — Long term Achieving our decarbonisation targets would mean the risk is fully mitigated, resulting in no financial impact.

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.

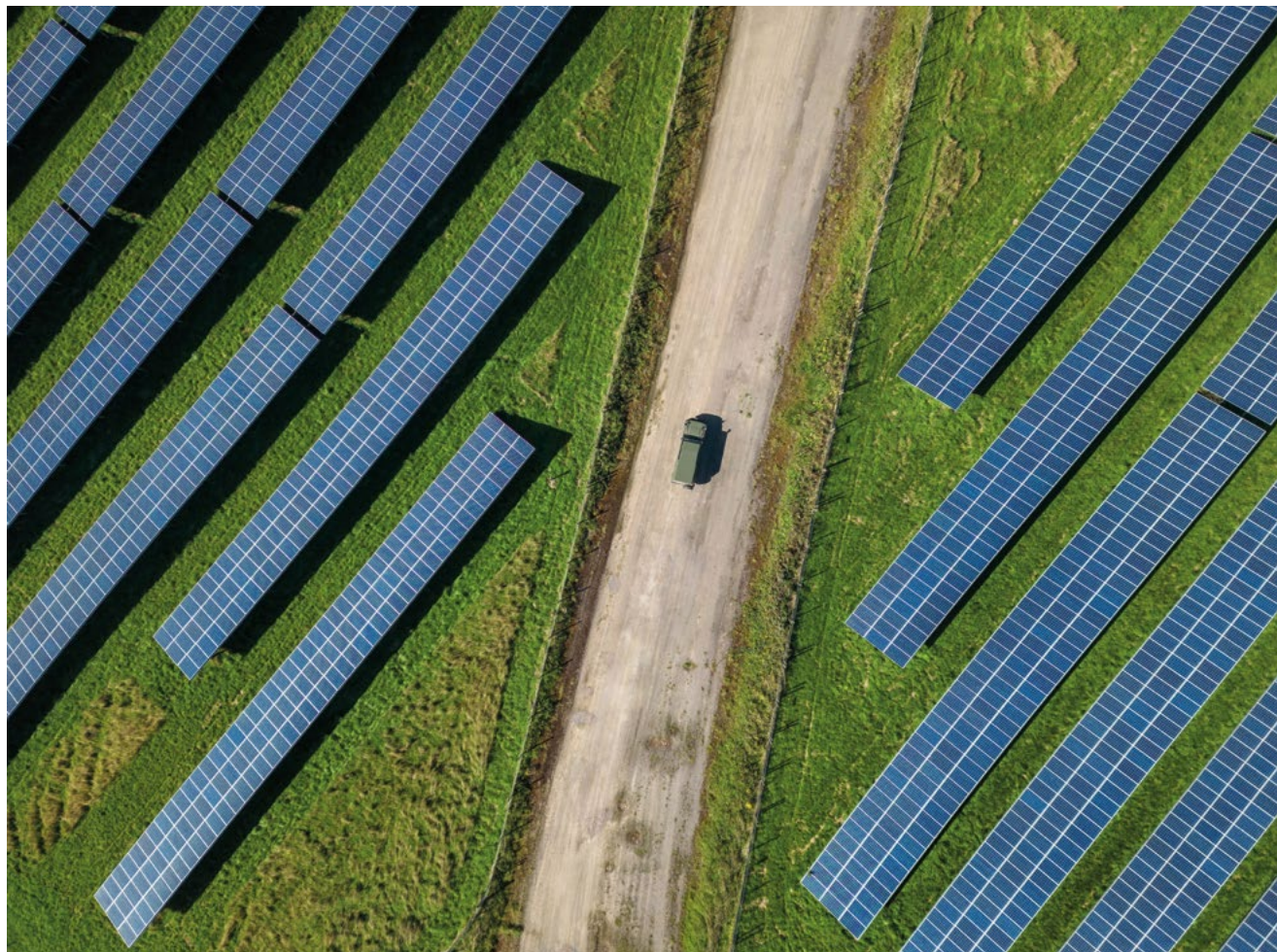
Individually, the risk threats are generally classified as low, though the aggregate impacts rise to moderate to high. In both scenarios, transition risks are dominant. However, in the very long term, there is an increased risk and high threat associated with coastal flooding.

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 - 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 - 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 - 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 - 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)	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. Risks controlled - 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	14.1% improvement year on year Details relating to the progress can be found on page 76.
Capital deployment	Delivery of initiatives to deliver on Babcock's energy efficiency and carbon-reduction objectives. Risks controlled - 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	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. Risks controlled - 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	Babcock's shadow carbon price is based on the UK market cost of carbon and is considered internally. The shadow carbon cost to the business has reduced in line with the reduced emissions.

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.

1. 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.
2. Figures are presented rounded to the nearest whole number, so may not sum precisely to totals (which are based on unrounded figures).
3. 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.
4. The revenue figures detailed have been adjusted for disposals and acquisitions. The revenue figures are calendar year to align with the emissions periods.
5. 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	**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. ● Learn more on page 70
	**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. ● Learn more on page 70
	**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. ● Learn more on page 93
	CFD disclosures s414CB(2A)	See Climate-related Financial Disclosures. ● Learn more on page 95
Employees	** 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. ● Learn more on pages 78, 79 and 87
	**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. ● Learn more on page 93

	Policy / Statement	Description
	** Be Kind Day – volunteering policy	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. ● Learn more on page 91
	***Gender Pay Gap report	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. ● Learn more on page 84
Human rights	**Supplier Code of Conduct	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. ● Learn more on page 93
	**Human Rights policy	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.
	***Modern Slavery Transparency Statement	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.

Non-financial and sustainability information statement (*continued*)

	Policy / Statement	Description
Social	*Australasia Indigenous Peoples Engagement policy	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. ● Learn more on page 92
	*Canada Indigenous Peoples policy	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. ● Learn more on page 91
	**Charities policy	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. ● Learn more on page 90
Anti-bribery and anti-corruption	**Anti-Bribery and Corruption / Ethics policy	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. ● Learn more on page 93

	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

Completed		Progress
April 2025	● Initial material controls reviewed by the Audit Committee	●
H1 & H2 FY26	● Work to develop, define and brief on material control requirements	
March 2026	● Full dry run of first line self-assessment	
To be completed		Progress updates presented to the Audit Committee
H1 FY27	● Second line testing Continued training and control enhancement	
September 2026	● Full dry run of first line self-assessment	
H2 FY27	● Second and third line testing Continued training and control enhancement	
March 2027	● First line self-assessment and further second line testing as required	
May 2027	● Material controls assurance paper to be reviewed by the Audit Committee	
May 2027	● Annual Report and Financial Statements for the year ending 31 March 2027 to include Board's declaration of effectiveness of material controls	●

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.

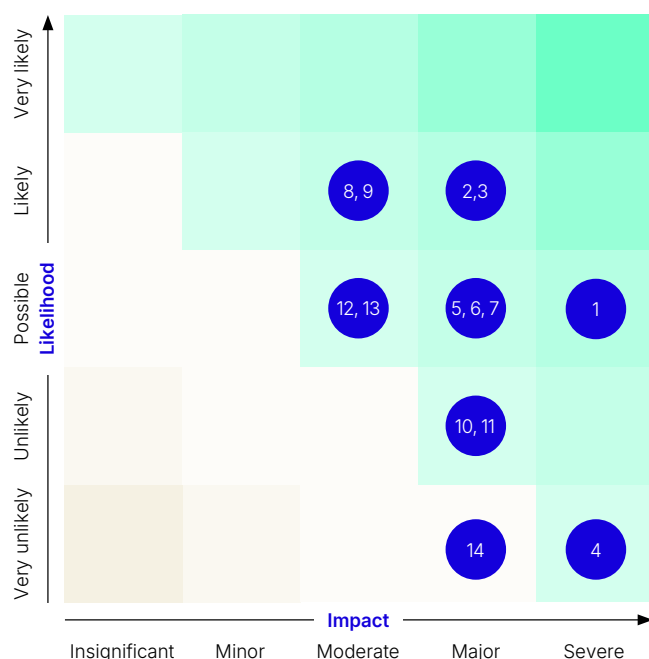
The risk previously called Corporate Technology Disruption has been renamed IT and Data Architecture to better reflect the risk associated with digital change, both from an IT and data architecture perspective.

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 a 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.

Governance

Chair's introduction to Governance



Dame Ruth Cairnie
Chair

Dear fellow Shareholder

On behalf of the Board, I am pleased to present the governance report for the year ended 31 March 2026. This part of the report focuses on the Group's governance structures, the work of the Board and its committees, and our compliance with the 2024 UK Corporate Governance Code (the Code) as well as other regulatory requirements. The report comprises the following segments:

1. Board of Directors
2. Governance statement
3. Nominations Committee report
4. Audit Committee report
5. Remuneration Committee report
6. Other statutory information

The importance of governance

Since becoming Chair in 2019, one of our key aims as a Board has been to hold ourselves to the highest standards of governance. We believe that strong governance establishes a framework that helps companies ensure they are acting in the best interests of their stakeholders. It defines clear roles and responsibilities and promotes transparent reporting of financial and operational performance, building trust between investors, employees, and customers. The purpose for this part of our report is to provide an understanding of our framework and how it operates.

Culture and people development

As highlighted in previous years, Babcock's success in the future is critically dependent on the people in the business. We need to attract, motivate and develop people with the skills needed for the future, and work as an organisation in ways that ensure everyone can contribute fully. To support the progress on people and culture, we have been focusing on developing the right sort of leadership capabilities across our leadership cadre. This started by developing a Babcock Leadership Framework which provides our leaders with a structured toolkit to make decisions, foster collaboration and achieve our strategic goals. It aligns our leaders and their actions to our Purpose and principles. The Framework defines the competencies, behaviours and skills required of effective leaders at all levels within Babcock.

Given the dependency of the business on our people, our culture is a key asset. The change in culture that we have witnessed over recent years has been a major part of our transformation. The Board has been supporting and monitoring this closely through the Nominations Committee, and information about how the Board plays this role is covered in that report.

Succession

One of the most important actions of the Board in FY26 was preparing for CEO succession. We have been developing our succession planning approach over several years, building on the Leadership Framework and an intensifying focus on talent development. During this process, we have increasingly been assessing talent and undertaking targeted development to create a strong pool of internal candidates for our senior roles. For the most senior roles, we also periodically horizon-scan for potential external candidates, both to benchmark our internal talent and to identify possible opportunities to strengthen our team.

This strong preparation meant that, when David advised us of his intention to retire, we were well placed to execute a robust selection process built on the in-depth knowledge we had already developed. More details are provided in the Nominations Committee report. Harry Holt was chosen as our future CEO on the basis of his proven experience in leading Babcock's defence and civil nuclear operations, his strong relationships with Babcock's key customers and his deep working knowledge of the wider defence sector.

Our approach to succession planning is now being embedded for the Group Executive Committee level and below, and for other key roles. It supports us in nurturing and retaining valuable skills, essential for the long-term sustainability of our business.

Risk and controls

Throughout the transformation of the business, we have been steadily enhancing our approach to risk and the control environment, recognising that this has been a multi-year journey. We have been pleased to note further progress this year, as presented in the report of the Audit Committee. Over the year, we have been undertaking the necessary work to prepare for the introduction of the new Provision 29 of the Corporate Governance Code of the Financial Reporting Council, requiring boards to make a declaration on the effectiveness of their material controls. For Babcock, this provision will come into effect for our 2027 Annual Report and Accounts.

We have a roadmap in place which sets out key activities to achieve compliance in time for 31 March 2027. We have tested our roadmap and are monitoring our progress against the milestones identified in the roadmap. I would like to thank the team and the Audit Committee for their hard work in preparing for this new requirement.

Sustainability

Last year, we announced our refreshed strategy for sustainability. Our new strategy is simpler, more focused, and deliverable. It takes a twin-track approach: first, to focus on six Group-level strategic priorities where we believe we can have the greatest impact, supported by six targets with delivery plans in place; second, to build capability in Babcock to embed sustainability principles across the business.

We launched our refreshed sustainability strategy in June 2025 with new internal and external websites, a CEO vlog, and presentations to internal and external stakeholders such as our senior leadership teams, graduates, and our principal customers. The feedback we received was positive. In November, we launched the next stage of our strategy by engaging all employees with an energy efficiency campaign. This will be followed with further campaigns aligned to our priorities.

As enablers to help ensure that sustainability is fully embedded into the business, we are focusing on the roles that our commercial, procurement, and property functions can play. These three functions are well placed to bring sustainability considerations into decisions and plans across the business: the commercial function can identify and understand the sustainability targets that our customers build into their programmes; procurement will allow us not only to improve our supply chain emissions reporting, but also ensure that our strategic suppliers support us in delivering our sustainability commitments; and the property function will work with our estate to focus on the sustainability of the properties that we use or own.

Board membership and effectiveness

During the year, the Board welcomed the appointment of Aedamar Comiskey as a member, following Lucy Dimes's retirement. Aedamar is the Senior Partner of Linklaters and an eminent corporate lawyer. She brings extensive experience of leading and growing complex organisations in competitive international markets.

Having conducted an external Board review last year, this year our Board review was led internally. I was grateful that Aedamar led the review for us, which also contributed helpfully to her induction to the Board. The review concluded that we are operating effectively, with an open and collegiate culture and with the right balance of skills and experience around the Board table for effective governance and decision-making. The review highlighted that a challenge for the Board over the coming year was to apply these skills and experience effectively to support and oversee the CEO transition.

The year ahead

The focus for the Board over the next year will be to ensure continuity and a smooth CEO transition, with the business continuing to build on the momentum created over the last few years. To do this, we will maintain our focus on governance alongside the further strengthening of controls. The strength of the Board in terms of skills and open and constructive debate will be important as we navigate the high levels of uncertainty caused by technology and geopolitical change.

I would like to thank my colleagues on the Board for their counsel and support over the last year. As ever, I look forward to meeting our shareholders at our AGM on 16 September 2026.

Dame Ruth Cairnie

Chair

Statement of compliance

The Board confirms that, for the year ended 31 March 2026, the principles of good corporate governance contained in the 2024 UK Corporate Governance Code (the Code) have been consistently applied and, with the exception of Provision 29 on which the Company will report next year, all provisions have been complied with.

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

We describe how the Company has applied the Code principles on the following pages through to page 179. For further information on the work carried out in readiness to report next year on the effectiveness of our material internal controls in compliance with Provision 29, please see pages 110 to 144 and 150 to 153.

Governance

Board of Directors

**Dame Ruth Cairnie DBE**

Chair

Appointed: April 2019**Nationality:** British

N

Key contribution: Extensive experience of the engineering sector, strong strategic vision and leadership.

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

Current appointments: Non-Executive Director of BT Group plc and Serendipity Capital, a venture capital investor focused on critical technologies. She is a patron of the Women in Defence Charter, a director of The White Ensign Association and a member of the CBI Board.

**Carl-Peter Forster**

Senior Independent Director

Appointed: June 2020**Nationality:** German and British

R N

Key contribution: Extensive manufacturing and international experience.

Skills and experience: Carl-Peter held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). He was also previously a Non-Executive Director of Rexam PLC and Rolls-Royce plc, and Senior Independent Director of IMI plc, as well as being Chair of Chemring Group PLC.

Current appointments: Chair of Vesuvius plc and Keller Group PLC.

**John Ramsay**Independent
Non-Executive Director**Appointed:** January 2022**Nationality:** British

A N R

Key contribution: Extensive financial, international and boardroom experience.

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

Current appointments: Member of the Supervisory Board at DSM Firmenich AG and Non-Executive Director of RHI Magnesita N.V. He is Audit Committee Chair at each of these companies.

**David Lockwood OBE**

Chief Executive Officer

Appointed: September 2020**Nationality:** British

E

Key contribution: Wide-ranging knowledge of defence and aviation markets, and a wealth of experience in both technology and innovation.

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

Current external appointments: President of ADS, the UK trade association for the aerospace, defence, security and space industry.

**David Mellors**

Chief Financial Officer

Appointed: November 2020**Nationality:** British

E

Key contribution: Extensive CFO experience in defence, aerospace, and commercial markets.

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

Current external appointments: None.

**The Right Honourable The Lord Parker of Minsmere, GCVO, KCB**

Independent Non-Executive Director

Appointed: November 2020**Nationality:** British

D N R

Key contribution: Extensive experience of working at the highest level of public service, including a focus on new technology-centred change and championing inclusion.

Skills and experience: Lord Parker has had a long career in a wide range of national security and intelligence roles in the UK, which culminated in him becoming the Director General of MI5, the UK Government's national security agency, in 2013. He retired from this role in 2020 after which he served as Lord Chamberlain (head of the Royal Household). Lord Parker is a graduate of Natural Sciences from Cambridge University.

Current appointments: Member of the House of Lords, a Non-Executive Director of Vertical Aerospace and Board Adviser to Telicent Ltd. Lord Parker is a Distinguished Fellow at the Royal United Services Institute.



Key contribution: Extensive expertise in the leading and growing of complex organisations in competitive international markets.

Skills and experience: Aedamar is a leading public and private M&A lawyer who has advised on many of the market's most significant transactions. She has spent her career at Linklaters, where she was elected Senior Partner and Chair in May 2021 and re-elected in June 2025. Prior to becoming Senior Partner, Aedamar served for five years as the firm's Global Head of Corporate and sat on the Executive Committee; she now chairs the Partnership Board. From 2014 to 2024, Aedamar was a Non-Executive Director at James Fisher and Sons plc, where she chaired the Remuneration Committee from 2018 and served as Senior Independent Director from 2019.

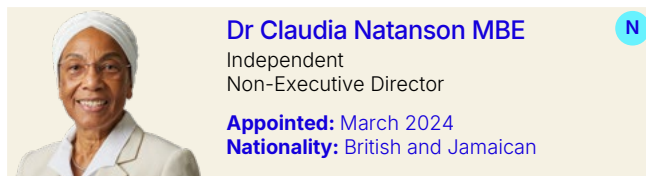
Current appointments: Senior Partner and Chair, Linklaters LLP.



Key contribution: Expertise in aerospace, defence and engineering sectors and boardroom experience.

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

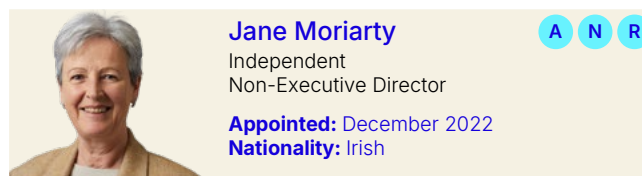
Current appointments: Member of L.E.K. Consulting's European Advisory Board.



Key contribution: Extensive information and cybersecurity expertise.

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

Current appointments: The Digital Cyber Practice and a registered European Commission Security and Cyber expert.



Key contribution: Extensive international business and finance experience.

Skills and experience: Jane, a Chartered Accountant, brings with her over 30 years of international business and finance experience. After a long executive career with KPMG, where she was a senior advisory partner, Jane has held a number of non-executive roles, including at Quarto Group Inc where she was Vice-Chair and Chair of the audit and remuneration committees.

Current appointments: Non-Executive Director, Chair of the audit committee and Senior Independent Director of Mitchells & Butlers plc and Non-Executive Director of Nyrstar.

Appointment key

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

Governance statement

Governance framework

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

The Board

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

The Board has adopted a schedule of matters reserved for its specific approval (see page 144). For other matters, authority is delegated to management according to a delegation matrix.



Principal Board Committees

Audit Committee

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

● See pages 150 to 153

Remuneration Committee

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

● See pages 154 to 179

Nominations Committee

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

● See pages 148 and 149

Group Executive Committee

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

For more information see [www.babcockinternational.com/who we are/leadership-and-governance](http://www.babcockinternational.com/who-we-are/leadership-and-governance)



Principal Management Committees

Corporate Sustainability Committee

Responsible for Group-wide sustainability initiatives, the management of climate-related issues and driving the wider sustainability agenda. The Committee is chaired by the Chief Executive Land and members include the CFO, the sector Chief Executives, the Chief People Officer, the Group Company Secretary, the Group Director of Sustainability, and the Group Health and Safety Director.

● See page 70

Executive Safety Committee

Provides direction and executive management of the safety, health and environmental protection framework controls, to ensure risks are as low as reasonably practicable and our approach is coherent to enable continuous improvement in performance across Babcock. The Group Health and Safety Director chairs the Committee and its members include sector and DRC CEOs, the Chief People Officer and the Chief Delivery Officer.

● See page 117

Group Executive Risk and Controls Committee

Provides leadership and oversight of the Group's Enterprise Risk Management 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 Company's principal risks. The Committee membership includes the Executive Committee, the Group Financial Controller, the Group Director of Internal Audit, Risk Assurance & Insurance and the Group Director of Controls.

● See page 110

Company purpose

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

Effective decision-making and oversight

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

All scheduled meetings consider:

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

The Board regularly considers:

- Strategy update, including Sustainability
- Review of major and emerging risks
- Delegated authorities
- Committee terms of reference
- Whistleblowing reports
- Tax policy
- Treasury arrangements
- Modern Slavery Transparency Statement
- Deep-dive presentations from sectors, direct reporting countries and Group functions
- Results announcements, annual report and notice of annual general meeting.

Setting and overseeing strategy

The Board held its dedicated strategy review meeting in July 2025, offsite. At the meeting, the Board reviewed the Company's strategic aims and tested their alignment to the interests of the Company's stakeholders. In addition to its dedicated review, the Board has regular updates throughout the year, as the Board believes that strategy should be a dynamic process, benefiting from regular Board engagement and supported by dedicated deep-dive review sessions.

More information on the implementation of the strategy overseen by the Board can be seen on pages 20 and 21 and throughout the Strategic report.

How the Board monitors culture

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

Leading by example

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

Listening to our people

Our Non-Executive Directors regularly visit our sites. At least once a year, the Board holds one of its meetings at a site to give the Non-Executive Directors the opportunity to engage with colleagues together. As well as the Board site visit, individual Non-Executive Directors take time to visit other sites to engage with colleagues. In addition, our designated Non-Executive Director for workforce engagement has his own programme of site visits. His programme includes extensive engagement with colleagues, and he feeds back the key themes to the Board. As well as visiting sites, the Non-Executive Directors engage in other ways with colleagues, such as meeting with different colleague groups such as the upcoming talent cohort and attendance at leadership events. The Board also hears from colleagues through the questions and feedback received by the CEO's dedicated email 'Ask David', as well as from employee forums and surveys. This year, the Company conducted its fourth Group-wide Global People Survey (GPS). The Board reviewed the results of the survey along with an action plan for responding to the key themes.

● See pages 80 to 91

Ethics and whistleblowing

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

Other cultural indicators

The Board receives health and safety metrics at its meetings as well as receiving thematic reviews through its regular 'People' sessions. These sessions also cover Diversity and Inclusion.

Embedding our culture

The Board has made sure that the Group-wide Global People Survey (GPS) includes questions that focus on employee satisfaction, so that the Board can assess employee sentiment, helping the Board to understand what employees value and the alignment of employees with the Company's culture. This year, Babcock had our largest ever response to our survey, both in terms of participants and comments (79% of employees participating with 80% commenting). These responses show that Babcock is making progress, with 64% of the 87,867 comments being favourable compared to 60% in 2024, and our engagement score rising 4% on 2024. However, Babcock is still behind our external benchmark, so there is more work to do. To address this gap, the Board has launched its Culture dashboard, for more information please see page 138.

Governance statement (continued)

Board leadership

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

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

This section, through to page 142, forms part of the s172(1) statement which can be found in the Strategic report on page 68.

● Further information on how the Company engages with its stakeholders can be found on pages 68 and 69

How the Board engages

	Information flow to the Board	Direct Board engagement	Matters and measures reviewed by the Board ¹
Customers	- Monthly written reports from Executive Directors include material customer matters - Sector CEOs and the Executive Directors give briefings at Board meetings	During the year the Executive Directors had regular meetings with the Group's key customers. These meetings happen throughout the year and across all levels of our key customers. At these meetings, customers will discuss all issues relating to Babcock, including the state of their relationship with Babcock and Babcock's performance. The Executive Directors report these meetings to the Board as part of their monthly reporting. The Board considers these reports in its discussions, for example, on strategy and growth.	- Order intake by sector - Major operational programmes' RAG status
Investors	- Reports from Investor Relations - Treasury reports - Investor meetings/roadshow - AGM	The Board engaged directly with its investors, principally through meetings with the Executive Directors and the Chair. In addition, the Board receives regular feedback from the Group Head of Investor Relations. The Committee Chairs are available to meet shareholders when required. This year, the Chair of our Remuneration Committee consulted with shareholders on the Committee's proposals to amend the Remuneration policy. Our AGM gives the Board an annual opportunity to meet with private investors and for them to ask questions directly to the Board. This exchange of information has a direct impact on the Board's discussions on strategy and budget.	- Underlying operating profit - Operating cash flow - Analysis of share register movements - Investor feedback from results presentations and investor meetings - AGM feedback and voting from shareholders and proxy agencies
Employees	- Bottom-up reports from Lord Parker, the Non-Executive Director designated for workforce engagement - Global People Survey, our Group-wide employee survey - Top-down reports from the Chief People Officer - Principal trade union meeting with the CEO and the Chief People Officer - Whistleblowing reports	Lord Parker continued his visits around the Group's many sites. After his visits, Lord Parker gives an overview of his findings to the Board. Other members of the Board also meet with colleagues during their visits to our sites. Additionally, the CEO engages with colleagues Group-wide via vlogs, and colleagues can contact him directly via a dedicated email address. Members of the Senior Leadership Team regularly present to the Board. These discussions led to the launch of the Culture dashboard.	- Participation rate and engagement score in Global People Survey - Safety balanced scorecard together with monthly overview of significant safety events and Total Recordable Injury Rate - Ethics training compliance rate - Gender pay gap - Subject matter of whistleblowing reports

	Information flow to the Board	Direct Board engagement	Matters and measures reviewed by the Board ¹
Communities	• Health, safety and environment updates • Material issues are included in the monthly reports from Executive Directors or in sector CEO briefings • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is concentrated, with no direct engagement by the Board of Directors. The Board continues to believe that this level of engagement is appropriate, as any material issues are brought to the Board's attention through the monthly operational reports or the functional reports to the Board. However, the Board does take the opportunity to engage when appropriate. For example, on site visits, the Board seeks to engage the community leaders as well as colleagues.	• Diversity performance against target • Performance against carbon emissions target • Whistleblowing reports
Suppliers	• Briefings from the Chief Delivery Officer on an annual basis • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Transparency Statement	Principal engagement is undertaken by operational management, which reports annually to the Board to give it oversight of the function and its operations.	• Subject matter of whistleblowing reports • Modern Slavery Transparency Statement review

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

Governance statement (continued)

How the Board took stakeholders' interests into account in its decision-making

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

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors ¹	More information
1 Succession planning	One of the Board's most important duties is the Company's succession planning. The Nominations Committee leads this work on behalf of the Board. Over recent years, the Committee has developed a framework setting out the competencies, experience and traits that will be critical for future leadership and has used this framework on talent development, strengthening pipelines and succession planning. This framework balanced the priorities of the Company's stakeholders with its focus on sustainable profitable growth for shareholders, inspirational leadership for employees, and operational excellence for customers. The Committee used this framework to develop its internal candidates for the CEO succession as well as a means of measuring external candidates. This work extended over the recent years and readied the Committee for when David informed it of his intention to retire, as it could move seamlessly from preparation to execution.	• Shareholders • Employees • Customers • a, b, c, d, e, and f	● Pages 148 and 149
2 Free share award	Over the summer, the Board approved the introduction of an All-Employee Free Share Award Programme. In coming to its decision the Board considered three stakeholders. For shareholders, the Board believed that shareholders would benefit as the award would align the interests of employees and shareholders fostering a culture of ownership and high performance. For employees, the Board felt they would see the awards as a recognition of their contribution to the Company's success. This would enhance the Company's ability to attract, motivate and retain talent for the benefit of the Company and its shareholders. For customers, this culture of ownership would foster in turn a culture of high performance. The Board set the award at £300 a year per employee. This gave each employee an award of 29 shares in 2025. The Board did not apply any performance conditions to the award, but if an employee leaves before the end of the three-year holding period, they will forfeit their shares.	• Employees • Shareholders • Customers • a, b, and d	● Page 88

1. s172(1) a-f factors are detailed in the s172(1) statement on page 68.

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors ¹	More information
3 Brand refresh	As part of its strategy process, the Board commissioned a review of the “Babcock” brand. The review looked at the perception of Babcock amongst its stakeholder groups and found that, while the brand had key strengths, there were areas where the Company could develop it. The Board decided that the best way to address those areas identified through its stakeholder discussions was to adopt a new visual identity. The new brand reflects the Company’s evolution over the last five years and sets a clear and united direction. For employees it will help the Company stand out in the jobs market to attract and retain talent with the aim that the Company is seen as an employer of choice. For existing and potential investors and customers, the new brand underlines that the Company has transformed itself and is now one of the UK’s leading defence companies. The Company successfully launched its new visual identity at the Defence and Security Equipment International Exhibition in the summer of 2025. Following the launch, there were further campaigns targeted at different stakeholder groups to raise the profile of and support for the new identity.	• Employees • Shareholders • Customers • a, b, c, d, e, f	● Page 81
4 Share buyback programme	The Board reviewed and approved plans for a £200 million share buyback programme. The programme commenced on 23 July 2025 and completed in April 2026. Before approving the buyback, the Board measured the programme against its capital allocation policy. With the Company’s strong cash flow performance, the Board’s assessment was that the buyback would not impede any of the policy’s priority items (organic investment, financial strength, and ordinary dividend). This disciplined approach to capital allocation benefits all stakeholders through its transparency and certainty. The share buyback should benefit shareholders by reducing the number of shares in circulation, leading to an increased share price and better returns on dividends in the future. This in turn benefits employees as an increased share price should make the company’s shares more attractive to new investors, leading to job creation and creating a more stable and attractive work environment.	• Shareholders • Employees • a, b, f	● Page 251

1. s172(1) a-f factors are detailed in the s172(1) statement on page 68.

Governance statement (continued)

How the Board keeps s172 on its agenda

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

- The Board sets the Company's Purpose and strategy. Every year, it carries out an annual strategy review to assess the long-term sustainable future of the Group and its impact on key stakeholders. As part of those discussions, it considers the matters the Directors must have regard to as part of their Section 172 duties.
- The Board's risk management procedures identify the principal risks facing the Group and the mitigations in place to manage the impact of these risks. Many of these risks relate to our stakeholder groups.
- The Board's standing agenda covers areas of stakeholder interest, such as sector operational reports, functional reports, financial reports, health and safety reports, and litigation reports, to ensure that the Board receives relevant updates on matters of interest to our stakeholders.
- There are regular reports from the Audit Committee Chair and the Remuneration Committee Chair on items within their remit.
- When making decisions which require judgement to balance the interests of different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for examples, please see above. Members of the Board regularly engage with our investors and colleagues, and the Board uses the stakeholder engagement summarised on pages 68 and 69 and on pages 138 and 139 to understand the priorities of each stakeholder group, and then uses that understanding to inform its decision-making process.



Defining Board responsibilities

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

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

Non-Executive	Executive
Chair • Independent on appointment; • Leads the Board and sets the tone and agenda, promoting a culture of openness and debate; • Ensures the effectiveness of the Board and that Directors receive accurate, timely and clear information; • Ensures effective communication with shareholders; • Acts on the results of the Board performance evaluation and leads on the implementation of any required changes; and • Holds periodic meetings with Non-Executive Directors without the Executive Directors present. Senior Independent Director • Acts as a sounding board for the Chair; • Available to shareholders if they have any concerns which require resolution; • Leads the annual evaluation of the Chair's performance; and • Serves as an intermediary to other Directors when necessary. Independent Non-Executive Directors • Support and constructively challenge the Executive team; • Contribute to the development of the Company's strategy; • Provide an external perspective and bring a diverse range of skills and experience to the Board's decision-making; • Contribute to Board discussions on the nature and extent of the risks the Company is willing to take to achieve its strategic objectives; • Satisfy themselves as to the integrity of financial information; • Ensure financial controls and systems of risk management are robust and defensible; and • Play a primary role in appointing and, where necessary, removing Executive Directors, setting their remuneration and succession planning. Designated Non-Executive Director for workforce engagement • Gauges the views and feedback of the workforce and identifies any areas of concern; • Communicates the views of the workforce to the Board; • Ensures the views of the workforce are considered in Board decision-making; and • Ensures the Board takes appropriate steps to evaluate the impact of any proposals that influence the experiences of the workforce, and considers what steps the Board should take to mitigate any adverse impact.	Chief Executive Officer • Oversees the day-to-day operation and management of the Group's businesses and affairs; • Responsible for the implementation of Group strategy as approved by the Board, including driving performance and optimising the Group's resources; • Accountable to the Board for the Group's operational performance; and • Takes primary responsibility for managing the Group's risk profile, identifying and executing new business opportunities, and management development and remuneration. Chief Financial Officer • Accountable to the Board for the Group's financial performance; • Responsible for raising the finance required to fund the Group's strategy, and servicing the Group's financing whilst maintaining compliance with its covenants; and • Maintains a financial control environment capable of delivering robust financial reporting information to indicate the Group's financial position.

Governance statement (continued)

Articles of Association

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

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees. These are clearly defined in their terms of reference (available online at www.babcockinternational.com/wp-content/uploads/2025/06/Articles-of-Association.pdf). Other responsibilities are delegated to management under a delegated authorities matrix.

Summary of key matters reserved for the Board

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

Meetings and attendance

Each financial year, the Board has eight scheduled full Board meetings held in person, which includes a meeting dedicated to strategy, and two operational updates held by video conference or in person. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. See the table opposite for further information about the meetings held during the year. There was 100% attendance at scheduled Board, Audit Committee, and Nominations Committee meetings and 96% for the Remuneration Committee.

Conflicts of interest and independence

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

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

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

Possible conflicts of interest are reviewed annually by the Board.

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

Time commitment

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

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

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	8	8	7	6
Dame Ruth Cairnie	8/8	8/8	–	–
Carl-Peter Forster	8/8	8/8	–	6/6
John Ramsay	8/8	8/8	7/7	6/6
Lord Parker	8/8	8/8	–	3/3
Jane Moriarty ¹	8/8	8/8	7/7	5/6
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Sir Kevin Smith	8/8	8/8	7/7	–
Claudia Natanson	8/8	8/8	–	–
Aedamar Comiskey	6/6	5/5	4/4	4/4

1. Jane Moriarty was unable to attend one Remuneration Committee meeting due to a prior commitment.

Composition

The Nominations Committee keeps the composition of the Board under constant review to ensure a balance of skills, experience and knowledge to lead the Group. As at 31 March 2026, the Board comprised the Chair, who was independent on appointment, seven Independent Non-Executive Directors and two Executive Directors. All continuing Directors are required to offer themselves for re-election by shareholders each year at the Annual General Meeting and each appointment is put to a separate vote. Biographical details can be found on pages 134 and 135 and there is more information on appointments to the Board in the Nominations Committee report on pages 148 and 149.

Diversity policy

Our policy is that, to be effective in delivering our customers' needs and our future ambitions, the Company must attract, retain, motivate and develop highly capable colleagues. Attracting talent is competitive and therefore the Company must work to ensure that it attracts potential colleagues from every part of society. This requires the Company to foster an inclusive culture where all colleagues feel valued and welcomed. Our aim is to build talented teams with a range of backgrounds, skills and experience, but all aligned around our Purpose "To create a safe and secure world, together".

Board diversity

Throughout FY26, the Board was in line with the Financial Conduct Authority's diversity and inclusion Listing Rules of having at least 40% female representation on the Board, at least one senior Board position held by a female and at least one member of the Board being from an ethnic minority background, as well as those for the FTSE Women Leaders Review (at least 40% female representation on the Board) and the Parker Review (at least one Board member being from an ethnic minority background). For more information on the Group's diversity policy and its objectives, please see page 149.

Board and executive management ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
White British or other White (including minority-white groups)	9	90%	4	13	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	1	10%	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

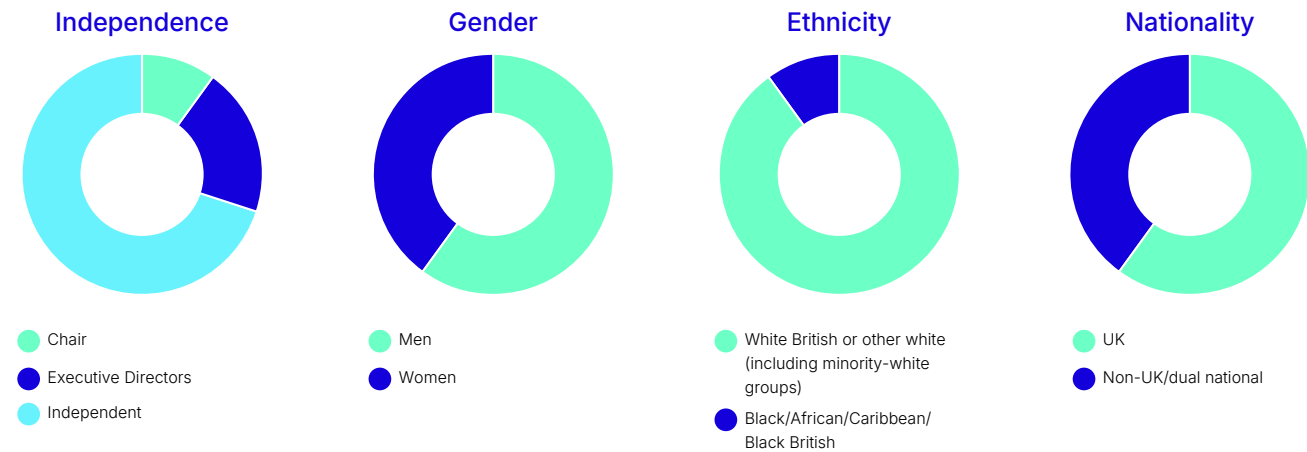
Board and executive management gender

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
Men	6	60%	3	10	77%
Women	4	40%	1	3	23%
Non-binary	–	–	–	–	–
Use another term	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

The tables and charts in this section show the position at 31 March 2026. The Company has collected the data on which the tables above are based by the individuals concerned self-reporting their data on being asked about their ethnicity and gender in the categories listed.

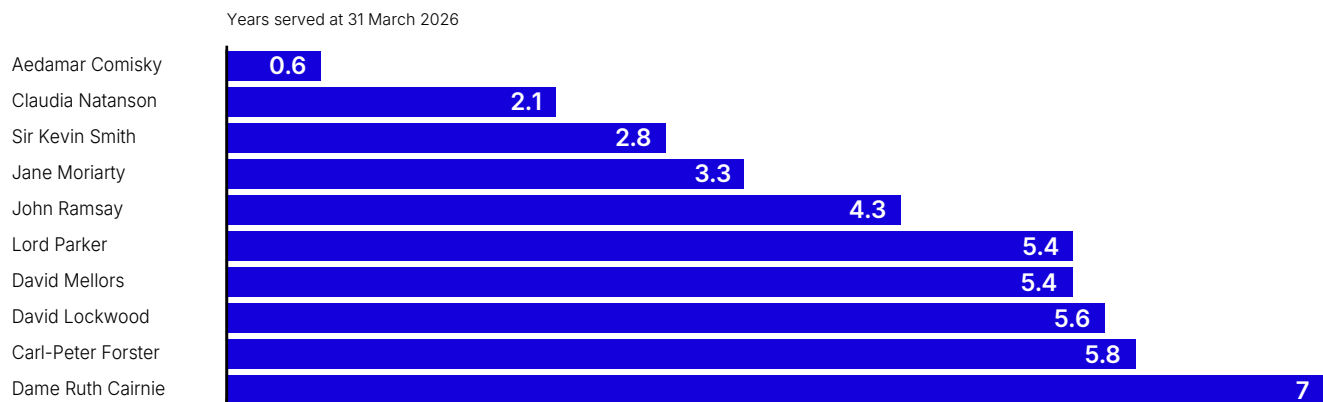
Governance statement (continued)

Board information



Board tenure

The average Board tenure at 31 March 2026 was 4.2 years.



Succession

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

The ongoing replenishment of the Board is a key focus for the Nominations Committee and more information about succession planning can be found in its report on pages 148 and 149.

Director training

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

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

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

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

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

Evaluation

FY26 Board performance review

Each year we review the Board's ways of working as well as its skills, experience, independence and knowledge, to confirm it is able to discharge its duties and responsibilities effectively. The composition and diversity of the Board and its Committees and how well the Directors are working together is considered, as well as the individual performance of the Directors and the Chair. This year the review was internally led by Aedamar Comiskey. The review identified that the key strengths of the Board were its collegiate ways of working and its diversity of skills and experience. The review did identify actions for the Board to work on over FY27, which are detailed below.

Progress made on actions identified in the FY25 review

Recommendations for FY25	Outcome
Review the Company's brand as a tool to establish a joint vision for the Company	The Board engaged with its stakeholders and, using the results of the engagement, refreshed the Company's brand. For more information, please see page 81.
Review the Board's monthly reports to increase the focus on key KPIs	The Board reviewed the monthly Board pack and agreed a set of changes to improve the clarity and focus of the monthly Board packs.
Agree an approach to tracking progress on the steps that the Company is taking to embed the Board's plans for the Company's culture	Since 2022, the Board had improved the Group's engagement scores, closing the gap with the global average. The Company broke the engagement score down into five pillars and devised plans on how to address each pillar. The Board had a dedicated session to review those plans, which included the introduction of a Culture dashboard for use by the Company's senior leadership.
Continue to develop a single Leadership Framework for implementation across all levels of the Company	Over the year, the Nominations Committee has developed a single Leadership Framework, which it used for succession planning for the Group CEO. This framework will act as a template for the succession planning for the Company's Senior Leadership Team.
Discuss the best way for the Board to leverage the strengths of each of its members	The Board decided that the best way to leverage the strengths of each of its members was to ensure that, at its informal meetings, the Board makes time to discuss their respective strengths and experiences. This will allow Board members to be aware of their respective domain knowledge in respect of the topics raised for discussion at Board level.

Actions identified in the FY26 review

- Support the CEO transition
- Refresh the Company's approach to strategy
- Consider how to refine the Company's reporting on operational performance
- Continue the Board's discussion on the Group's AI strategy.

Nominations Committee report

Highlights

Development of Senior Leadership succession plans

Review of the structure, size, and composition of the Board

Dame Ruth Cairnie

Chair of the Nominations Committee



The Committee

Dame Ruth chairs the Committee.

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

● For biographies of the members, please see pages 134 and 135

● For attendance, please see page 144

Key responsibilities

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

Dear fellow Shareholder

I am pleased to present the Nominations Committee report for the year ending 31 March 2026.

Senior leadership and succession

Over the year the Nominations Committee has been very busy with preparing for and then making key decisions regarding CEO succession, with David's advice in January of his intention to retire.

We have been developing and enhancing our approach to talent development and succession planning over recent years and significant progress had already been achieved prior to the start of FY26. A number of moves to strengthen leadership at senior levels had been made, externally supported and benchmarked assessment of top talent had been undertaken and tailored development plans were in place. During FY26 the process of development, mentoring and assessment continued while we introduced a focus on CEO succession by developing the Board's expectations of required capabilities for a future CEO, recognising that the detail would depend on the timing, strategic progress of the Company and external factors in an uncertain environment. We also extended the depth of assessments of potential external candidates.

The level of preparation meant that, when David advised the Board of his retirement intention, we were well placed to progress from a preparation to an execution phase, building on the in-depth knowledge we had accumulated. We refreshed our view on priorities in the profile for our future CEO and conducted a selection process considering both internal and external candidates. We were very pleased to choose Harry Holt as David's successor and were pleased that talent development over a sustained period resulted in our ability to appoint an internal successor.

As CEO of Babcock's Nuclear sector, the Company's largest sector, Harry has been an integral part of David's senior management team since November 2023, successfully helping to deliver the Group's transformation and growth programme. Under his leadership, the sector has improved performance on its many critical programmes and has grown revenue by c54%, between FY23 and FY25, achieving margins reaching 9%. Both the defence and civil businesses within the Nuclear sector are well-set for exciting future growth.

Prior to joining the Company, Harry spent seven years on the Executive Team of Rolls Royce plc at a senior level, including President of its Nuclear Division and latterly as Chief People Officer, leading a group-wide transformation and restructuring. His industrial career has also included a range of other senior appointments in the aerospace, defence, security and nuclear sectors. Before joining Rolls-Royce, Harry had a long and distinguished career as an officer in the British Army.

Harry's experience in leading Babcock's defence and civil nuclear operations, allied to his strong existing relationships with the Group's key customers and deep working knowledge of the wider defence sector, means that he is exceptionally well-qualified to lead the Company through the next stage of its strategy.

We have appointed Harry to a newly created role of Deputy CEO and he will join the Board over the summer. We will have a comprehensive and seamless transition before Harry succeeds David as Group Chief Executive and David steps down from the Board. Thereafter, David will continue to support the business as needed. The Company used Russell Reynolds to assist in the appointment process and to advise on the Company's development of its senior leadership. Russell Reynolds has no other connection to the Company or its Directors.

Board composition

We announced last year that Lucy Dimes had decided to retire from the Board. To appoint her replacement, we used our skills matrix to understand the strengths we had around the Board table and the areas where we could add extra strengths. We agreed that the Board would benefit from the experience of someone with a background in leading a complex international business. As a consequence, we were delighted to appoint Aedamar Comiskey as our latest Non-Executive Director. Aedamar is a leading public and private corporate lawyer and has led the international law firm, Linklaters, since 2021, advising on many significant transactions. From 2014 to 2024, Aedamar was a Non-Executive Director at James Fisher and Sons plc, where she was chair of the Remuneration Committee from 2018 and the Senior Independent Director from 2019. Since her appointment at Babcock, Aedamar has been following our tailored induction process, which involves meeting the Senior Leadership Team and our key advisers, as well as visiting our key sites and engaging with our employees. The Committee used MWM to assist in the appointment of Aedamar. MWM does not have any other connection with the Company or its Directors.

Inclusion and diversity

As a Board, we recognise our role in setting the tone from the top in respect of inclusion and diversity. We pay close attention to the three externally set targets we are expected to comply with at Board level: the FTSE Women Leaders Review target to have 40% women by 2026; the Parker Review target for at least one minority ethnic Board member; and the Financial Conduct Authority target to have at least one of the senior Board roles (Chair, SID, CEO, CFO) being a woman. We are pleased to say that we met all three of these targets in FY26.

In the wider group, however, there is still more work to be done. Our aspiration is to be a destination employer, where the best people can do the most meaningful work of their careers. As part of our plan to achieve our aim, this year we have launched our new People strategy which aims to engage with our people across their time with us from attraction right through to retention and progression. Our new strategy will unify our colleague experience, encourage our leaders to lead with purpose and impact, grow organisational strength and capability, as well as driving performance and potential. We look forward to monitoring the progress of our new strategy through the regular reports that we receive as well as the extensive engagement that we have with our people across the organisation.

Culture

Culture plays a key role in our drive to continue the improvement of our performance. Back in 2021, we launched our culture change with the introduction of six principles. These principles guide and direct Babcock, aligning all those who work in the business. This year to support our principles, we launched a Culture dashboard for our leadership teams to focus them on what we believe to be the key indicators of an improving culture and to ensure consistency of expectations throughout the Group. We will monitor the roll-out of the dashboard over FY27. For more information on the work that we are doing across the Group please see the report on sustainability on page 70.

I hope this report gives you an understanding of the work of the Committee over FY26 and look forward to meeting as many of you as possible at this year's AGM.

Dame Ruth Cairnie

Chair of the Nominations Committee

Audit Committee report

Highlights

Review of the key management judgements and estimates for the FY26 financial statements

Review of the Company's approach to the new 2024 UK Corporate Governance Code requirements



John Ramsay
Chair of the Audit Committee

Dear fellow Shareholder

On behalf of the Committee, I am pleased to present to you our report for FY26.

FY25 audit

FY25 was the first year that Forvis Mazars (FM) had acted as our auditor. In my report to you last year, I explained our focus has been on ensuring that we had the best possible transition and supporting a good, but challenging, working relationship between the Babcock and FM teams. We were happy with the result of our work, and, as reported in last year's report, we assessed the FY25 audit to have been delivered to schedule and to a high-quality standard.

We were especially pleased as the AQR inspection report by the Financial Reporting Council (FRC) of FM's FY25 audit supported our assessment. The FRC is the UK's independent regulator for audit quality and inspects audit files on a rotational basis. The audit was assessed as requiring no more than limited improvements, with no 'key findings' which would require improvement. Two areas of good practice were noted – contract revenue and Group audit oversight.

The FRC highlighted that FM's substantive testing of certain significant risk contracts demonstrated a detailed understanding of those contracts, facilitating the design and execution of appropriate audit procedures. The audit working papers captured FM's extensive challenge of management and its evaluation of management's judgements and assumptions.

As for the Group audit oversight, the FRC observed that the evidence of FM's involvement in and oversight of the work of their overseas component auditors was of a high standard. In particular, FM prepared detailed evidence covering their review of component auditors' working papers and FM's site visits, including their challenge and evaluation of underlying audit work and reporting deliverables.

As regards the limited improvements suggested by the FRC, FM prepared a report for the Audit Committee setting out how they would address the points raised in the FY26 audit. For further information on the FRC's findings on key matters relevant to audit quality at FM, please see the FRC's report on media.frc.org.uk/documents/Forvis_Mazars_LLP_Audit_Quality_Inspection_and_Supervision_2025.pdf.

FY26 audit

Our plan for the FY26 audit was to build on the knowledge and experience gained last year. This was made easier as there was good continuity across the senior members of both teams. We ensured that the teams invested the time up front in debriefing the experiences of the FY25 audit, to identify any development areas to improve the overall efficiency and effectiveness of the FY26 audit, while ensuring our number one priority of high audit quality. Similar to FY25, FM has applied a substantive approach to the FY26 audit, with some limited reliance on IT controls.

To allow us to monitor the progress of the audit, we agreed with FM a set of critical milestones and asked FM to report on progress against those milestones on a regular basis. These milestones gave us a clear line of sight so that we could discuss any deviations from the agreed audit plan and could intervene if required. I would like to thank both FM and the Babcock teams for their hard work and effort in delivering another successful high-quality audit.

Internal controls

Our other key focus for FY26 has been the work to prepare the Company for the new requirement introduced by the 2024 UK Corporate Governance Code, which requires boards to formally review the effectiveness of their company's risk management and internal control framework at least annually, and to report on the effectiveness of their company's risk management and material controls.

This requirement will have effect from FY27 and we will report on it in our FY27 Annual Report. Nevertheless, we have prioritised this work and we are well advanced in our planning; the case study on page 114 provides more detail on our approach and progress. We have developed a dashboard for the tracking and monitoring of material control effectiveness, which we will review throughout FY27. This dashboard will provide sufficient visibility and detail to enable us to challenge management, and to form the basis of our judgement to agree with the Board the report we will make in our future annual reports.

Priorities for FY27

Our priority is to maintain high-quality audit standards and to look for opportunities to continuously improve. We will continue with this in FY27.

As mentioned above, the planning and preparation to enable the Board to comply with provision 29 of the 2024 Corporate Governance Code is well underway and we will be focused on ensuring that this is effectively implemented.

Given the advances in effectiveness of the audit achieved in FY25 and FY26, we believe that a further advance in the year-end reporting timetable can be made in FY27.

As ever, I am available to all shareholders to discuss any significant matter related to our work. Alternatively, all the Committee will be at the 2026 AGM, where we will be available to answer any questions you may have on this report or the Committee's activities.

Finally, I would like to thank all the Committee members for their work over the year, as well as welcoming our newest member of the Committee, Aedamar Comiskey, who joined in September 2025.

John Ramsay

Chair of the Audit Committee

The Committee

John Ramsay chairs the Committee.

John is a Chartered Accountant, formerly the Chief Financial Officer of Syngenta AG, and an experienced Audit Committee chair (see page 134 for John's full biography). The Board has designated him as the financial expert on the Committee for the purposes of the UK Corporate Governance Code.

In FY26, the other members of the Committee were Jane Moriarty, Sir Kevin Smith and Aedamar Comiskey. All members of the Committee are Independent Non-Executive Directors. Please see pages 134 and 135 for their biographies and page 144 for attendance and number of meetings.

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

From time to time, the Committee meets separately with the external audit lead partner as well as with the Head of Internal Audit, to give them the opportunity to discuss matters without management being present.

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

Key responsibilities

- Ensuring the independence and quality of the audit conducted by the external auditor
- Reviewing the Company's Annual Report and Financial Statements, as well as any announcements relating to financial performance
- Challenging the accounting policies, judgements and estimates, as well as disclosures, in those statements
- Reviewing the scope, remit, objectivity and effectiveness of the internal audit function
- Reviewing the effectiveness of Babcock's internal control and risk management systems

Audit Committee report (continued)

Audit Committee report

Below is our report on our activities over FY26. The report, along with my letter, describes our activities over the year including how we are meeting the requirements of the Financial Reporting Council (FRC)'s Audit Committees and External Audit: Minimum Standard.

Audit independence

One of our key responsibilities is to ensure the independence and objectivity of Babcock's external auditors. To do this, we have set a policy to control the mandates Babcock can give its external auditors outside the external audit itself. Before instructing its external auditors for any non-external audit work, Babcock must obtain prior approval as follows: for the provision of non-audit services for fees up to £10,000, the CFO may give the approval; for fees between £10,000 and £100,000, the approval must come from the Committee Chair; and, for fees of more than £100,000, Babcock will need the approval of the Committee.

To supplement our policy, we also ask Forvis Mazars (FM) for a confirmation that they comply with their relevant ethics codes and believe themselves to be independent. FM have provided this confirmation. The only non-audit services that they have supplied to the Company related to Babcock Australia and Rosyth Royal Dockyard. In both cases, FM were engaged to provide an audit of a grant claim for immaterial compensation in the context of the Group and the audit fee. In addition, they have confirmed that, if any issue with their independence did arise during the audit, they would formally report this to us in their Audit Completion Report.

Accordingly, we are satisfied that FM are independent and have the required objectivity to deliver our external audit. For the FY26 audit, Louis Burns was the lead audit partner and is in his second year.

Audit quality

Our number one priority is to ensure audit quality and effectiveness. That was why, as reported above, we were pleased with the conclusion of the review by the FRC into FM's audit of our FY25 Annual Report.

With the experience of FY25, we were able to agree a more precise assessment of the risk of material misstatement, which allowed us to reduce scope for the FY26 audit: c.90% of our revenue was subject to a full scope audit (FY25: 98%), c.7% was not in scope (FY25: 1%), and 3% was subject to specific scope (FY25: 1%). This is in line with the approach taken by other groups and allowed focus on those areas with greater risks of material misstatement without reducing audit quality or effectiveness.

At the same time as agreeing the scope of the audit, FM provided us with their plan for the audit which documented the procedures that they would adopt at different stages of the audit, as well as the work they would perform on Babcock's material components. They listed the significant risks, key audit matters, and other key judgement areas that would be relevant to their work. For their audit, they set a financial statement materiality of £26.0 million (FY25: £24.0 million) with a performance materiality of £15.6 million (FY25: £12.0 million) and a "de minimis" threshold of £1.3 million (FY25: £0.7 million). At the end of the process, we were satisfied that FM has delivered an audit to the standard that we require.

FY26 financial statements

A central responsibility for our Board is to confirm that the Company has prepared its financial statements in accordance with the relevant financial reporting framework and that those statements give a true and fair view of the assets, liabilities, financial position, and profit or loss, as well as ensuring that its annual report including the financial statements are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

To assist the Board in complying with this responsibility, we reviewed the Company's Annual Report and Financial Statements and recommended them for approval to the Board. Our review included the basis for the preparation of the Company's financial statements, including challenging management on the assumptions supporting the Going Concern and Viability statements (please see pages 130 and 131 for more detail). After our review, we were satisfied that Babcock should prepare its financial statements as a going concern. We challenged management on all material judgements and estimates that the Company had incorporated into the financial statements, together with the related disclosures, to ensure that the financial statements gave a true and fair view. We also considered the totality of the Annual Report alongside the financial statements to decide whether they, taken as a whole, were fair, balanced, and understandable. Throughout our review, we ensured that we challenged and tested the positions taken by management.

In our review, the areas that we considered most significant were:

- The Company's Type 31 programme:** in FY23, Babcock announced that its Type 31 contract would be loss-making. As such, the accounting standards require Babcock to base the expected loss on its best estimate of the costs of delivering the programme with no bias towards prudence or optimism. Since then, we have taken great care to review the judgements and estimates management has used to calculate the expected loss. This year, as the Company finished structural completion of ship one, the focus has been on outfitting and commissioning. During the outfitting stage, the programme 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, resulting in a £140 million charge at the year end. The estimate of the expected loss is a complex process involving multiple assumptions, which interlink with each other. We took great care to review and challenge the assumptions taken by management, the key ones being rework, productivity, labour costs, schedule, and risk. This involved dedicated meetings to review the process management had undertaken to determine their judgement, which key representatives from the contract team attended, as well as challenging the assumptions themselves. In particular, we challenged management on the events in the year which have increased the expected loss, particularly the causes of rework, and tested the level of prudence that management had used to assess future rework. In our review, we were aware of the complexity involved in making the judgements and estimates, as not only was there a range of possible outcomes for each judgement and estimate, but the judgements and estimates were also often inter-related. This complexity could result in a material increase or decrease in the value of the expected loss. Remaining contract costs are estimated to be circa £700 million. If actual costs were to differ from those management has assumed by 10%, the potential impact on the contract loss could be circa £70 million. For more information, please see page 203.



- Contract revenue and margin recognition:** we reviewed the accounting treatment of other key programmes, principally the Company's contract to deliver engineering and other services to support the MOD at Devonport and Clyde, which expired on 31 March 2026, its contract to operate the UK's military satellite communications network, and its contract to support the British Army's armoured fleet. The positions included in the FY26 accounts in respect of these contracts are judgemental. The Committee reviewed the relevant judgements as well as the evidence to support them, and concluded that the judgements were highly probable and unlikely to be reversed.

The conclusion of our review was that we were pleased to recommend to the Board that the FY26 Annual Report and Financial Statements were representative of the Company's year and presented a fair, balanced, and understandable overview of the year. A key support for our review is FM's audit (please see page 187 for their independent auditor's report). The total fees paid to Forvis Mazars in respect of their audit of the Company's FY26 financial statements was £8.9 million.

FY26 internal audit

We agreed an annual plan for internal audit at the start of FY26, based on Babcock's principal risks and uncertainties (please see page 115). The plan delivered audits split across sectors, Direct Reporting Countries, and Group functions. Over the course of the year, Babcock's internal audit team regularly reports to us the results of its audits. Material actions are brought to our attention. We ensure that each action has an owner responsible for the implementation of the improvement, as well as a date for implementation. At our meetings, we regularly review the implementation of all actions.

If any action becomes overdue, the internal audit team chases progress on our behalf until the action is complete, while keeping us abreast of progress.

The Committee assessed the effectiveness of the internal audit function over the year using qualitative and quantitative indicators including the delivery of the internal audit plan, the quality of audit reports, the actions raised, the pace for closing out the raised actions, and the resourcing of the team. Through our assessment, we are satisfied that the team is both objective and effective.

Risk management and internal control systems

The Board has ultimate responsibility for risk management and internal control processes. It has delegated to the Committee the review of the effectiveness of these systems to assist it in discharging this responsibility. A description of Babcock's Risk Management Framework can be found on pages 112 and 113.

The Group continues its journey to strengthen its underlying processes and controls, underpinned by the work to prepare for the 2024 UK Corporate Governance Code. The case study on page 114 provides more detail on our approach and progress to date.

To carry out the review of the effectiveness of risk management and internal controls for the Board, we receive reports on both over the course of the year, which the Director of Risk and the Group Director of Controls prepare and present to us, giving us the opportunity to challenge and test the reports. This year, like last year, we were satisfied with the progress that the Company is making in both strengthening and improving the underlying controls, and in preparation for the new reporting requirements under Provision 29 of the 2024 UK Corporate Governance Code.

Remuneration Committee report

Highlights

Completion of our review of the Company's Remuneration policy

Engagement with shareholders on the implementation of the Company's Remuneration policy

Review of FY26 Remuneration outcomes

Deciding on the implementation of the Remuneration policy for FY27



Carl-Peter Forster

Chair of the Remuneration Committee

Dear fellow Shareholder

Thank you again for the time and care that you have taken in responding to our consultation requests. Over the last year, we have written to shareholders representing approximately 60% of our register, initially in respect of changes to our Remuneration policy and subsequently in respect of the implementation of those changes. We have received a good level of feedback, which has been invaluable in shaping our decisions and in ensuring they are aligned to shareholder interests.

Implementation of our Remuneration policy

Last year, we consulted extensively with shareholders over certain changes that we wanted to make to our Remuneration policy. With the benefit of shareholder feedback, we proposed three changes for shareholders to approve at the 2025 AGM: the introduction of an absolute total shareholder return "kicker" to our Performance Share Plan (PSP), an increase to the annual bonus opportunity for the Executive Directors from 150% to 180% of salary, and the inclusion of a discretion to waive our requirement to defer 40% of any earned bonus where Executive Directors have achieved their shareholding requirement. We were pleased that c.68% of shareholders voted in favour of these proposals. However, reconsidering our position later in the year and the overall market situation, we decided not to implement the changes immediately and to undertake a further round of consultation prior to implementing any of the changes in the future.

During FY26, we revisited the rationale for the changes. While we continue to believe that our rationale for each change remains compelling, we concluded that the change most appropriate to implement this year was the waiver of the bonus deferral where an Executive Director has met their shareholding requirement.

We view bonus deferral as a means of aligning the interests of shareholders and executives over the medium term through exposure to Babcock's share price. However, where an Executive Director has a significant holding of Babcock shares (either through self-purchases or our share-based schemes), we believe that it is appropriate to waive the deferral requirement and instead pay the bonus entirely in cash. This approach is fairer overall and does not dilute our clear emphasis on the importance of an alignment of executive and shareholder interests through meaningful share ownership, which is reflected in our requirements for our CEO to hold Babcock shares with a value of 300% of salary and our CFO to hold 200%. The waiver does not undermine our malus and clawback powers, as we can exercise those powers to future cash bonuses and the in-flight (three-year performance period) PSP awards as well as those PSP awards in the two-year post-vesting holding period.

Accordingly, we wrote to shareholders representing c.60% of our register to ask for their views on implementing the bonus deferral waiver for FY26. As with the first consultation, most shareholders who engaged agreed with our rationale and supported our proposal. So we decided to implement the bonus deferral waiver with effect from the FY26 bonus. As both Executive Directors have shareholdings significantly in excess of their shareholding requirement, the waiver applies to the FY26 bonus payout for David Lockwood and David Mellors.

Remuneration in FY26

We always consider the business context to assure ourselves that our remuneration outcomes reflect the Company's performance and the broader context, including shareholders' experience and interests. The Group delivered a strong underlying operational and financial performance reflecting continued momentum in FY26, with particularly strong performances in Nuclear and Aviation, notwithstanding a partial offset to our strong underlying financial results from a charge on the Type 31 contract. The Committee took this context into account when reviewing incentive outcomes for FY26 and, in particular, the formulaic impact of Type 31 on both the profit element of the FY26 bonus outcome and the margin element of the FY24 PSP.

We considered carefully whether the formulaic impact on each scheme was appropriately aligned to the shareholder experience and reinforced the desired behaviours and performance outcomes that each scheme was intended to incentivise.

For the FY26 bonus, we decided that it was appropriate to reflect the in-year impact of Type 31 on the operating profit element of the bonus, even though this was a legacy contract entered into before the tenures of both Executive Directors. The result is a nil payout under the operating profit element, which is worth 40% of the bonus opportunity.

In respect of the FY24 PSP, the Committee discussed at length whether the impact of the Type 31 programme on the margin element of the scheme was proportionate. In this case, we went back to the original intent of including the margin element, namely, to incentivise improved profitability of contracts through all available levers including new contracting effectiveness, contract preparation, efficiency improvements and, over time, the roll-off of some legacy contracts. Meaningful progress has been made in this multi-year improvement and we are on track to achieve our medium-term guidance. It is this strategic progress that the margin element was designed to capture, which, absent an adjustment for Type 31, the PSP outcome would not appropriately recognise. We also noted that shareholders' perception of margin improvement had not appeared to be impacted by the announcement of the Type 31 charge, as well as noting the strong shareholder returns (c.296%) over the FY24 PSP performance period.

In the round, the Committee concluded that, for the FY24 PSP, it should adjust the margin calculation to exclude the impact of Type 31 and we anticipate taking the same approach when assessing the outcomes of the FY25 PSP and the FY26 PSP. Further details in respect of the FY24 PSP are set out later in this Report.

This year, we approved the following outcomes:

FY26 salary: We disclosed the increase in salary for FY26 for David Lockwood and David Mellors in our report last year. We were pleased that shareholders overwhelmingly supported our decisions by approving the Directors' Remuneration report with a c.98% vote in favour of the resolution.

FY26 annual bonus: As we reported last year, we kept the same structure for the FY26 annual bonus for Executive Directors as used over previous years. Underlying financial performance measures comprise 80% of the bonus, split equally between underlying operating cash flow (OCF) and underlying operating profit (OP), with the remaining 20% allocated to non-financial measures. As in previous years, we adopted a wide range for the performance targets and retained discretion to ensure that the outcome aligned to the experience of the Group's stakeholders. We assessed and carefully reviewed the performance of the Company over the year, resulting in an annual bonus payout for FY26 of 59.0% of maximum being awarded to the Executive Directors. The Committee approved these outcomes having first completed a formulaic assessment and then assessing that against Babcock's wider performance alongside the experience of our key stakeholders. Please see page 168 for more detail.

The Committee

Carl-Peter Forster has chaired the Committee since September 2022 and has been a member of the Committee since joining the Board in June 2020. The other Committee members are currently John Ramsay, Jane Moriarty, Aedamar Comiskey and Lord Parker. Please see pages 134 and 135 for biographies and page 144 for attendance.

Key responsibilities

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

Remuneration Committee report (continued)

FY24 PSP vesting: We granted the FY24 PSP award in September 2023. This was the first year that we changed our scorecard to include ESG measures alongside an expanded number of financial measures – underlying free cash flow (an indicator of cash generation), underlying operating margin (an indicator of operating efficiency), and organic revenue growth (an indicator of business growth). We included the ESG measures as we believe they not only have operational and financial benefits through cost reductions and operational efficiencies, but they also strengthen stakeholder trust and confidence. All the measures share the same three-year performance period ending on 31 March 2026. As we do every year, at the time of grant, we reviewed the Company's share price performance to satisfy ourselves that the award of the full opportunity (then 250% of salary for the CEO and 200% for the CFO) was appropriate.

The outturn for the FY24 PSP award will be 95.3% of maximum. In approving this vesting outcome, we undertook our normal assessment for windfall gains, using a range of quantitative tests. These tests supported our view that the value at vesting, which we are reporting for the FY24 PSP in respect of the Executive Directors, reflects the intrinsic value of the business following its successful transformation under the leadership of David Lockwood and David Mellors. For more information, please see page 169.

FY26 PSP grant: We granted the FY26 PSP award for the Executive Directors in September 2025. In line with our approach to the FY25 PSP award, we set the core award opportunity for the CEO at 250% of salary and at 200% for the CFO. The TSR kicker does not apply to the FY26 PSP grant. We retained the same PSP measures as we had used for FY25 and FY24 to align closely with the drivers of the Company's long-term performance and strategy. We have set the targets for each measure to ensure that they are appropriately stretching. For more detail, please see page 170.

Remuneration for FY27

For FY27, we have decided the following:

FY27 salary increase: Our practice is to review the Executive Directors' base salaries once we have completed the salary review for our UK colleagues not covered by collective bargaining, being the population that we believe is the best internal comparator for the Executive Directors. Using this comparator as a guide, we will increase David Lockwood's salary by 3% with effect from 1 July 2026. We have set the annual salary of Harry Holt, our CEO successor, as Deputy CEO, at £650,000. On Harry becoming CEO, we will increase his annual salary to £900,000. We believe that this salary reflects the challenge of leading a complex and large business like Babcock. Harry is exceptionally well-qualified to take on this challenge due to his experience of leading our defence and civil nuclear operations, allied to his strong existing relationships with our key customers and his deep working knowledge of the wider defence sector. He will not receive any further increase in salary in FY27. For David Mellors, we have increased his salary with effect from 1 July 2026 by 5%. This increase is in line with the increase awarded to our top performing colleagues in the UK not covered by collective bargaining. We believe that David Mellors merits this increase due to his sustained leadership and contribution which was central to delivering in FY26 a strong underlying operational and financial performance, reflecting continued momentum albeit partly offset by the charge on the Type 31 contract.

FY27 annual bonus: We will keep the structure of the Executive Directors' annual bonus consistent with that for FY26, with measures based on underlying OCF, underlying OP and non-financial objectives. Following the policy vote last year, the maximum allowable award opportunity has increased to 180%, however, we will keep the bonus maximum at 150% of salary for this award. We will not increase the maximum award without first consulting with shareholders. As discussed above, following our consultation with shareholders during the year, we will pay the bonus entirely in cash to those Executive Directors who meet their shareholding guidelines. We will disclose the targets in full in our report next year. David Lockwood will participate in the FY27 annual bonus, with any award pro-rated to the date of his retirement. Please see page 173 for more detail.

FY27 PSP grant: We will grant awards under the PSP to the Executive Directors. The award will cover the three-year period FY27 to FY29. Vesting of this core PSP award will continue to be based on the measures we adopted for the last three years (underlying free cash flow, underlying operating margin, organic revenue growth and ESG), as we continue to believe they align closely with the drivers of the Company's long-term performance and strategy. We have set the targets for each measure to ensure that they are appropriately stretching. As David Lockwood is retiring, he will not receive a FY27 PSP grant. The TSR kicker, as permitted under the policy, will not be used on the FY27 awards. For more detail, please see page 172.

Focus for FY27

Our focus as ever remains to further the interests of shareholders through the implementation of our Remuneration policy. If you have any questions, I am always available to answer them and would be happy to discuss any aspects of this report at the AGM.

Carl-Peter Forster

Chair of the Remuneration Committee

Remuneration at a glance

This section provides an overview of the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 166 to 179.

FY26 remuneration outcomes

FY26 annual bonus

The Committee based the FY26 bonus on a mix of financial and non-financial measures; the performance targets for which (and actual performance against these) are set out below. Due to the impact of Type 31, there was no payout under the underlying operating profit element. For a full description of the FY26 annual bonus, please see page 168.

Measures	Warranted payout (% of maximum bonus)						Performance targets	
	D Lockwood		D Mellors		H Holt ³			
Underlying operating profit (OP) ¹	40% Max	0% Outturn	40% Max	0% Outturn	40% Max	0% Outturn	Threshold	£407.6m
							Target	£429.0m
							Stretch	£471.9m
							Outturn ⁴	£294.1m
Underlying operating cash flow (OCF) ¹	40% Max	40% Outturn	40% Max	40% Outturn	40% Max	40% Outturn	Threshold	£255.0m
							Target	£300.0m
							Stretch	£345.0m
							Outturn ⁴	£348.3m
Non-financial ²	20% Max	19% Outturn	20% Max	19% Outturn	20% Max	19% Outturn		
Total	100% Max	59.0% Outturn	100% Max	59.0% Outturn	100% Max	59.0% Outturn		

1. For definitions, please see pages 46 and 50.

2. The Committee has merged several measures into an overall assessment in this table for disclosure purposes.

3. Pro-rated from the date of appointment as Deputy CEO.

4. Based on budgeted foreign exchange rates.

FY24 PSP

The Committee approved the FY24 PSP grant in September 2023. Measures and vesting are in the table below. The performance period was three years to 31 March 2026. Performance against the measures warranted 95.3% vesting. As described on page 170, margin is calculated to exclude the impact of Type 31 during the performance period.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outturn	Vesting (% of overall award)
3-year organic revenue growth	25%	15.7%	23.6%	31.4%	25.0%
3-year weighted average underlying operating margin ¹	30%	6.8%	8.0%	7.8%	25.3%
3-year cumulative underlying free cash flow	30%	£216m	£324m	£575.6m	30.0%
ESG measures ²	15%				15.0%
Total vesting					95.3%

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

2. The Committee has merged two separate measures into an overall assessment in this table for disclosure purposes

Remuneration Committee report *(continued)*

Implementation of the Remuneration policy in FY27

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

Base salary	Pension	Benefits
David Lockwood: £960,921	10% of salary	Unchanged from FY26
David Mellors: £677,862	10% of salary	Unchanged from FY26
Harry Holt (as CEO): £900,000	10% of salary	In line with the Remuneration policy

The Committee reviewed the base salary of David Lockwood and David Mellors in June 2026 and increased their salaries by 3% and 5% respectively. Harry Holt will not receive a salary increase in FY27 once he has started as CEO.

Annual bonus and Deferred Bonus Plan (DBP)	PSP
The bonus structure will be consistent with that used for FY26 with awards of up to 150% of salary based on the achievement of financial targets (underlying operating profit (OP) and underlying operating cash flow (OCF), each a 40% weighting) and non-financial measures (a 20% weighting). The bonus will be paid in cash if an Executive Director meets their shareholding guidelines. Otherwise, 40% of any bonus earned will be deferred into shares for three years. For more information about the guidelines, please see page 163.	PSP awards of 250% and 200% of salary will be granted to the incoming CEO (Harry Holt) and CFO (David Mellors) respectively, with vesting based on measures the Committee believes are most appropriate: underlying free cash flow (weighted 30%), underlying operating margin (weighted 30%), organic revenue growth (weighted 25%, and subject to a discretionary operating margin underpin) and ESG (weighted 15%). The TSR kicker, although permitted under the policy, will not be used in FY27. As he is retiring, David Lockwood will not receive a FY27 PSP grant.

Compliance statement

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

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

Remuneration policy report

Our Remuneration policy for Executive Directors reflects a preference that we believe the majority of our shareholders share – to rely more heavily on the value of variable performance-related rewards than on the fixed elements of pay, to incentivise and reward success.

We weight the focus of executive remuneration towards performance-related pay with a particular emphasis on long-term performance, as we believe that, properly structured and with suitable safeguards, variable performance-related rewards are the best way of linking pay to strategy, risk management and shareholders' interests. Shareholders approved the policy at the 2025 AGM. The full details of our Remuneration policy are available at www.babcockinternational.com/who-we-are/leadership-and-governance.

Remuneration policy for Executive Directors

Base salary

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

Pension

Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Executive Directors receive pension benefits up to the value (10% of salary, as of FY26) equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market, as may be in effect or amended from time to time.
Performance metrics	Not performance-related.

Remuneration Committee report (continued)

Benefits	
Purpose and link to strategy	Designed to be competitive in the market in which the Group employs the individual, or to meet costs effectively incurred at the Company's request.
Operation	The Group provides a range of benefits, which may include (but are not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home-to-work travel and related costs; and accommodation benefits and related costs. The Group may offer other benefits (eg relocation) if the Committee considers it appropriate and reasonable.
Opportunity	Benefit values vary by role and are periodically reviewed and set at a level that the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions, which will determine the maximum amount that the Company would pay in the form of benefits during the period of this policy. The Committee retains discretion to approve a higher cost in certain circumstances (eg relocation) or in circumstances where factors outside the Company's control have changed materially.
Performance metrics	Not performance-related.
Annual bonus	
Purpose and link to strategy	To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of the achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of the bonus into Company shares, while building up a holding to meet the in-post shareholding guideline, strengthens the link to long-term sustainable growth.
Operation	Performance targets are set at the start of the year and reflect the responsibilities of the Executive Directors in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which the Group has achieved these targets. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, and changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. At least 40% of annual bonus payments for Executive Directors are deferred into Company shares for three years. Dividend equivalents accrued during the deferral period are payable in respect of deferred shares when (and to the extent) these vest. The Committee may waive the requirement to defer any element of annual bonus in respect of any Executive Director who has met their shareholding guideline. Malus and clawback provisions apply to cash and deferred bonus awards until the third anniversary of the payment/vesting date, which is considered appropriate by the Committee, as it reflects the period over which the Group's processes and systems are likely to flag any occurrence of any of the key trigger events. Triggers include: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or would have caused the Committee to exercise any discretion differently.
Opportunity	Maximum bonus opportunity is 180% of salary. For achievement of threshold, the Executive Directors earn up to 15% of maximum bonus; for achievement of target, they earn up to 55% of maximum bonus.
Performance metrics	The Committee determines performance on an annual basis by reference to Group financial measures, eg underlying operating profit, underlying OCF, as well as the achievement of non-financial objectives. The weighting of non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Performance Share Plan (PSP)

Purpose and link to strategy	To incentivise delivery of sustainable value creation over the longer term. Long-term measures guard against the Company taking short-term steps to maximise annual rewards at the expense of future performance.
Operation	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The Committee reviews award levels and performance conditions, on which vesting depends, from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that they would have received over the vesting period on awards that vest. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. An additional two-year holding period will apply to Executive Directors' vested PSP awards, whether or not these are exercised before the expiry of the period. Malus and clawback provisions apply to PSP awards until the third anniversary of the payment/vesting date, which is considered appropriate by the Committee, as it reflects the period over which the Group's processes and systems are likely to flag any occurrence of any of the key trigger events. Triggers include: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently. The Committee may introduce an absolute "TSR kicker", acting as a multiplier to the core PSP awards based on the Company's absolute Total Shareholder Return, subject to prior shareholder consultation.
Opportunity	The maximum annual PSP award opportunity is, with the application of the TSR kicker, 500% of salary. Without the TSR kicker, the maximum annual 'core' PSP award opportunity is 250% of salary. 16.7% of the core award will vest for threshold performance.
Performance metrics	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. Core PSP awards made during the life of this policy will vest on the achievement of stretching targets that align to key drivers of strategy (including, but not limited to, free cash flow, operating margin, organic revenue growth and ESG). The vesting of any TSR kicker will be based on absolute total shareholder return, with full vesting of the TSR kicker at 30% pa and with no kicker below 10% pa (with a straight-line sliding scale between these points). The Committee will review the performance measures, their weightings and performance targets annually to ensure continued alignment with Company strategy.

All-employee plans – Babcock Colleague Share Plan

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

Remuneration Committee report (continued)

Approach to recruitment remuneration

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

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

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

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

Payments from existing awards and commitments

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

Performance measure selection and approach to target setting

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

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

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

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

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

Executive Director and general employee remuneration

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

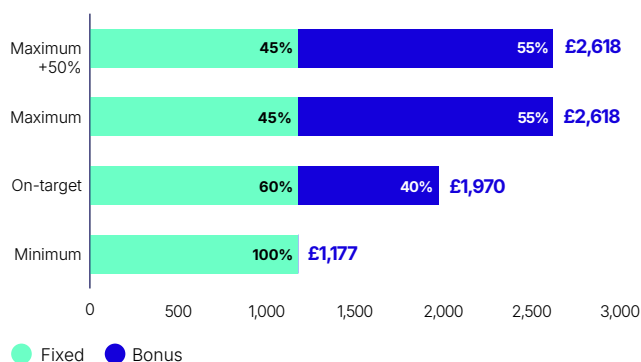
Balance of remuneration for Executive Directors

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

Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY27, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 July 2026. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

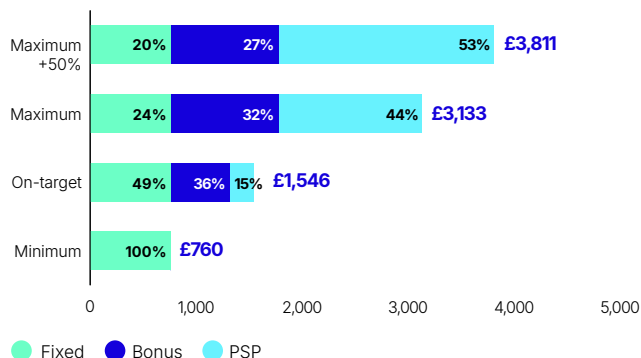
Chief Executive

David Lockwood (£'000)



Chief Financial Officer

David Mellors (£'000)



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

The 'On-target' scenario reflects fixed remuneration as above, plus a payout of 55% of the annual bonus and threshold vesting of 16.7% of the maximum core award under the PSP (ie c42% of salary for Harry Holt, c33% for David Mellors, nil for David Lockwood who will not be granted a PSP award in FY27).

The 'Maximum' scenario reflects fixed remuneration, plus full payout under the annual bonus (of 150% of salary), and full vesting of the core PSP award (250% of salary for Harry Holt and 200% for David Mellors, nil for David Lockwood who will not be granted a PSP award in FY27).

The 'Maximum+50%' scenario reflects fixed remuneration, full payout under the bonus, plus full vesting of the core PSP award (250% of salary for Harry Holt and 200% for David Mellors, nil for David Lockwood who will not be granted a PSP award in FY27), with PSP awards also reflecting an increase of 50% in the share price from grant.

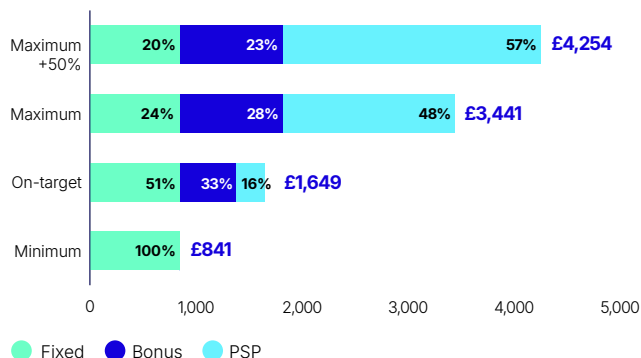
Shareholding guidelines for Executive Directors

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

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

Deputy CEO

Harry Holt (£'000)

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

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

Executive Directors

Name	Date of service contract	Notice period
David Lockwood (Chief Executive)	29 July 2020	12 months from Company, 12 months from Director
David Mellors (Chief Financial Officer)	29 September 2020	12 months from Company, 12 months from Director
Harry Holt (Deputy Chief Executive) ¹	23 February 2026	12 months from Company, 12 months from Executive

1. On becoming CEO and an Executive Director, Harry will enter into a new service contract but the notice period will remain the same.

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

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

Remuneration Committee report (continued)

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

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

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

External appointments of Directors

The Directors may accept external appointments with the prior approval of the Chair, provided that such appointments do not prejudice the individual's ability to fulfil their duties for the Group. Any fees for outside appointments are retained by the Director. The Chair will approve such appointments, as the Board believes it is beneficial for Directors to gain experience of practice in other organisations. However, before approving any appointment, she must satisfy herself that there are no conflict issues with the Company (or they can be appropriately dealt with) and the Director will have sufficient time to devote to the Company.

Chair and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letter	Anticipated expiry of present term of appointment (subject to annual re-election)
Dame Ruth Cairnie (Chair)	3 April 2019	1 April 2026	AGM 2027
Carl-Peter Forster	1 June 2020	1 April 2026	AGM 2027
Lord Parker	10 November 2020	1 April 2026	AGM 2027
John Ramsay	6 January 2022	25 March 2025	AGM 2028
Jane Moriarty	1 December 2022	25 March 2025	AGM 2028
Sir Kevin Smith	1 June 2023	1 April 2026	AGM 2029
Claudia Natanson	1 March 2024	12 February 2024	AGM 2027
Aedamar Comiskey	1 September 2025	11 August 2025	AGM 2028

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

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

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

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

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

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

Consideration of employee views

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

The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy, and consults on matters affecting colleagues and business performance as required. The Committee engages with colleagues through its Annual Report on remuneration, which sets out in detail executive pay. However, in addition, the Company also engages directly with colleagues through the Global People Survey and through the 'ask David' email. The Committee takes any feedback it receives into account in its decision-making on executive remuneration.

Consideration of shareholder views

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

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

Remuneration Committee report *(continued)*

Annual report on remuneration

The Committee

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

In total, there were six meetings in the year to 31 March 2026. The Chair and the CEO attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief People Officer also attends meetings.

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

Advisors

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

Ellason adheres to this Code of Conduct. The Company paid fees to Ellason in respect of work for the Committee carried out in the year under review totalling £82,558 based on time and materials, excluding expenses and VAT.

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

Matters considered

The Committee considered a number of matters during the year to 31 March 2026, including:

- renewing the Remuneration policy, bearing in mind market trends and corporate governance best practice
- considering performance against the measures applied to, and level of payout of, the annual bonus
- approving the level of vesting of PSP awards
- reviewing share ownership guidelines for senior executives
- approving Executive Director salaries for the financial year
- considering implementation of the Remuneration policy approved at the AGM in 2025
- considering performance targets and non-financial objectives for the annual bonus plan
- agreeing the level of PSP awards granted in the year
- approving the performance measures and targets to be applied under the Company's PSP
- approving the Directors' Remuneration report
- making share awards under the Company's share plans
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing the Committee's terms of reference
- reviewing the continued appointment of the Committee's independent advisors.

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy (at the 2025 AGM), as well as the advisory vote on the Annual report on remuneration (at the 2025 AGM):

Votes cast	2025 Remuneration policy		2025 Annual report on remuneration	
	Total number of votes	% of votes cast for and against	Total number of votes	% of votes cast for and against
For (including discretionary)	231,644,685	67.65%	341,354,485	98.43%
Against	110,755,325	32.35% ¹	5,441,821	1.57%
Total votes cast (excluding withheld votes)	342,400,010	100%	346,796,306	100%
Votes withheld	4,449,044		52,748	
Total votes cast (including withheld votes)	346,849,054		346,849,054	

1. In line with Provision 4 of the UK Corporate Governance Code 2024, more information on the outcome following this vote can be found on page 155.

As required by The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, throughout this report we have provided information on the Deputy CEO's FY26 and FY27 pay even though he is not due to join the Board until after the date of this report.

Single total figure of remuneration for Executive Directors for FY26 (audited)

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

	David Lockwood		David Mellors		Harry Holt ^a	
	FY26 £'000	FY25 £'000	FY26 £'000	FY25 £'000	FY26 £'000	FY25 £'000
Fixed remuneration						
Salary ¹	926	883	638	609	108	N/A
Benefits in kind and cash ²	120	120	15	15	21	N/A
Pension ³	93	88	64	61	11	N/A
Annual variable remuneration						
Annual bonus (cash) ⁴	820	795	564	548	56	N/A
DBP (deferred annual bonus plan) ⁵	Nil	530	Nil	365	37	N/A
Long-term incentives						
PSP ⁶	6,852	4,732	3,972	3,313	N/A	N/A
Dividends ⁷	69	33	40	23	N/A	N/A
Total (of which)	8,880	7,181	5,293	4,934	233	N/A
Total fixed remuneration ^{1,2,3}	1,139	1,091	717	685	140	N/A
Total variable remuneration ^{4,5,6,7}	7,741	6,090	4,576	4,249	93	N/A

The figures have been calculated as follows:

- Salary: Base salary amount paid in the year.
- Benefits in kind and cash: The value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, and car and fuel benefits. David Lockwood in FY26 received £98k in connection with his accommodation costs in London, which were at the Company's request, to enable him to lead the business effectively.
- Pension: The numbers above represent for each year the value of the cash supplement, which was 10% of base salary.
- Annual bonus (cash): Following consultation with shareholders, the Committee has applied its discretion to pay the Executive Directors' FY26 bonus entirely in cash as permitted within the Remuneration policy, as both have exceeded their shareholding requirement. Please see page 156.
- DBP: This is the deferred element of the FY25 annual bonus earned for performance during the year (40% of earned bonus), which will vest after three years. For Harry Holt in FY26, this is the deferred element of the FY26 annual bonus.
- PSP: The FY24 PSP award was granted in September 2023 with a three-year performance period to 31 March 2026 and will vest in September 2026. The values in the table are based on 95.3% of the award vesting at an average share price for the three months to 31 March 2026 of 1381.7p. The values attributable to share price appreciation over the FY24 PSP vesting period are presently estimated to 31 March 2026, at £4,908k and £2,845k for David Lockwood and David Mellors, respectively. The PSP FY25 value has been updated to reflect the share price of 997.5p on the vest date of the FY23 PSP award. Harry Holt did not participate in the FY24 PSP. His RSP award granted in FY24 is not reflected in his FY26 single figure, as this was subject only to continued employment.
- Dividends: All dividends accrued to the FY24 PSP will be payable in cash on exercise of the award.
- Harry Holt: Harry was appointed Deputy CEO on 1 February 2026 and his remuneration for FY26 has been pro-rated from that date.

Neither of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2026. They instead received a cash supplement equal to 10% of salary. There are no additional early retirement benefits.

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

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

Director	FY26 £'000	FY25 £'000
David Lockwood	6	5
David Mellors	4	3

Remuneration Committee report (continued)

FY26 annual bonus (audited)

The Committee based the FY26 annual bonus on a mix of financial and non-financial measures. The financial element, weighted 80%, was based equally on Group underlying operating profit performance and Group underlying operating cash flow (based on budgeted foreign exchange rates). There was no payout under the underlying operating profit element and a 100% payout under the underlying operating cash flow element. Please see pages 32 to 51 for more information on the Company's performance. The non-financial measures were principally the themes that the Committee considers to be of material importance to the continued success of the Company. The Committee concluded that the outturn for the non-financial measures should be a 95% payout for the Executive Directors and Deputy CEO. The Committee was satisfied that the total outturn of the FY26 bonus reflected the Company's performance over the year and aligned to shareholders' experience.

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

Bonus element	Threshold ¹	Target	Maximum	Outturn		David Lockwood	David Mellors	Harry Holt
Achieving budgeted underlying operating profit ²	£407.6m	£429.0m	£471.9m	£294.1m	Maximum potential (% of salary)	60%	60%	60%
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted underlying operating cash flow ³	£255.0m	£300.0m	£345.0m	£348.3m	Maximum potential (% of salary)	60%	60%	60%
					Outturn (% of salary)	60%	60%	60%
Non-financial objectives ⁴					Maximum potential (% of salary)	30%	30%	30%
					Outturn (% of salary)	28.5%	28.5%	28.5%
					Maximum potential (% of salary)	150%	150%	150%
Total					Outturn (% of salary)	88.5%	88.5%	88.5%

1. Threshold vesting is 18.8% of maximum for the operating profit and cash flow elements, and 0% for non-financial measures. In line with our policy, overall vesting at threshold is no more than 15% when all measures are considered. Vesting outcomes are determined on a straight-line sliding scale for performance outturns between threshold and target, and between target and maximum.

2. For the definition, please see page 46.

3. For the definition, please see page 50.

4. Further details on the non-financial objectives set for FY26 are given below.

FY26 annual bonus non-financial measures

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

David Lockwood

Theme	Progress	Assessment
Strategy, delivery and growth	- Continued leadership on embedding organisational capability on risk, execution and performance, with greater cross-business and cross-functional collaboration. - Relentless focus on the Company's strategic agenda through the progress made with key international relationships, both with customers such as Indonesia and strategic partners such as HIL.	Exceeded expectations
People and Culture	- Effective roll-out of Leadership Framework and performance management aligned to strategic aims. This included the development of talent review plans for senior leaders, as well as training for first line and middle managers. Execution of this objective was reflected by the further progress in the results of Babcock's Global People Survey. - Building on the Global People Survey, follow-up activities were identified to deliver improvements in key areas of the business with the aim of delivering a joined-up approach to cultural development that includes safety, security, and engagement.	Exceeded expectations
Sustainability	Delivery of key near-term milestones on diversity and carbon reduction while improving the scores relating to sustainability in the Global People Survey. Effective leadership on sustainability to build confidence in Babcock's commitment to its six key priorities.	Exceeded expectations

David Mellors

Theme	Progress	Assessment
Strategy, delivery and growth	Clear and effective leadership on Babcock's operations, which continue to underpin progress to meeting its medium-term targets, while maintaining the balance of risk appetite for the benefit of all stakeholders and building strong cohesion between functions.	Exceeded expectations
People and Culture	Leadership on the cultural change at Babcock by championing the people agenda, with substantial progress made in this area in the finance function during the year.	Exceeded expectations
Sustainability	Led on the revision of Babcock's sustainability strategy to ensure continued focus on the six key priorities being embedded across the operations of the business through more effective targets and actions to achieve them.	Exceeded expectations

The Deputy CEO's non-financial measures were based on the same strategic themes as the Executive Directors' non-financial measures. However, as the measures were focused on his management of the Nuclear sector, the Committee believes that the description of progress on the Deputy CEO's measures is commercially sensitive. The outturn for the Deputy CEO was 95% of the maximum opportunity of 20% of his annual bonus.

As it does every year, the Committee reviewed the Company's health and safety performance as it is an underpin for the annual bonus. The Committee considered the totality of the Group's health and safety environment over the year and determined that it did not need to exercise its discretion. In addition, no application of malus or clawback provisions was required.

The FY26 bonus outcomes for each are as follows:

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus (£'000)
David Lockwood	60.0%	28.5%	88.5%	820
David Mellors	60.0%	28.5%	88.5%	564
Harry Holt	60.0%	28.5%	88.5%	93 ¹

1. Pro-rated from date of appointment as Deputy CEO.

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

FY24 PSP

The Committee granted PSP awards in September 2023 over 520,408 shares to David Lockwood and 301,628 shares to David Mellors. Vesting of the awards is based on financial measures and the non-financial measures described below. The performance period for these awards was the three financial years from 1 April 2023 through to 31 March 2026.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outcome	Vesting (% of overall award)
3-year organic revenue growth	25%	15.7%	23.6%	31.4%	25.0%
3-year weighted average underlying operating margin ¹	30%	6.8%	8.0%	7.8%	25.3%
3-year cumulative underlying free cash flow ²	30%	£216m	£324m	£575.6m	30.0%
Reduction in Babcock's carbon emissions in FY26	7.5%	(6.7)%	(8.5)%	(36.0)%	7.5%
Gender diversity of senior management in FY26 ³	7.5%	28.5%	31.5%	32.4%	7.5%

- FY24 and FY25 account for 25% each of the measure whereas FY26 accounts for 50%. Margin performance has been adjusted for the impact of Type 31, to ensure that the PSP outcome appropriately reflected the significant performance improvement over the last three years, as described in more detail on page 155.
- The Committee evaluated the outperformance in respect of free cash flow, to ensure this aligned with underlying performance. It concluded that this outcome reflected strong operational delivery and continued focus on cash discipline. In doing so, the Committee noted that the outcome was primarily driven by higher operating profit from strong underlying trading performance, and the improved cash conversion resulting from effective working capital management.
- The definition of senior management is employees excluding the Executive Directors who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group (sector/functional leadership teams) and/or are directors of subsidiary business units (business unit leadership).

Remuneration Committee report (continued)

The Committee decided to adjust the margin calculation to exclude the impact of Type 31 as the Committee concluded that the margin element was designed to capture the progress made on the improved profitability of the Group. The Group has made meaningful progress over the performance period of the FY24 PSP to meet this strategic aim and is on track to achieve its medium-term guidance. The revenue element of the PSP included a margin underpin, introduced to ensure management would not benefit from driving revenue growth at the cost of quality of business won. The reported margin including the Type 31 impact would have been below threshold, bringing this underpin into question. However, excluding this, margin progress has been very satisfactory and the Committee was satisfied that there was no reason to apply the underpin.

In line with its standard practice, the Committee considered whether any windfall gains have arisen on this PSP vesting cycle. After assessing the vesting of the FY24 PSP from a range of perspectives, the Committee was satisfied that the outcomes against the measures were reflective of the strong underlying performance of the Company. In addition, no application of malus or clawback provisions was required. As a result, 95.3% of the Executive Directors' FY24 awards will vest in September 2026 (though subject to a two-year holding period from that date). Dividends were accrued on these awards, which will also vest in September 2026.

As a member of the Group Executive Committee, the Deputy CEO received in FY24 a restricted stock award without any performance measures, consistent with the practice at the time of grant for members of the Committee and did not receive a PSP award; this award will vest in September 2026.

Long-term incentive scheme (PSP) award granted during FY26 (audited)

The Committee granted PSP awards in the form of nil-cost options in September 2025 to the Executive Directors and the Deputy CEO, consistent with the Remuneration policy.

Director	Number of shares ¹	Face value ²	Face value (% of salary) ³	% of award receivable for threshold performance
David Lockwood	187,235	£2,332,330	250%	16.7%
David Mellors	103,652	£1,291,162	200%	16.7%
Harry Holt	61,011	£759,996	N/A ⁴	16.7%

1. Awards are in the form of nil-cost options.

2. Based on three-day average share price (of 1,245.67p) at time of grant.

3. Expressed as a percentage of salary at the date of the award (29 September 2025).

4. Percentage of salary not disclosed as related to his appointment as CEO Nuclear and is commercially sensitive.

The FY26 PSP awards are subject to a scorecard of measures comprising underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%). The performance period for these awards is the three financial years from 1 April 2025 through to 31 March 2028. The TSR kicker does not apply to these awards.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	16.9%	25.4%
3-year weighted average underlying operating margin ¹	30%	8.0%	9.2%
3-year cumulative underlying free cash flow	30%	£538.4m	£807.6m

1. Weighted to focus more heavily on the final year of the performance period: FY26 and FY27 each accounts for 25% of the measure whereas FY28 accounts for 50%.

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

The targets for the ESG measures are:

- Three-year cumulative energy efficiencies improvements against FY25 baseline. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). A reduction of (8.6)% will result in 16.7% vesting of this portion of the ESG element, with a reduction of (9.5)% warranting full vesting.
- Senior management gender diversity in FY28, with a threshold of 28.5% and a maximum of 31.5%. This measure will have a 7.5% weighting, with 16.7% vesting at threshold and full vesting at maximum. The definition of senior management has been extended to include Group Executive Committee minus two levels.

Deferred Bonus Plan awards made during FY26 (audited)

In 2025, the Committee approved the payment of annual bonuses to the CEO and CFO under the FY25 annual bonus plan. For more detail, please see the single total figure table on page 167.

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

The table below sets out the total remuneration received by each Non-Executive Director. For details of the fees that applied during FY26, please see page 173:

	Base fee		Additional fee ¹		Total ²		Total fixed remuneration		Total variable remuneration	
	FY26 £'000	FY25 £'000	FY26 £'000	FY25 £'000	FY26 £'000	FY25 £'000	FY26 £'000	FY25 £'000	FY26 £'000	FY25 £'000
Fixed remuneration										
Dame Ruth Cairnie	368	346	–	–	368	346	368	346	–	–
Carl-Peter Forster ³	93	76	15	15	108	91	108	91	–	–
Lord Parker	74	65	15	15	89	80	89	80	–	–
John Ramsay	82	65	18	23	100	88	100	88	–	–
Jane Moriarty	82	65	–	–	82	65	82	65	–	–
Sir Kevin Smith	74	65	–	–	74	65	74	65	–	–
Claudia Natanson	82	65	–	–	82	65	82	65	–	–
Aedamar Comiskey ⁴	47	–	–	–	47	–	47	–	–	–
Lucy Dimes ⁵	33	65	–	–	33	65	33	65	–	–

1. Relating to role as Chair of the Audit Committee (John Ramsay), Remuneration Committee (Carl-Peter Forster), and Director designated for workforce engagement (Lord Parker).

2. Non-Executive Directors did not receive any taxable benefits in FY25 or FY26.

3. Carl-Peter Forster is the Senior Independent Director and Remuneration Committee Chair.

4. Aedamar Comiskey joined the Board on 1 September 2025.

5. Lucy Dimes retired from the Board on 25 September 2025.

Sourcing of shares

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

Executive Directors' remuneration for FY27

The Committee has set the remuneration for Executive Directors for FY27 in line with its Remuneration policy.

Remuneration Committee report (continued)

Fixed pay

The Committee reviewed the base salaries of the Executive Directors after the Company had completed its review of the pay of those UK employees who are not subject to collective bargaining. The increases for David Lockwood and David Mellors along with the rationale for them are described on page 156. Harry Holt will not receive further increases to salary in FY27 beyond those shown below in respect of his appointment as CEO during 2026.

Salary	1 July 2026 ¹	1 July 2025 ²	1 July 2024
David Lockwood	£960,921	£932,933	£905,760
David Mellors	£677,862	£645,582	£614,840
Harry Holt	£900,000	£650,000	n/a

1. On appointment as CEO in the case of Harry Holt.

2. On appointment as Deputy CEO in the case of Harry Holt.

The Executive Directors will receive the same pension arrangements (ie at 10% of salary) and the same benefits as in FY26. The Deputy CEO's salary was set at £650,000 on appointment as Deputy CEO but will increase to £900,000 once he steps up to be CEO. In future years, the Committee will consider pay increases greater than those awarded to UK employees who are not subject to collective bargaining, if required, to align his salary with the median pay level for his role. He will receive a cash payment equivalent to 10% of his salary in lieu of pension.

FY27 annual bonus

The scorecard of the Executive Director and Deputy CEO annual bonus for FY27 is consistent with that for FY26, with measures based on underlying operating cash flow, underlying operating profit and non-financial objectives. The Committee has agreed the targets but, due to their commercial sensitivity, it will disclose them only in next year's Annual report on remuneration.

FY27 PSP awards

The Committee intends to grant awards under the PSP to the CFO (at 200% of salary) and the Deputy CEO (at 250% of salary) in 2026 covering the three-year period FY27 to FY29, with the measures for this core award scorecard being underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%), as follows:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	16.0%	24.0%
3-year weighted average underlying operating margin ¹	30%	8.5%	10.0%
3-year cumulative underlying free cash flow	30%	£608.8m	£913.2m

1. Weighted to focus more heavily on the final year of the performance period: FY27 and FY28 each accounts for 25% of the measure, whereas FY29 accounts for 50%. In determining the range for the underlying operating margin measure, the Committee approved the setting of the threshold in line with the Company's medium-term guidance, to incentivise achievement of this goal.

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

The targets for the ESG measures are:

- Environment: based on the Company's energy efficiency improvement, with a weighting of 7.5% (ie half of the ESG total weighting of 15%). The target range is a cumulative reduction over the three-year performance period of (11.4)% to (12.6)%. A reduction of (11.4)% will result in 16.7% vesting of this portion of the ESG element, while a reduction of (12.6)% will warrant full vesting.
- Gender diversity: we want to build on the good work that the Company has done at the Senior Leadership Team level, and for the FY27 PSP cycle continue to use the expanded scope of this measure to take in the next level of senior management, which will include functional and business unit leadership teams that typically sit three layers below the CEO. This measure will have a 7.5% weighting, with 16.7% vesting at threshold and full vesting at maximum. The target range will be 30.4% to 33.6% of this senior leadership community being female by FY29.

The TSR kicker, although permitted under the policy, will not be used on the FY27 awards.

A two-year holding period will apply to Executive Directors' FY27 PSP awards to the extent that they vest. Malus and clawback provisions apply. In keeping with its typical practice, the Committee will assess for any windfall gains at vesting.

Retirement of David Lockwood

David will receive fixed pay (salary, pension and benefits) over the remainder of his contractual notice period. He will remain eligible for a pro-rated FY27 bonus, subject to performance and deferral in the normal way.

As he is retiring, David is a good leaver for the purpose of all share schemes. PSP awards will remain eligible to vest on the normal vesting dates subject to performance, and pro-rating to the end of David's time with Babcock. All in-flight awards will be subject to the two-year holding period after vesting.

No payments fall to be made to David by way of compensation for loss of office.

Further details will be disclosed as required under section 430(2B) of the Companies Act 2006, after David has stepped down from the Board, and in the Company's 2027 Annual Report.

Payments for loss of office (audited)

There were no payments for loss of office during the year ended 31 March 2026.

Payments to past Directors (audited)

There were no payments to past Directors during the year ended 31 March 2026.

Non-Executive Directors' fees (including the Chair)

The fees for the Chair and the Non-Executive Directors were increased on 1 September 2025. There have been no other increases in the year. Effective 1 July 2026, the Committee resolved to increase the Chair's fee by 9%, to £415,290, as part of a phased progression to ensure the fee better reflects the strong performance of the Chair and the significant time commitment of the role after a prolonged period of restraint on fee increases. Any increases approved by the Board in respect of NED fees later in the year will be reported in next year's Remuneration Report.

Annual rate fee	1 July 2026 £	31 March 2026 £	1 September 2025 £	1 September 2024 £
Chair	415,290	381,000	381,000	349,440
Senior Independent Director (inclusive of basic fee)	91,000	91,000	91,000	77,000
Basic Non-Executive Director's fee ¹	80,000	80,000	80,000	66,000
Chair of Audit Committee ²	18,000	18,000	18,000	18,000
Chair of Remuneration Committee ²	15,000	15,000	15,000	15,000
Director designated for workforce engagement ²	15,000	15,000	15,000	15,000

1. For those Non-Executive Directors who, due to their residence, have long-distance commutes to fulfil their duties, the Company has decided to pay an additional £13,000 pa on top of the basic Non-Executive Director's fee to compensate for the extra time commitment involved in attending meetings.

2. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee and for acting as the Director designated for workforce engagement. The Company does not pay additional fees for membership of Committees.

Remuneration Committee report (continued)

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

The table below shows the annual percentage changes in remuneration over the last five years for each individual who was a Director during the year ended 31 March 2026, compared to the average UK colleague, as required under the Companies (Directors' Remuneration policy and Directors' Remuneration Report) Regulations 2019 (the Regulations).

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

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

	Base salary/fees					Taxable benefits					Single-year variable				
	FY25 to FY26	FY24 to FY25	FY23 to FY24 ¹	FY22 to FY23	FY21 to FY22	FY25 to FY26	FY24 to FY25	FY23 to FY24 ¹	FY22 to FY23	FY21 to FY22	FY25 to FY26	FY24 to FY25	FY23 to FY24 ¹	FY22 to FY23	FY21 to FY22
Executive Directors															
David Lockwood	5%	8%	0%	1%	1%	0%	0%	(1)%	1%	1%	(38)%	82%	1%	(25)%	n/a
David Mellors	5%	4%	3%	1%	1%	0%	0%	0%	0%	1%	(38)%	79%	3%	(26)%	n/a
Non-Executive Directors²															
Dame Ruth Cairnie	6%	3%	0%	0%	5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Carl-Peter Forster	19%	3%	6%	16%	11%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lord Parker	12%	8%	10%	10%	5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
John Ramsay	14%	5%	11%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Jane Moriarty ³	27%	4%	2%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sir Kevin Smith ⁴	15%	4%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Claudia Natanson ⁴	27%	4%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Aedamar Comiskey ⁵	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Former Directors															
Lucy Dimes ⁶	5%	4%	2%	0%	5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average for all UK employees ⁷	4%	5%	7%	5%	2%	0%	0%	0%	0%	0%	(12)%	32%	11%	(18)%	100%

1. It should be noted that the Directors received an increase in pay or fee part-way through the year.

2. A Committee, made up of the Chair and the Executive Directors, reviews the Non-Executive fees and agrees increases in the basic fee, the fee for the Senior Independent Director, the Audit Committee Chair and the Director designated for workforce engagement, as well as the one-off payment for the Audit Committee Chair in recognition of the material additional time the role required. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.

3. Jane Moriarty joined the Board in FY23. To facilitate a comparison with FY24, her FY23 fee has been annualised.

4. Sir Kevin Smith and Claudia Natanson joined during FY24. To facilitate a comparison with FY25, their FY24 fees have been annualised.

5. Aedamar Comiskey joined during FY26 and hence no year-on-year comparison is available.

6. Lucy retired from the Board during FY26. The year-on-year comparison with FY25 is calculated on the basis of full-time equivalence.

7. The single-year variable figure for our UK colleagues is provided in respect of our annual bonus plan, which has been estimated based on our expected bonus outturn for FY26 at the time of disclosure. This estimate is prior to any discretionary adjustments and for prior years has been trued up once actual results are known.

Relative importance of spend on pay

	FY26	FY25	% change
Distribution to shareholders	£35m	£33m	6%
Employee remuneration	£1,879m	£1,660m	13%

Distribution to shareholders includes all amounts distributed to shareholders.

CEO pay ratio

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

Figures for the CEO come from the Executive Directors' single figure table on page 167. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) colleagues on 31 March 2026 using the 'single figure' methodology to provide a like-for-like comparison with CEO remuneration.

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

As with last year, the Company excluded bonus payments from the calculations, because it was not feasible to identify those payments for services delivered within the financial year, and because the Company does not know all bonus pay relating to FY26 at the time of publication. Analysis of past data indicates that the three colleagues would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

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

The median CEO pay ratio in FY26 was 178:1, compared to 163:1 in FY25 (based on the restated FY25 single figure remuneration for CEO).

The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The pay ratio for FY26 is slightly higher than the ratio for FY25, with the lower bonus outcome in FY26 offset by the impact on the reported (and estimated) FY24 PSP vesting value of sustained share price growth over the last three years.

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

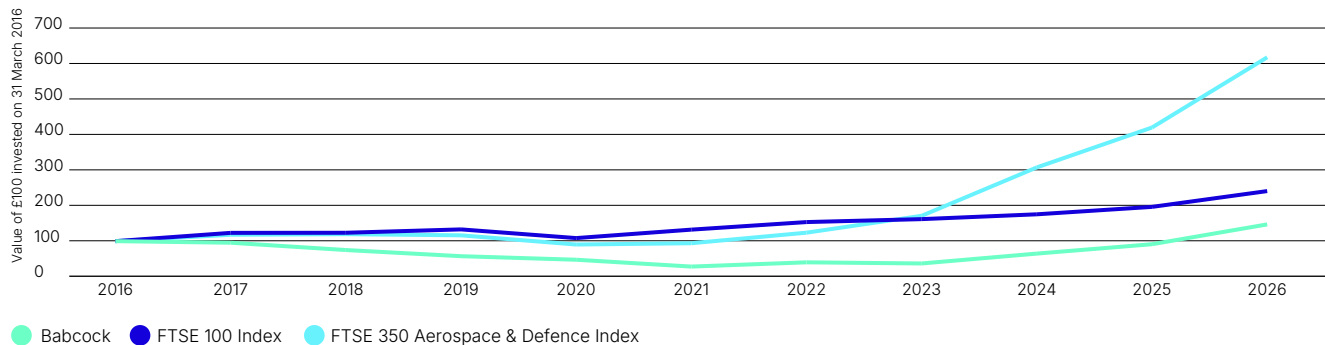
Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY26	Option B	218:1	178:1	151:1
FY25	Option B	191:1	163:1	129:1
FY24	Option B	111:1	94:1	75:1
FY23	Option B	102:1	84:1	62:1
FY22	Option A	61:1	48:1	36:1
FY21	Option A	30:1	22:1	17:1
FY20	Option C	47:1	37:1	27:1

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY26	Total remuneration (£'000)	£40.9	£50.0	£59.0
	Salary (£'000)	£39.2	£44.7	£53.0

Remuneration Committee report (continued)

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 100 and FTSE 350 Aerospace & Defence index, assuming an investor invested £100 on 31 March 2016. The Board considers that the FTSE 100 Index and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.



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

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Peter Rogers¹										
Single figure (£'000)	1,091									
Bonus vesting (% max)	66%									
DBMP matching shares vesting (% max)	17.0%									
PSP/CSOP vesting (% max)	26.5%									
Archie Bethel^{2,3}										
Single figure (£'000)	1,012	2,079	1,969	1,385	334					
Bonus vesting (% max)	66%	61%	58%	14%	0%					
DBMP matching shares vesting (% max)	17.0%	20.0%	n/a	n/a	n/a					
PSP vesting (% max)	26.5%	23.9%	15.1%	0%	0%					
David Lockwood⁴										
Single figure (£'000)					547	1,975	3,288	4,161	7,181	8,880
Bonus vesting (% max)					0%	80%	59%	59.6%	100%	59%
PSP vesting (% max)					n/a	n/a	100%	100%	100%	95.3%

1. Until retirement on 31 August 2016.

2. Excludes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.

3. Until he stepped down as CEO on 14 September 2020.

4. Excludes his salary between joining the Company in August and joining the Board as CEO on 14 September 2020.

Directors' share ownership (audited)

The Committee sets out below the interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2026 (or on the date of retiring from the Board in the case of former Directors):

	At 31 March 2025		At 31 March 2026							
	Shares held	Shares held	Options held							
	Owned outright by Director or spouse ¹	Owned outright by Director or spouse ¹	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	S/holding req. (% salary)	Current shareholding (% of salary) ²	Req. met?	
Director										
David Lockwood	719,465	1,029,845	–	–	1,133,548	180,599	300%	1,667%	Yes	
David Mellors	501,017	718,804	–	–	636,567	124,938	200%	1,680%	Yes	
Harry Holt	n/a	–	–	18,737	181,387	92,376	200%	125%	Building	
Dame Ruth Cairnie	120,000	120,000								
Carl-Peter Forster	10,000	10,000								
Lord Parker	–	–								
John Ramsay	40,000	40,000								
Jane Moriarty	–	–								
Sir Kevin Smith	6,000	6,000								
Claudia Natanson	–	–								
Aedamar Comiskey	–	–								
Former Director										
Lucy Dimes	5,000	5,000								

1. Beneficially held shares of Director and/or spouse.

2. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2026 and by reference to shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised, and options unvested but subject only to continued employment. Holdings are valued assuming options are exercised on 31 March 2026 and a three-month average share price to 31 March 2026 of 1381.7p and are calculated post tax. For Harry Holt, the current shareholding is calculated by reference to his salary as Deputy CEO (£650,000 per annum).

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2026 and 19 June 2026.

Remuneration Committee report (continued)

Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 31 March 2026 was 1158.0p. The highest and lowest mid-market share prices in the year ended 31 March 2026 were 1502.0p and 655.5p, respectively.

Director	Plan and year of award ¹	Number of shares subject to award at 1 April 2025	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2026	Exercise price (pence) ²	Market value of each share at date of award (pence)	Exercisable from	Expiry date ³
David Lockwood										
	PSP FY23	474,418		474,418		0	1008	344.00	Aug 2025	Aug 2026
	DBP FY23 ⁴	112,549		112,549		0	1008	344.00	Aug 2025	Aug 2026
	PSP FY24	520,408				520,408		392.00	Sept 2026	Sept 2027
	DBP FY24 ⁴	76,472				76,472		377.73	Aug 2026	Aug 2027
	PSP FY25	425,905				425,905		531.67	Aug 2027	Aug 2028
	DBP FY25 ⁴	54,884				54,884		531.67	Aug 2027	Aug 2028
	PSP FY26		187,235			187,235		1245.67	Sept 2028	Sept 2029
	DBP FY26 ⁴		49,243			49,243		1076.33	Jul 2028	Jul 2029

Director	Plan and year of award ¹	Number of shares subject to award at 1 April 2025	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2026	Exercise price (pence) ²	Market value of each share at date of award (pence)	Exercisable from	Expiry date ³
David Mellors										
	PSP FY23	332,093		332,093		0	1008	344.00	Aug 2025	Aug 2026
	DBP FY23 ⁴	77,798		77,798		0	1008	344.00	Aug 2025	Aug 2026
	PSP FY24	301,628				301,628		392.00	Sept 2026	Sept 2027
	DBP FY24 ⁴	52,623				52,623		377.73	Aug 2026	Aug 2027
	PSP FY25	231,287				231,287		531.67	Aug 2027	Aug 2028
	DBP FY25 ⁴	38,370				38,370		531.67	Aug 2027	Aug 2028
	PSP FY26		103,652			103,652		1245.67	Sept 2028	Sept 2029
	DBP FY26 ⁴		33,945			33,945		1076.33	Jul 2028	Jul 2029

Director	Plan and year of award ¹	Number of shares subject to award at 1 April 2025	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2026	Exercise price (pence) ²	Market value of each share at date of award (pence)	Exercisable from	Expiry date ³
Harry Holt										
	RSP FY24	78,571				78,571		392.00	Sept 2026	Sept 2027
	PSP FY25	120,376				120,376		531.67	Aug 2027	Aug 2028
	DBP FY25	18,737				18,737		531.67	Aug 2025	Aug 2026
	PSP FY26		61,011			61,011		1245.67	Sept 2028	Sept 2029
	DBP FY26 ⁴		13,805			13,805		1076.33	Jul 2026	Jul 2027

1. PSP is the Company's Performance Share Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed, are to be found on page 169. The FY23 PSP award completed its performance period during FY26, and the awards vested in full. Both David Lockwood and David Mellors exercised their vested awards following the completion of the performance period, selling sufficient shares to pay the tax, and the remaining balance is being held in Trust until the completion of the holding period, ie the end of the five-year period from grant.
2. The PSP awards are structured as nil-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
4. The Company requires the Executive Directors to defer 40% of any annual bonus awarded into shares, which vest after three years, with the remaining 60% of any annual bonus paid in cash, unless they have met their shareholding requirement. For Harry Holt, the DBP FY26 award represents 25% of his FY25 bonus, in line with the deferral requirements operated at the Executive Committee level.

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

During the year to 31 March 2026, the following awards vested:

Director	Award	Number vesting	Vesting date	Market value of vested shares on award £	Market value of vested shares on vesting date £	Exercise price payable for vested shares (if any) £
David Lockwood	PSP FY23	474,418	Aug 2025	1,631,998	4,732,320	Nil
David Lockwood	DBP FY23	112,549	Aug 2025	387,169	1,122,676	Nil
David Mellors	PSP FY23	332,093	Aug 2025	1,142,400	3,312,628	Nil
David Mellors	DBP FY23	77,798	Aug 2025	267,625	776,035	Nil
Harry Holt	DBP FY25	18,737	Aug 2025	99,619	186,902	Nil

Closing share price on the vesting date (1 August 2025) was 997.5p.

Other interests

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

External appointments of Executive Directors in FY26

In January 2024, David Lockwood became President of ADS, the UK trade association for the aerospace, defence, security and space industry for which there is no fee. There were no fees received by Executive Directors for any external appointment during the year.

The Board approved this Remuneration report on 19 June 2026.

Carl-Peter Forster

Committee Chair

Other statutory information

Directors' report and other disclosures

The Directors' report comprises this section, as well as the rest of the Governance section, the Directors' responsibility statement on page 186 and those sections incorporated by reference below.

Disclosures required by UKLR 6.6.4 and which form part of the Directors' report can be found as provided in the table below:

Listing Rule	Topic	Location
6.6.1 (1)	Capitalised interest	Financial statements, note 5 on page 228
6.6.1 (11) and (12)	Shareholder waivers of dividends and future dividends	Financial statements, note 23 on page 252

Other disclosure requirements set out in UKLR 6.6.4 are not applicable to the Company.

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

Topic	Location
Financial risk management regarding financial instruments	● Note 22, page 243
Greenhouse gas emissions	● Page 105
Employee engagement	● Pages 69 and 138
Fostering business relationships with suppliers, customers and others	● Pages 68 and 69, 138 and 139 and throughout the Strategic report
Subsequent events	● Note 32 on page 264
Likely future developments in the business of the Group	● Pages 18 and 19
Details of important events affecting the Group	● Strategic and Directors' reports, in particular pages 12 to 15 and 34 to 51

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

The Company

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

Dividends

An interim dividend of 2.5p per share was declared during the year (2025: 2.0p). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend of 5.0p (2025: 4.5p) on each of the ordinary shares of 60 pence to be paid on Friday 25 September 2026 to shareholders on the register at close of business on Friday 14 August 2026.

Issued share capital

As at 31 March 2026 the Company had 505,596,597 ordinary shares of 60 pence each in issue of which 10,740,335 were held in treasury.

Authority to purchase own shares and share buyback

At the Annual General Meeting in September 2025, members authorised the Company to make market purchases of up to 50,559,660 of its own ordinary shares of 60 pence each. That authority expires at the forthcoming Annual General Meeting when a resolution will be put to renew it so as to allow purchases of up to a maximum of 10% of the Company's issued share capital.

During the year 12,543,295 ordinary shares of 60 pence each were repurchased under the buyback programme of up to £200 million announced on 25 June 2025. A total of 16,954,061 were bought back during the programme which completed on 28 April 2026 and all of such repurchased shares were transferred to Treasury.

Details of Treasury shares used to satisfy awards under the Company's share plans are to be found in note 23 on page 250. The percentage of the called-up share capital (excluding Treasury shares) as at 31 March 2026 which the shares repurchased during FY26 represents, is 2.48% and over the whole programme is 3.35%.

Details of purchases of the Company's shares made during the year to 31 March 2026 by the Babcock Employee Share Trust in connection with the Company's share plans are to be found in note 23 on page 252.

Major shareholdings

As at 31 March 2026, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
The Capital Group Companies, inc.	33,889,108	6.70%
Blackrock, Inc.	31,784,750	6.29%
Artisan Partners	26,270,916	5.20%

There have been no further notifications between 31 March 2026 and the date of this report.

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

Employment of disabled persons/ equal opportunities

Equal opportunities are available for all at Babcock including a commitment to providing a fair and inclusive environment for our colleagues with a disability or caring for a close family member with a disability.

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

We are committed to fostering an inclusive environment where every colleague feels supported, respected and able to be their authentic self at work. We do not tolerate discrimination in any form. Guided by our principles, we embed this commitment into our everyday practices, and across our interactions with colleagues, customers and partners. We continue to support the employment, development and progression of disabled colleagues, while also engaging all other colleagues to build awareness, challenge assumptions and remove barriers, whether physical, procedural or cultural, to ensure equal opportunity for all.

We are a Disability Confident Employer Level 2, demonstrating our commitment to attracting, recruiting, onboarding and retaining disabled people and those with caring responsibilities, and supporting them in the workplace to achieve their full potential. We have a dedicated Group-wide employee-led Disability Network, supported through a number of peer support groups delivering on members' needs.

For more information about our inclusion strategy, see pages 81 to 85.

Research and development

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

Political donations

No donations were made during the year for political purposes.

Qualifying third-party indemnity provisions

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

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

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

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

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

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

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

Borrowing facilities

The Group has a Revolving Credit Facility of up to £600 million maturing in July 2030, with an option to extend for a further 2 years, providing funds for general corporate and working capital purposes. In the event of a change of control, the facility provides that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the facilities.

Other statutory information *(continued)*

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

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

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

Share plans

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

Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 163 and 164.

Articles of Association of DRDL and RRDL

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

Services Contract related to the supply of training and associated services to the Royal School of Military Engineering dated 30 August 2008 between (1) Holdfast Training Services Limited and (2) Babcock Land Defence Limited (as novated and amended)

The Services Contract (Babcock) is obliged to inform the Contractor (Holdfast) as soon as reasonably practicable and in any event within 15 business days of a change of ownership of the Service Contractor.

Surface Ship Support Alliance Agreement (SSSA) dated 23 September 2009 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited (as amended)

Any change of control of Devonport Royal Dockyard Limited must be approved in advance by the Secretary of State for Defence. Consent may be withheld to prevent an unsuitable third party taking control. Breach may result in exclusion from the alliance.

Land Equipment Service Provision and Transformation Contract (LECOM/1006) dated 31 March 2015 between (1) the Secretary of State for Defence and (2) Babcock Land Defence Limited (formerly DSG Land Equipment Support Limited) (as amended)

Any transfer of any legal or beneficial interest in the share in the contractor and any change of control of the contractor or of the guarantor is to be notified in advance to the Secretary of State. A change of control of the contractor or the guarantor is subject to the approval of the Secretary of State for Defence. Any change resulting in an affiliate of the contractor of the guarantor having control of the contractor may only be refused on the grounds of national security. A change of control of any shareholder of the contractor or of the guarantor that arises as a result of an acquisition of listed shares requires notification to the Secretary of State. Any breach of the terms relating to a change of control is a Contractor Default giving rise to a right for the Secretary of State to terminate the contract.

Competitive Design Phase Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Rosyth Royal Dockyard Limited

The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Rosyth Royal Dockyard Limited or any holding company will be contrary to the defence, national security or national interest of the UK.

Design and Build Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Rosyth Royal Dockyard Limited

The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Rosyth Royal Dockyard Limited or any holding company will be contrary to the defence, national security or national interest of the UK.

Future Maritime Support Programme Lot 11 (Warehousing and Distribution at HMNB Clyde) dated 30 March 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of Devonport Royal Dockyard Limited or any other company in the Group that it objects to and in respect of which its concerns have not been addressed.

Future Maritime Support Programme Lot 1 (Naval Bases) dated 28 July 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 2 (Ships Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 3 (Submarine Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 4 (Hard Facilities Management and Alongside Services at HMNB Clyde) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Integration Partner Framework Agreement relating to the provision of professional services and works at Devonport Royal Dockyard dated 2 December 2020 and pursuant to a Contract of Accession and Variation of Contract dated 13 March 2025 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) Rosyth Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited or Rosyth Royal Dockyard Limited and the Secretary of State's concerns are not addressed.

Interim Support to the AUKUS Programme agreement dated 1 March 2024 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited and the Secretary of State's concerns are not addressed.

Dreadnought Supply and Support Contract (DSSC) Dreadnought Phase 3 (DP3) agreement dated 1 October 2023 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited and the Secretary of State's concerns are not addressed.

Future Naval Design Partnership (FNDP) dated 13 September 2024 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited or Rosyth Royal Dockyard Limited and the Secretary of State's concerns are not addressed.

Ship Submersible Nuclear (AUJUS) (SSN(A)) Detailed Design and Long Lead (D2L2) – design for support contract dated 1 August 2023 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited and the Secretary of State's concerns are not addressed.

Victoria Class In-Service Support Contract (VISSC) dated 30 June 2008 between (1) Public Services and Procurement Canada (PSPC) and (2) Babcock Canada Inc (BCI)

The Minister of PSPC may terminate, either for convenience or possibly default, including on a change of control, if there is a risk of change in foreign ownership control or influence (FOCI) that the Minister considers contrary to the best interests of Canada's security needs. The Minister may also deny the assignment of contracts and subcontracts which would be required if a change of control were to be pursued.

Volvo Construction Equipment Dealer Agreement dated February 2018 between (1) Volvo Construction Equipment AB and (2) Babcock Africa Services Pty Limited

Volvo Construction Equipment may terminate on certain grounds including if there is a change of control of Babcock Africa Services without prior written consent. Share capital and rights attaching to the Company's shares.

Other statutory information *(continued)*

Share capital and rights attaching to the Company's shares

General

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

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

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

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

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

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

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

Nationality-related restrictions on share ownership

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

At the Company's Annual General Meeting in July 2014, shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences.

A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

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

Maintenance of a register of non-EEA shareholders

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

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

Disclosure obligations on share ownership

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

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

Power to treat shares as 'Affected Shares'

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

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

Consequences of holding or having an interest in Affected Shares

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

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

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

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

Right to refuse registration

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

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

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

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

Internal controls and risk management

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

The Board, through the Audit Committee, reviews the effectiveness of the Group's internal control and risk management. More information on the work to prepare the Group for the introduction of the new reporting requirement under the 2024 UK Corporate Governance Code in respect of the declaration of effectiveness of the material controls that will come into effect for FY27 can be found in the Strategic report on pages 110 and 114 and in the Audit Committee report on page 151.

Further information on the principal risks and management controls for the Group can be found in the Strategic report on pages 110 to 128.

Auditor

Forvis Mazars LLP is willing to continue in office as independent auditor of the Company and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

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

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

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

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

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

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

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

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

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware.

The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility statement

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

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

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

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 1 to 186) for the year ending 31 March 2026 have been approved by the Board and signed on its behalf by:

Dame Ruth Cairnie
Chair

David Lockwood
Chief Executive Officer

19 June 2026

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

Opinion

We have audited the financial statements of Babcock International Group PLC (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 March 2026 which comprise the Group income statement, Group statement of comprehensive income, Group and Company statements of changes in equity, Group and Company statements of financial position, Group cash flow statement and notes to the Group and Company financial statements, including material accounting policy information.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2026 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Independent auditor's report to the members of Babcock International Group PLC (*continued*)**Contract revenue and margin recognition (Group)**

Key audit matter description	Key information is provided in the following notes in the financial statements: • Note 1(a)(i) – Critical accounting judgements; • Note 1(b)(i) – Key sources of estimation uncertainty; • Note 3 – Material accounting policy information; • Note 16 – Trade and other receivables and contract assets; and • Note 18 – Trade and other payables and contract liabilities. The Group's contract portfolio comprises of a number of multi-year, highly material projects and programmes. The estimation of lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of management judgement. We consider that revenue and margin recognition and the associated accounting for contract assets, liabilities, provisions, contingent liabilities and contingent assets, within contracts with indicators of heightened audit risk, represent a significant audit risk and a key audit matter. We performed contract risk assessment procedures on the Group's revenue portfolio to identify contracts which exhibit indicators of heightened audit risk. An area of heightened audit risk could be illustrated by, and not limited to, one of the following characteristics: • Fixed priced contracts which use the estimate at completion (EAC) method to determine revenue and profit margin; • Contracts with a loss provision; • "Design and build" contracts; • Risk of schedule delivery or technical complexity; • Judgement as to whether the Group is the principle or agent in the transaction; • Complex IFRS 15 accounting treatment; • Cost-plus style contracts with significant disallowed costs or costs subject to potential disallowance; and • Variable consideration. Four contracts were determined to be a significant risk for the group audit. One of these contracts, Type 31, has a range of heightened risk factors. This is a key contract for the users of the financial statements and we have included this as a separate key audit matter per below.
How our scope addressed this matter	Due to the nature of the Group's portfolio of revenue contracts and their associated risk, we developed a specific set of audit procedures to address the identified audit risks. The designed audit procedures were impacted by the following: • Type of revenue contract; • Type of service provided; • Whether there is homogeneity between services provided; and • Whether a contract has a unique audit risk, for example a cost saving assumption where the business aims to reduce expected production hours due to a technological investment. A specific procedure may be required if the unique assumption has a material impact on revenue recognition. Our audit procedures relevant across the contract portfolio included, but were not limited to: • Gaining an understanding of the Group's accounting policy and considering its compliance with IFRS 15 "Revenue from Contracts with Customers"; • Obtaining an understanding of the design and implementation of the key controls throughout the contract cycle, including any IT-related controls; • Enquiring with in-house legal counsel regarding contract related litigation and claims and analysing legal opinions where applicable; and • Comparing underlying inflation assumptions to other relevant benchmarks.

Contract revenue and margin recognition (Group) (continued)

How our scope addressed this matter <i>continued</i>	The procedures for contracts selected for testing included, where relevant, but were not limited to: • Meeting the contract teams to gain an understanding of the contract, including principal opportunities and risks; • Attending contract review meetings and performing site visits; • Evaluating the key contract terms and conditions; • Performing an IFRS 15 assessment to assess whether management is accounting for the contract appropriately; • Comparing forecast revenue with the signed initial contract value and any contract modifications, including signed contract amendments; • Testing a sample of variations to contractual terms as appropriate; • Assessing the appropriateness of the recognition of variable revenue; • Comparing year end contract assets against subsequent evidence, including billing and cash receipts; • Where relevant, challenging the completeness and accuracy of management's cost to complete estimates, as well as provisions for onerous contracts, by reference to projected outturns; • Obtaining evidence for entries included in contract risk registers and challenging management's assumptions through assessment against historical performance, known technical issues and the stage of completion of the contract; • Testing the accuracy of the calculation of revenue recognised, contract asset and/or liability through reperformance; • Substantive testing on actual costs incurred in the year; • Where relevant, comparing the contractual completion date together with any agreed extension-of-time with the Group's anticipated completion date to assess any exposure to potential liquidated damages; • Where relevant, assessing certain one-off judgements that have arisen due to contract events, including the completeness of management's judgements and consideration of relevant contradictory evidence; and • Assessing any judgements made in respect of significant principle versus agent considerations where relevant to a specific contract. Our observations We are satisfied that the key judgements and estimates applied across the contract portfolio in recognising revenue and profit are acceptable in the context of the financial statements taken as a whole.
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Type 31 Estimates (Group)

Key audit matter description	Key information is provided in the financial statements within note 1(b)(i) - Key sources of estimation uncertainty. The Type 31 programme is a design and build contract for the provision of five general-purpose frigates, the first of its class. It is a part of the United Kingdom Government's National Shipbuilding Strategy and is a closely monitored contract by users of the accounts. The contract is fixed price with indexation clauses and revenue recognised using an input method based on actual and forecast costs. The contract became onerous in previous reporting periods due to a variety of factors, including high inflation, design maturity and resource constraints. The expected loss for the contract as a whole was impacted by a charge of £140 million at the year-end due to 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. The ability to increase levels of programme productivity through full enablement of production tasks has also been impacted. Management's estimate of the costs to complete totals £0.7 billion and includes a range of individually key assumptions. These assumptions include, but are not limited to: • Assumptions around production norms, rework levels, and the achievability of forecasted productivity gains; • Achievability of build schedule and vessel acceptance date (VAD) within agreed timelines relevant for liquidated damages; • Assumptions surrounding the cost of labour; • Items included in the risk register; and • Other forecasted economic benefits to be derived from the programme. The overall significance of the expected loss coupled with the range of critical judgements and key estimates leads to a significant risk of material misstatement. Additionally, there has been heightened user focus on this contract in recent years. We have therefore identified this as a key audit matter.
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Independent auditor's report to the members of Babcock International Group PLC (*continued*)Type 31 Estimates (Group) (*continued*)**How our scope addressed this matter**

Our audit procedures included, but were not limited to, the below. We have split this across the procedures applicable for the contract as a whole and then focussing on the key areas of estimation uncertainty.

General

- Multiple physical site visits to inspect work performed to date;
- Enquiries of various operational team members including the Programme Director, Ship Directors, management experts in design, engineering, weight, Group Procurement and Group Human Resources, as well as Customer representatives, to obtain a detailed understanding of the build schedule and planned build activities;
- Inspection of the signed contract, relevant contract modifications, and management's IFRS 15 assessment to confirm our understanding of the contractual terms remains appropriate;
- Obtaining an understanding of relevant controls in place to review the financial performance of the contract, including the forecast future revenue and costs and to account for the onerous contract in the Group's financial statements;
- Evaluating the reasonableness of future cash flow forecasts with reference to current performance, both in year and post year end to date, and performing trend analysis, assessing historical forecasting accuracy, and forecast operational improvements in the contract to test the future build cost and schedule duration;
- Assessing management's best estimate and sensitivity analysis against our own sensitivity calculations to challenge the reasonableness of the loss provision;
- Challenging the modelling approach taken in line with the accounting standard and industry norms, as well as testing the arithmetic accuracy of the cost model; and
- Challenging the Group's onerous contract disclosures and their compliance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 1 "Presentation of Financial Statements".

Production hours

- Challenging lifetime contract production hour estimates to complete the build and fit-out of the five ships;
- Evaluating the achievability of forecast operational and productivity improvements expected to reduce production costs through improved production norms and lower levels of rework. Our procedures included assessing actual performance against planned assumptions and rework trends to date; and
- Performing sensitivity analysis on the key judgements used by management in forming the production hours forecast to identify a range of outcomes and determine whether management's estimate is reasonable.

Labour assumptions

- Challenging management's resourcing plans and assumed labour cost by assessing overtime, shift patterns and sick leave trends and assessing whether actual staffing is in line with management assumptions;
- Assess the appropriateness of the inflation assumptions in relation the industrial and non-industrial employees; and
- Assess the appropriateness of central overhead rates which are allocated to the onerous contract provision based on hours incurred.

Supply chain costs

- Challenging the achievability of assumed procurement cost actions by sampling forecast procurement cost actions to underlying evidence such as correspondence with suppliers and sub-contractors.

Schedule and final acceptance

- Challenging schedule assumptions against the current build progress, which included assessing the assumptions for typical costed timelines to complete each ship;
- Challenging the achievability of the schedule through extrapolation of actual timelines versus contractual delivery dates, considering the impact of key dependencies in the build plan. Sampling was performed on workstreams to interrogate the expected timetables; and
- Evaluating expected compliance against performance-related liquidated damages.

Risk register

- Assessing management's basis for the additional risk provisions included in the risk register; and
- Comparing the value of the risk register entries against our sensitivity calculations to challenge the reasonableness of the total risk provision

Our observations

We are satisfied that the key judgments and estimates used to recognise revenue and the onerous loss provision on the Type 31 programme are reasonable. We consider the provision to be in accordance with IAS 37, and that the revenue and margin for this contract has been recognised in accordance with IFRS 15.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£26.0 million (2025: £24.0 million)	£36.8 million (2025: £40.0 million)
How we determined overall materiality	0.5% (2025: 0.5%) of total revenue	1% (2025: 1%) of total assets
Rationale for benchmark applied	Total revenue was selected as the basis for materiality. The key considerations supporting our judgement for selection of this benchmark were: • Volatility of results in recent financial years; • Revenue is a key metric of user focus; • No market consensus of benchmarks selected for the audits of the Group's competitors; and • Consistency with materiality levels applied in previous audits.	Total assets was selected as the basis for materiality. This was due to the Company's main operations being that of a non-trading holding company.
Performance materiality	£15.6 million (2025: £12.0 million)	£22.1 million (2025: £20.0 million)
How we determined performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Both Group and Company measures represent 60% (2025: 50%) of overall materiality. The prior year was the first year of being the Group's auditor. We have applied an increase to our performance materiality threshold given our improved understanding of the Group. Additionally, when setting performance materiality, we considered the history of misstatements detected in previous years and the effectiveness of the control environment. For matters included within the Company financial statements that impact the Group financial statements, we capped performance materiality at Group performance materiality.	
Reporting threshold	We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.3 million (2025: £0.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. An increase in the current year was agreed due to this being the second year of being auditor.	

Independent auditor's report to the members of Babcock International Group PLC *(continued)*

An overview of the scope of our audit

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Group and the Company, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Our Group audit scope included an audit of the Group and the Company financial statements. The Group consists of four sectors: Marine, Nuclear, Land and Aviation, and within sectors there are more disaggregated business units across multiple geographies. Each business unit prepares individual group reporting packages. We combined reporting packages to create components based on sectors and geographies, for example Marine UK. There were 13 components in-scope for audit procedures, including the Company.

Four components of the Group were subject to full scope audit performed by the Group audit team. Under the direction and oversight of the Group audit partner, component audit teams performed full scope audit procedures on six components and specific scope audit procedures were performed on three others. All component auditors are integrated partners of Forvis Mazars Group SC.

The Group audit team issued instructions to component auditors after completing its top-down risk assessment. In the prior year, the Group audit partner visited Canada, South Africa and Australasia component teams to direct and supervise the audit procedures. In the current year he also visited the French component team and senior members of the group engagement team visited the Australasia and South Africa component teams. In both years the group engagement partner organised office visits for the UK-based component teams as well as holding regular roundtable discussions with our UK senior team members across group and component teams. There were frequent remote communications throughout the audit and the Group audit team reviewed all appendices submitted by components and directly reviewed key working papers.

The Group audit team tested certain areas centrally, such as IT-related procedures, treasury, UK defined benefit pension schemes, UK tax, assessment of incremental borrowing and discount rates, and share-based payments. The Group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

The components within scope of our work accounted for 93% (2025: 99%) of the Group's revenue, 83% (2025: 99%) of the Group's profit before taxation, 91% (2025: 98%) of the Group's total assets and 93% (2025: 99%) of the Group's net assets. The reduction in coverage is due to this being our second year of being auditor to the Group. This allows for a more precise risk assessment and scoping exercise based on an enhanced understanding from the prior year audit.

Conclusions relating to going concern

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

Our audit procedures to evaluate the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern;
- Understanding and evaluating the process used by management in preparing its going concern assessment, including the appropriateness and supportability of underlying cash flow forecasts, covenant measure and liquidity headroom calculations;
- Assessing the reasonableness of key assumptions used in management's assessment and challenging them where necessary, using both internal and external sources of evidence;
- Assessing the historical accuracy of forecasts prepared by management;
- Evaluating the feasibility of management's plans for addressing possible going concern risks and assessing whether these plans are realistic and achievable within the relevant timeframe;
- Ensuring consistency between management's going concern assessment and other areas of the audit, such as work on goodwill impairment and assessments of contract cost to complete estimates;
- Evaluating the adequacy of severe and plausible downside scenarios considered by the Directors to ensure they capture all material and relevant risks identified during the risk assessment process, and assessments of any relevant mitigating actions;
- Evaluating the reasonableness of the Director's stress testing with respect to covenant compliance to assess the Group's resilience under adverse conditions;
- Evaluating market sentiment by inspection of analyst reports and reviewing available market data;
- Reviewing and challenging the contract backlog and forecasted contract wins to support the revenue pipeline included in cash flow forecasts;
- Evaluating the Group's financial performance and position, including key metrics such as cash flows and liquidity, as well as evaluating the current debt structure and the ongoing refinancing of expiring facilities;
- Assessing the Group's wider risks and uncertainties, including risks around supply chain management, operations, technology, cyber and the environment, with reference to industry analysis; and
- Evaluating the appropriateness of the disclosures in the financial statements on going concern.

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

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

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

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified material misstatements in the:

- Strategic report or the Directors' report; or
- information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Independent auditor's report to the members of Babcock International Group PLC *(continued)*

Corporate governance statement

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

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 130;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why this period is appropriate, set out on page 130;
- Directors' statement on fair, balanced and understandable, set out on page 152;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 110;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 153; and
- The section describing the work of the Audit Committee, set out on page 150.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 186, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and the Company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation, anti-money laundering regulation, data protection legislation, environmental legislation and Single Source Contract Regulations.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the Company, the industry in which they operate, and the structure of the Group, and considering the risk of acts by the Group and the Company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Group and the Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Reviewing minutes of Directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as financial reporting legislation (including related companies' legislation such as the Companies Act 2006), Financial Conduct Authority (FCA) regulations including the Listing Rules, taxation legislation, and pensions legislation.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to revenue recognition and significant one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing;

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the members on 19 September 2024 to audit the financial statements for the year ended 31 March 2025 and subsequent financial periods. The period of total uninterrupted engagement is 2 years.

Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting our audit.

Our audit opinion is consistent with our additional report to the Audit Committee.

Use of the audit report

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

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules, these financial statements will form part of the electronic reporting format prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority. This auditor's report provides no assurance over whether the annual financial report will be prepared using the correct electronic reporting format.

Louis Burns (Senior Statutory Auditor) for and on behalf of Forvis Mazars LLP

Chartered Accountants and Statutory Auditor
Three Chamberlain Square,
Birmingham,
B3 3AX

19 June 2026

Group income statement

For the year ended 31 March

For the year ended 31 March	Note	2026 £m	2025 £m
Revenue	2,3	5,177.7	4,831.3
Operating costs		(4,872.6)	(4,468.9)
Profit resulting from acquisitions and disposals	27	–	1.5
Operating profit	2,3,4	305.1	363.9
Results from joint ventures and associates	2,14	7.4	(2.7)
Finance income	5	35.0	29.1
Finance costs	5	(63.8)	(61.2)
Profit before tax	2,3	283.7	329.1
Income tax expense	7	(73.0)	(80.2)
Profit for the year		210.7	248.9
Attributable to:			
Owners of the parent		211.2	247.1
Non-controlling interest		(0.5)	1.8
Earnings per share			
Basic	2,9	42.1p	49.1p
Diluted	2,9	41.3p	48.0p

Group statement of comprehensive income

For the year ended 31 March

	Note	2026 £m	2025 £m
Profit for the year		210.7	248.9
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		16.7	(12.7)
Reclassification of cumulative currency translation reserve on disposal	2	(2.1)	(2.5)
Fair value adjustment of interest rate and foreign exchange hedges		8.1	(1.2)
Hedging gains reclassified to profit or loss	22	(10.0)	4.8
Share of other comprehensive income of joint ventures and associates	14	–	(1.7)
Tax, including rate change impact, on items that may subsequently reclassify to the income statement		2.7	(2.7)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	25	(49.4)	15.5
Tax on remeasurement of retirement benefit obligations	7	12.3	(3.9)
Other comprehensive loss, net of tax		(21.7)	(4.4)
Total comprehensive income		189.0	244.5
Total comprehensive income attributable to:			
Owners of the parent		189.1	242.6
Non-controlling interest		(0.1)	1.9
Total comprehensive income		189.0	244.5

Group statement of changes in equity

	Note	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2024		303.4	873.0	768.8	30.6	(1,523.9)	5.3	(68.3)	388.9	17.2	406.1
Profit for the year		–	–	–	–	247.1	–	–	247.1	1.8	248.9
Other comprehensive (loss)/income		–	–	–	–	11.6	1.0	(17.1)	(4.5)	0.1	(4.4)
Total comprehensive income		–	–	–	–	258.7	1.0	(17.1)	242.6	1.9	244.5
Dividends	8	–	–	–	–	(26.7)	–	–	(26.7)	(1.3)	(28.0)
Disposal of non-controlling interest		–	–	–	–	–	–	–	–	(0.4)	(0.4)
Purchase of own shares	23	–	–	–	–	(18.8)	–	–	(18.8)	–	(18.8)
Share-based payments	24	–	–	–	–	14.3	–	–	14.3	–	14.3
Tax on share-based payments		–	–	–	–	4.1	–	–	4.1	–	4.1
Net movement in equity		–	–	–	–	231.6	1.0	(17.1)	215.5	0.2	215.7
At 31 March 2025		303.4	873.0	768.8	30.6	(1,292.3)	6.3	(85.4)	604.4	17.4	621.8
At 1 April 2025		303.4	873.0	768.8	30.6	(1,292.3)	6.3	(85.4)	604.4	17.4	621.8
Profit for the year		–	–	–	–	211.2	–	–	211.2	(0.5)	210.7
Other comprehensive (loss)/income		–	–	–	–	(37.1)	(1.7)	16.7	(22.1)	0.4	(21.7)
Total comprehensive income		–	–	–	–	174.1	(1.7)	16.7	189.1	(0.1)	189.0
Dividends	8	–	–	–	–	(34.7)	–	–	(34.7)	(2.0)	(36.7)
Purchase of own shares	23	–	–	–	–	(169.3)	–	–	(169.3)	–	(169.3)
Share-based payments	24	–	–	–	–	17.2	–	–	17.2	–	17.2
Tax on share-based payments		–	–	–	–	7.3	–	–	7.3	–	7.3
Net movement in equity		–	–	–	–	(5.4)	(1.7)	16.7	9.6	(2.1)	7.5
At 31 March 2026		303.4	873.0	768.8	30.6	(1,297.7)	4.6	(68.7)	614.0	15.3	629.3

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

Group statement of financial position

	Note	31 March 2026 £m	31 March 2025 £m
Assets			
Non-current assets			
Goodwill	10	779.8	778.2
Other intangible assets	11	134.0	142.4
Property, plant and equipment	12	601.3	558.9
Right of use assets	13	248.5	228.8
Investment in joint ventures and associates	14	40.3	43.5
Other investments		3.9	–
Loan to joint ventures and associates	14	3.3	3.6
Retirement benefits surpluses	25	77.3	98.8
Other financial assets		2.9	4.2
Lease receivables	13, 21	31.4	26.2
Derivatives	21	9.9	5.1
Deferred tax asset	7	96.2	102.8
Trade and other receivables	16	17.7	18.1
		2,046.5	2,010.6
Current assets			
Inventories	15	206.9	162.2
Trade and other receivables	16	552.1	507.4
Contract assets	16	352.8	329.7
Income tax recoverable		7.3	4.8
Lease receivables	13, 21	14.5	18.4
Other financial assets		1.3	1.2
Derivatives	21	8.8	9.3
Cash and cash equivalents	17, 26	739.9	646.6
		1,883.6	1,679.6
Total assets		3,930.1	3,690.2
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	23	303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		735.3	720.3
Retained earnings		(1,297.7)	(1,292.3)
		614.0	604.4
Non-controlling interest		15.3	17.4
Total equity		629.3	621.8
Non-current liabilities			
Bank and other borrowings	19	474.9	750.7
Lease liabilities	13, 19	254.2	227.4
Trade and other payables	18	6.1	4.2
Deferred tax liabilities	7	5.1	5.9
Derivatives	21	21.9	44.8
Retirement benefit deficits	25	111.3	107.2
Provisions for other liabilities, including other employee benefits	20	81.8	58.1
		955.3	1,198.3
Current liabilities			
Bank and other borrowings	19	316.0	0.6
Lease liabilities	13, 19	53.1	47.2
Trade and other payables	18	1,041.5	948.0
Contract liabilities	18	786.2	759.4
Income tax payable		25.1	25.6
Derivatives	21	2.9	9.1
Other financial liabilities		1.0	–
Provisions for other liabilities, including other employee benefits	20	119.7	80.2
		2,345.5	1,870.1
Total liabilities		3,300.8	3,068.4
Total equity and liabilities		3,930.1	3,690.2

The notes on pages 200 to 268 are an integral part of the consolidated financial statements. The Group financial statements on pages 196 to 268 were approved by the Board of Directors on 19 June 2026 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Group cash flow statement

For the year ended 31 March

	Note	2026 £m	2025 £m
Cash flows from operating activities			
Profit for the year		210.7	248.9
Results from joint ventures and associates	14	(7.4)	2.7
Income tax expense	7	73.0	80.2
Finance income	5	(35.0)	(29.1)
Finance costs	5	63.8	61.2
Depreciation and impairment of property, plant and equipment	12	67.5	59.0
Depreciation and impairment of right of use assets	13	50.4	33.0
Amortisation and impairment of intangible assets	11	27.7	27.5
Equity share-based payments	24	17.2	14.3
Net derivative fair value and currency movement through profit or loss		(15.6)	(5.6)
Fair value movement on assets held at fair value through profit or loss		(8.1)	(3.6)
Gain on disposal of subsidiaries, businesses and joint ventures and associates	27	–	(1.5)
Profit on disposal of property, plant and equipment		(0.5)	(0.7)
(Profit)/loss on disposal of right of use assets		(4.1)	0.1
Loss on disposal of intangible assets		0.2	–
Cash generated from operations before movement in working capital and retirement benefit payments		439.8	486.4
(Increase)/decrease in inventories		(36.5)	25.3
Increase in receivables		(49.4)	(53.5)
Increase in contract assets		(18.7)	(71.7)
Increase in payables		66.7	6.0
Increase in contract liabilities		20.7	78.7
Increase/(decrease) in provisions		48.1	(23.5)
Retirement benefit contributions in excess of current period expense		(23.4)	(90.3)
Cash generated from operations		447.3	357.4
Income tax paid		(18.3)	(21.8)
Interest paid		(55.2)	(55.8)
Interest received		28.6	29.0
Net cash flows from operating activities		402.4	308.8
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	27	8.1	(1.1)
Dividends received from joint ventures and associates	14	11.1	12.2
Proceeds on disposal of property, plant and equipment		51.4	6.1
Proceeds on disposal of right of use assets		1.7	–
Purchases of property, plant and equipment		(150.3)	(105.3)
Purchases of intangible assets		(10.0)	(23.0)
Purchase of other investments		(3.9)	–
Loans repaid by joint ventures and associates	14	0.2	0.3
Net cash flows from investing activities		(91.7)	(110.8)
Cash flows from financing activities			
Dividends paid	8	(34.7)	(26.7)
Lease payments	26	(44.5)	(45.4)
Bank loans repaid	26	(3.0)	(8.4)
Loans raised and facilities drawn down	26	–	7.9
Dividends paid to non-controlling interest		(2.0)	(1.3)
Purchase of own shares		(155.3)	(18.8)
Net cash flows from financing activities		(239.5)	(92.7)
Net increase in cash, cash equivalents and bank overdrafts		71.2	105.3
Cash, cash equivalents and bank overdrafts at beginning of year	26	646.5	552.6
Effects of exchange rate fluctuations	26	5.9	(11.4)
Cash, cash equivalents and bank overdrafts at end of year	26	723.6	646.5

Notes to the Group financial statements

For the year ended 31 March

1. Preparation of the Group financial statements

Basis of preparation

Babcock International Group PLC (the parent and ultimate parent company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in England, UK.

Babcock is an international defence company providing support and product solutions to enhance our customers' defence capabilities and critical assets. We provide through-life technical and engineering support for our customers' assets, delivering improvements in performance, availability and programme cost. We deliver these critical services to defence and civil customers, including engineering support to naval, land, air and nuclear operations, frontline support, specialist training and asset management. 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.

The financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standards, and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value.

Going concern

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 Group uses a Risk Management Framework to identify and manage risks and these risks are considered in making the going concern assessment including through incorporation in downside modelling. 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.

a) Available financing

As at 31 March 2026, net debt excluding leases was £(22.7) million and the Group therefore had liquidity headroom of £1.4 billion, including net cash of £0.7 billion and undrawn facilities of £0.7 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and support the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting. All of the Group's facilities mature during the viability period, and therefore, in assessing liquidity in future periods, we have assumed that it will be possible to re-finance the Group's facilities at current market rates.

As of June 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 (ii) and 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, and the creditworthiness of the Group's relationship banks is closely monitored. Based on their credit ratings, we have no credit concerns with our relationship banks. Given the importance of the RCF to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates and to the end of the five-year plan, assuming renewal of the RCF with consistent covenants to those currently applied.

1. Preparation of the Group financial statements (*continued*)

b) Base case scenario

The base case budgets and forecasts show significant levels of headroom against both financial covenants, and liquidity headroom based on the current committed facilities outlined above. That base case largely assumes we maintain our incumbent programme positions if re-let during the five-year period, with margin recovery if they are currently below the Group average. Many opportunities available to the Group, where we do not yet have high conviction of securing the work, have been excluded from the base case to maintain a degree of caution.

The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also reflects pension deficit contributions in excess of income statement charges of around £25 million in each period of the model.

c) 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.

d) 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.

New and amended standards adopted by the Group

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2025 and did not have a material impact on the consolidated financial statements:

- **Amendments to IAS 21 – Lack of Exchangeability**

New IFRS accounting standards, amendments and interpretations not yet adopted

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

- **IFRS 18 – Presentation and Disclosures in Financial Statements:** Replaces IAS 1 and makes minor changes to IAS 8, IFRS 7, IAS 7 and IAS 33. Introduces new requirements regarding specific categories and subtotals in the Group Income Statement and further disclosures on management performance measures (MPMs) and disclosures aimed at improving aggregation and disaggregation.

IFRS 18 was formally endorsed by the UK endorsement board in December 2025 and is applicable for annual reporting periods beginning on or after 1 January 2027 with earlier adoption permitted. The Group does not intend to adopt this standard early and therefore this standard is expected to be first presented within the Annual Report for the period ended 31 March 2028.

It is anticipated that the application of IFRS 18 may have an impact on the presentation and disclosure of the Group's consolidated financial statements from the point of adoption.

Notes to the Group financial statements (*continued*)

1. Preparation of the Group financial statements (*continued*)

New IFRS accounting standards, amendments and interpretations not yet adopted (*continued*)

- **IFRS 19 – Subsidiaries without Public Accountability: Disclosures:** IFRS 19 is only permitted to be applied by subsidiaries with no public accountability. As the Group is not a subsidiary, application of the standard is not permitted and therefore will have no impact on the Group's Consolidated Financial Statements. IFRS 19 is applicable for annual reporting periods beginning on or after 1 January 2027 with earlier adoption permitted (subject to formal endorsement by the UK endorsement board).
- **Amendments to IFRS 7 and IFRS 9 – Classification and Measurement of Financial Instruments & Contracts referencing nature-dependant electricity:** Effective from 1 January 2026 and not assessed to have a material impact on the Group's Income Statement or Statement of Financial Position.
- **Annual improvements to IFRS accounting standards (volume 11):** Effective from 1 January 2026 and not assessed to have a material impact on the Group's Income Statement or Statement of Financial Position.

Basis of consolidation

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

(a) Subsidiaries

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

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

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

(b) Joint ventures and associates

Associates are those entities over which the Group exercises its significant influence when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Materiality

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

Critical accounting estimates and judgements

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

(a) Critical accounting judgements

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

(i) Acting as principal or agent

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

1. Preparation of the Group financial statements (*continued*)

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

IAS 36 requires that, for the purpose of subsequent impairment testing, goodwill acquired in business combinations be allocated to cash generating units ('CGUs') or groups of CGUs expected to benefit from the synergies of the combination. Such CGUs or groups of CGUs shall represent the lowest level at which goodwill is monitored for internal management purposes and shall not be larger than an operating segment.

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

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

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

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

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

(b) Key sources of estimation uncertainty

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

(i) Revenue and profit recognition

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

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

The above assumptions all impact upon each individual contract to varying extents depending on the risk profile of the contract and the individual contract terms and conditions. As such sensitivities to these assumptions are not provided as to do so is not considered practicable.

Notes to the Group financial statements (*continued*)

1. Preparation of the Group financial statements (*continued*)

Type 31 contract estimates

The contract to produce 5 Type 31 frigates was won under competitive tender in 2019, based on Babcock's Arrowhead 140 design. The contract is important in providing access to an expected pipeline of Type 31 work and developing our Arrowhead 140 design for opportunities overseas. Although the contract contained certain escalation clauses, it provided limited protection from the macroeconomic changes of recent years relating to Brexit, Covid, raw material prices and UK labour shortages, which have significantly increased our costs. This has resulted in the contract being loss-making, together with increases in estimated costs due to the maturing of the design and the forecast cost of labour.

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 work 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. 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.

The estimation process has been extensive given the new information available. The key steps are set out below but this year has involved further and deeper analysis of operational data, the results of pilot schemes, input from external experts and the customer, consideration of alternative assumptions and retrospective review of previous assumptions. Multiple review processes were held between Programme, Sector and Group management, culminating in dedicated reviews with the Audit Committee which focused on the key assumptions around productivity, rework, labour costs, schedule and risk. These reviews involved direct challenge of key representatives from the contract team, assessment of the process followed and independent scrutiny of the available evidence for key assumptions.

Following the estimation process we have reassessed and updated the disclosure of major sources of estimation uncertainty set out below.

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

The estimates made in assessing the outturn are set out below, along with the related estimation methods and data sources.

- a) **The number of production hours** – which requires estimation of a standard level of hours for manufacturing, structural and outfitting activities, determined with reference to previous experience of comparable programmes and industry data where available. The estimation of the time taken to improve to this standard level is also relevant, based on a detailed operational improvement programme and evidence from pilot work. The volume of activities is based on a detailed assessment of the Bill of Materials, supported by dedicated engineering software
- b) **The ability to improve operational performance through quality and engineering improvements over the five ships** – which requires actions to reduce re-work, particularly arising from engineering change
- c) **The cost of labour** – which is dependent on our ability to recruit, the mix of the workforce between permanent and contingent workers from the UK and overseas and the utilisation of semi-skilled and apprentice workers. A detailed resourcing plan is used to support this estimate
- d) **The cost of bought-in parts and services through suppliers and sub-contractors** – which includes the outcome of remaining procurement activity, the finalisation of areas of unagreed pricing and the agreement of discounts and incentive arrangements
- e) **The number of hours required by support functions** – primarily in engineering which requires effective management of production support and change requests. A detailed engineering maturity review has been performed to support this estimate
- f) **The determination of non-incremental costs** – which relate directly to fulfilling the contract and are therefore partially allocated to the contract to determine the loss provision, including facility and overhead costs
- g) **The impact of inflation** – on the contract price and costs to fulfil the contract, particularly in relation to labour which may be impacted by changes in the local, UK and overseas labour markets, competitor activity and government policy
- h) **The achievement of the build schedule to completion and final acceptance** – including the satisfaction of all contractual performance criteria. The schedule analysis is based on detailed modelling and the performance of multiple scenario analysis

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

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

1. Preparation of the Group financial statements *(continued)*

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

- **Production hours** – which are impacted by production norms, rate of improvement and quality/engineering improvements (see a) and b) above). A 10% increase/decrease in production hours would increase/decrease the loss by £29 million
- **Labour rate** – which is impacted by our ability to recruit permanent staff, the mix of the workforce, ancillary costs and inflation (see c) and g) above). A 10% increase/decrease in the average labour rate would increase/decrease the loss by £34 million
- **Schedule** – which is impacted by various factors above. A 6-month delay beyond the current planning assumption would increase the loss by £15 million

Overall, with c.£0.7 billion of estimated costs to go over the life of the contract, if actual costs were to differ from those assumed by 10%, the potential impact on the contract outturn could be c.£70 million. Any increase in loss would cause a commensurate deterioration in the balance sheet through a combination of an increase to the onerous loss provision (note 20), reductions in contract assets (note 16) or increases in contract liabilities (note 18).

To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. The uncertainty over the contract outturn will reduce in the next financial year but there will be substantial activity and risk over the remaining years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

(ii) Defined benefit pension schemes obligations

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

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

(i) The carrying value of goodwill

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

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

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

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

(ii) Impact of climate change

In preparing the Group financial statements, consideration has been given to the potential impact of climate change. Climate-related matters create a number of risks and opportunities for the Group. Climate-related matters are not considered to have a material impact on the Group's critical accounting judgements or key sources of estimation uncertainty.

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

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

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

Notes to the Group financial statements *(continued)*

1. Preparation of the Group financial statements *(continued)*

Material accounting policy information

The material accounting policy information relevant to specific accounting areas is set out within the associated note. Other general policy information is set out below. Material accounting policies have been applied consistently throughout the year and the comparative year except as otherwise stated.

(a) Transactions with non-controlling interest

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

(b) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

(c) Government grants and contributions

In the course of our business we receive certain grants or contributions from governments. These are deducted from the related expenses in the income statement. These amounts total £56.0 million (FY25: £48.3 million).

2. Adjustments between statutory and underlying information

Definition of underlying measures and specific adjusting items

The Group provides alternative performance measures, including underlying operating profit, underlying earnings per share and net debt (Note 26), 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.

Other alternative performance measures are presented in the Financial Review on pages 32 to 51 where reconciliations to statutory information are also provided.

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's alternative performance measures are consistent with the year ended 31 March 2025.

Underlying operating profit

In any given year the statutory measure of operating profit includes a number of items which the Group considers to either be one-off in nature or otherwise not reflective of underlying performance. Underlying operating profit therefore adjusts statutory operating profit to provide readers with a measure of business performance which the Group considers more consistently analyses the underlying performance of the Group by removing these one-off and other items not reflective of underlying performance that otherwise add volatility to performance.

Underlying operating profit eliminates potential differences in performance caused by purchase price allocations on business combinations in prior periods (amortisation of acquired intangibles), business acquisition, merger and divestment related items, large, infrequent restructuring programmes and fair value movements on derivatives. Transactions such as these may happen regularly and could significantly impact the statutory result in any given year. Adjustments to underlying operating profit may include both income and expenditure items.

2. Adjustments between statutory and underlying information *(continued)*

Specific adjusting items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being amounts related to corporate transactions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes;
- Fair value gain/(loss) on forward rate contracts that are open during the period; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. No exceptional items have been identified in the current or comparative period.

Underlying earnings per share

Basic underlying earnings per share are calculated by dividing the underlying profit after tax attributable to ordinary shareholders by the weighted average number of ordinary shares in issue less the weighted average number of shares held by the Employee Share Trust as treasury shares. Diluted underlying earnings per share is calculated by dividing the underlying profit after tax attributable to ordinary shareholders by the weighted average number of ordinary shares in issue less the weighted average number of shares held by the Employee Share Trust, plus the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the year end. Details of share incentive schemes are provided in note 23 and note 24.

Income statement including underlying results

The below table, disclosed as supplementary information, reconciles the non-GAAP measure of underlying operating profit to statutory profit.

	Note	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
Revenue	3	5,177.7	–	5,177.7	4,831.3	–	4,831.3
Operating profit	3,4	293.3	11.8	305.1	362.9	1.0	363.9
Operating margin %		5.7%	–	5.9%	7.5%	–	7.5%
Results from joint ventures and associates	14	7.4	–	7.4	8.4	(11.1)	(2.7)
Net finance costs	5	(33.5)	4.7	(28.8)	(31.9)	(0.2)	(32.1)
Profit/(loss) before tax		267.2	16.5	283.7	339.4	(10.3)	329.1
Income tax (expense)/benefit	7	(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

Earnings per share including underlying measures

	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) 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	12.7	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

Notes to the Group financial statements (continued)

2. Adjustments between statutory and underlying information (continued)

Details of specific adjusting items

The impact of specific adjusting items is set out below:

	Year ended 31 March 2026 £m	Year ended 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 (note 25)	–	1.2
Fair value movement on derivatives and related items	11.6	6.5
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)
Adjusting items impacting profit before tax	16.5	(10.3)
Income tax benefit		
Amortisation of acquired intangibles	2.9	2.2
Business acquisition, merger and divestment related items	(2.5)	–
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes (note 25)	–	(0.3)
Fair value movement on derivatives and related items	(4.2)	(1.6)
Other tax items including rate change impact	–	3.6
Income tax benefit	(3.8)	3.9

Reconciliation of statutory to underlying tax rate

Note	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	267.2	16.5	283.7	339.4	(10.3)	329.1
Share of (profit)/loss from joint ventures and associates	14	(7.4)	–	(7.4)	(8.4)	11.1
Profit/(loss) before tax excluding profit from joint ventures and associates		259.8	16.5	276.3	331.0	0.8
Income tax (expense)/benefit		(69.2)	(3.8)	(73.0)	(84.1)	3.9
Tax rate		26.6%	26.4%	25.4%		24.2%

Explanation of specific adjusting items

Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group and is removed to aid comparability with peers who have grown organically as opposed to through acquisition. Intangible assets arising as a result of the purchase price allocation on business combinations include customer lists, technology-based assets, order book and trade names. Amortisation of internally generated intangible assets is included within underlying operating profit.

Business acquisition, merger and divestment related items

Transaction related costs and gains or losses on acquisitions, mergers and divestments of businesses are excluded from underlying operating profit as business combinations and divestments are not considered to result from underlying business performance.

The total net profit relating to business acquisition, merger and divestment related items for the year ended 31 March 2026 was £10.2 million (2025: £1.5 million). The profit for the current year comprises a gain of £8.1 million on loan receivable instruments created on the disposal of the Group's Civil Training business in a prior period. These loan notes were held at fair value and an accounting gain arose on final settlement of the outstanding balance. Further detail is given in Note 27. In addition, the Group has recorded a £2.1 million gain from amounts being settled on intercompany balances previously designated as net investments in a foreign operation under IAS 21 further to internal group reorganisation activities.

2. Adjustments between statutory and underlying information *(continued)*

The prior year balance comprises the disposal of the Group's interest in the NTI business in Oman. Further detail is included in note 27.

Fair value movement on derivatives and related items

These are open forward currency contracts, taken out in the ordinary course of business to manage foreign currency exposures, where the transaction will occur in future periods. Hedge accounting under IFRS is not applied, however these do represent economic hedges. On maturity the currency contract will be closed and recognised in full within underlying operating profit at the same time as the hedged sale or purchase. The net result, at that time, will then more appropriately reflect the related sales price or supplier cost being hedged.

Hedge ineffectiveness on debt and debt-related derivatives that are designated in a hedge relationship are also presented as a specific adjusting item in finance costs. This is presented as a specific adjusting item as this ineffectiveness is caused by a historic off-market designation, the transactions are considered by the Group to represent an economic hedge.

The fair value movement on lease-related derivatives and foreign exchange movements on lease liabilities are also presented as a specific adjusting item in finance costs, as hedge accounting under IFRS is also not applied to these transactions but are also considered by the Group to represent an economic hedge.

Tax

Specific adjusting items in respect of tax are £nil. In the year ended 31 March 2025 the Group recorded a credit of £3.6 million arising from the impact of the increase in the rate of corporation tax. The rate change impact arose from adjustments to the Group's UK tax position for years ended before 1 April 2023.

Results from joint ventures and associates

In the prior year it was noted that our Ascent flight training joint venture, as part of FRS102 aligning with IFRS on revenue recognition, had recorded a one-off reduction in its overall measure of contract completion under IFRS 15. This reduction in share of profits from JVs was reported as a Specific Adjusting Item as it is met our criteria for an exceptional item, being significant, non-recurring and outside of the normal operating practice. No one-off items in respect of results from joint ventures and associates have been noted in the current year.

3. Segmental information and revenue recognition

Revenue recognition

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

(i) Performance obligations

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

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

(ii) Determination of contract price

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

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

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

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

Notes to the Group financial statements (*continued*)

3. Segmental information and revenue recognition (*continued*)

Revenue recognition (*continued*)

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

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

(iii) Allocation of contract price to performance obligations

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

(iv) Revenue and profit recognition

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

Revenue recognised over time

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

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

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

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

Under most of the Group's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the amount of revenue recognised (as measured by the methods described above) exceeds the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See note 16 and note 18 for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

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

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Group. These revenues are delivered predominantly by the Aviation and Land sectors and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD). Sale of goods at a point in time represents approximately 6% of Group revenues (2025: 7%).

3. Segmental information and revenue recognition *(continued)*

Revenue recognition *(continued)*

Assessment of contract profitability

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

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

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

(v) Contract modifications

Claims and variations

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

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

Accounting for contract modifications

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

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

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

Claims and variations which are not deemed to be contract modifications

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

Notes to the Group financial statements (continued)

3. Segmental information and revenue recognition (continued)

The Group has four operating and reportable segments, determined by reference to the goods and services they provide and the markets they serve.

Marine – design, build and through-life support of naval ships, submarine and equipment through-life support, design and manufacture of weapons handling and launch systems for ships and submarines and design, build and support of secure military communications systems in the UK and internationally.

Nuclear – through-life support of submarines and complex engineering services in support of major decommissioning programmes and projects, training and operation support, new build programme management and design and installation in the UK.

Land – large-scale critical vehicle fleet management, equipment support and training for military and civil customers.

Aviation – critical engineering services to defence and civil customers worldwide, including pilot training, equipment support, airbase management and operation of aviation fleets delivering emergency services.

The executive members of the Board, the chief operating decision maker as defined by IFRS 8, monitor the results of these operating and reportable segments and makes decisions about the allocation of resources.

The accounting policies of the reportable segments are the same as the group's accounting policies described in Note 1. The table below presents the underlying results for each reportable segment in accordance with the definition of underlying operating profit, as set out in note 2, and reconciles the underlying operating profit to the statutory profit before tax.

Year ended 31 March 2026	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,591.5	2,070.4	1,084.4	431.4	–	5,177.7
Underlying operating profit/(loss)	(29.8)	197.1	95.3	30.7	–	293.3
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(7.8)	–	–	(2.2)	–	(10.0)
Business acquisition, merger and divestment related items	–	–	8.1	2.1	–	10.2
Fair value gain on forward rate contracts to be settled in future periods	9.2	–	–	2.4	–	11.6
Operating profit	(28.4)	197.1	103.4	33.0	–	305.1
Results from joint ventures and associates	1.3	(0.3)	–	6.4	–	7.4
IFRIC 12 investment income	–	–	0.3	–	–	0.3
Other net finance costs*	–	–	–	–	(29.1)	(29.1)
Profit/(loss) before tax	(27.1)	196.8	103.7	39.4	(29.1)	283.7

Year ended 31 March 2025	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m*
Revenue	1,576.4	1,816.0	1,116.6	322.3	–	4,831.3
Underlying operating profit	96.5	160.3	86.2	19.9	–	362.9
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(5.5)	–	–	(2.7)	–	(8.2)
Business acquisition, merger and divestment related items	1.5	–	–	–	–	1.5
Fair value gain/(loss) on forward rate contracts to be settled in future periods	6.8	–	–	(0.3)	–	6.5
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes	–	1.1	0.1	–	–	1.2
Operating profit	99.3	161.4	86.3	16.9	–	363.9
Results from joint ventures and associates	(0.5)	0.3	–	(2.5)	–	(2.7)
IFRIC 12 investment income	–	–	0.4	–	–	0.4
Other net finance costs*	–	–	–	–	(32.5)	(32.5)
Profit/(loss) before tax	98.8	161.7	86.7	14.4	(32.5)	329.1

* Other net finance costs are not allocated to a specific sector.

Revenues of £3.0 billion (2025: £3.0 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

3. Segmental information and revenue recognition *(continued)*

Segment assets and liabilities

The reportable segment assets and liabilities at 31 March 2026 and 31 March 2025 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2026 £m	2025 £m	2026 £m	2025 £m	2026 £m	2025 £m	2026 £m	2025 £m
Marine	916.6	845.9	1,066.5	901.8	34.4	18.9	4.1	4.4
Nuclear	761.0	761.9	378.9	378.3	54.8	69.8	4.1	5.7
Land	663.4	665.9	387.7	424.5	3.5	6.1	6.6	10.3
Aviation	521.1	453.5	366.6	313.0	58.2	25.3	18.8	17.9
Unallocated*	1,068.0	963.0	1,101.1	1,050.8	9.4	8.2	10.9	7.1
Group total	3,930.1	3,690.2	3,300.8	3,068.4	160.3	128.3	44.5	45.4

* All assets and liabilities are allocated to their appropriate reportable segments except for cash, cash equivalents, borrowings, income and deferred tax balances and retirement benefit surpluses which are included in the unallocated segment.

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalling £53.1 million (2025: £6.1 million) are not included above, and are predominantly in the Aviation sector (2025: Land sector). See note 18 relating to the treatment of amounts payable in respect of capital expenditure.

The segmental analysis of joint ventures and associates is detailed in note 14.

Segmental depreciation and amortisation

The segmental depreciation on property, plant and equipment, right of use assets and amortisation of intangible assets for the years ended 31 March 2026 and 31 March 2025 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2026 £m	2025 £m	2026 £m	2025 £m	2026 £m	2025 £m
Marine	12.7	12.1	3.8	3.1	10.5	8.7
Nuclear	32.8	28.1	5.1	6.2	8.4	3.5
Land	3.4	4.4	6.1	7.3	0.5	0.6
Aviation	9.4	7.2	21.5	11.3	2.3	2.8
Unallocated	7.7	7.2	9.7	3.3	6.0	11.9
Group total	66.0	59.0	46.2	31.2	27.7	27.5

Notes to the Group financial statements (continued)

3. Segmental information and revenue recognition (continued)

Segmental asset impairments

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2026 and 31 March 2025 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2026 £m	2025 £m	2026 £m	2025 £m	2026 £m	2025 £m
Marine	0.1	–	–	–	–	–
Nuclear	–	–	0.1	–	–	–
Land	–	–	1.4	0.1	–	–
Aviation	(1.9)	–	–	–	–	–
Unallocated	3.3	–	2.7	1.7	–	–
Group total	1.5	–	4.2	1.8	–	–

Geographic analysis of non-current assets

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2026 and 31 March 2025 is as follows:

	2026 £m	2025 £m
United Kingdom	1,493.0	1,473.3
Rest of Europe	66.4	64.9
Africa	28.5	26.0
North America	78.9	58.3
Australasia	162.5	154.3
Rest of World	2.4	0.9
Non-current segment assets	1,831.7	1,777.7
Retirement benefits	77.3	98.8
Lease receivables	31.4	26.2
Derivatives	9.9	5.1
Deferred tax asset	96.2	102.8
Total non-current assets	2,046.5	2,010.6

3. Segmental information and revenue recognition *(continued)*

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the years ended 31 March 2026 and 31 March 2025 is as follows:

Year ended 31 March 2026	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
United Kingdom	769.3	2,068.5	622.1	185.1	3,645.0
Rest of Europe	38.8	–	26.1	155.0	219.9
Africa	–	–	336.9	–	336.9
North America	215.4	1.9	–	26.8	244.1
Australasia	187.2	–	99.3	64.5	351.0
Rest of World	380.8	–	–	–	380.8
Group total	1,591.5	2,070.4	1,084.4	431.4	5,177.7

Year ended 31 March 2025	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
United Kingdom	853.3	1,815.8	628.4	150.8	3,448.3
Rest of Europe	40.6	–	31.0	95.7	167.3
Africa	–	–	348.6	–	348.6
North America	197.7	0.2	–	13.0	210.9
Australasia	195.4	–	108.6	62.8	366.8
Rest of World	289.4	–	–	–	289.4
Group total	1,576.4	1,816.0	1,116.6	322.3	4,831.3

The analysis of revenue split between market sectors for the years ended 31 March 2026 and 31 March 2025 is as follows:

Year ended 31 March 2026	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Defence	1,230.4	1,784.1	571.2	236.4	3,822.1
Civil	361.1	286.3	513.2	195.0	1,355.6
Revenue	1,591.5	2,070.4	1,084.4	431.4	5,177.7

Year ended 31 March 2025	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Defence	1,296.4	1,575.0	547.3	160.8	3,579.5
Civil	280.0	241.0	569.3	161.5	1,251.8
Revenue	1,576.4	1,816.0	1,116.6	322.3	4,831.3

During the year, the Group has recognised a £29.1 million reversal of revenue in respect of performance obligations satisfied or partially satisfied in previous periods (2025: an increase in revenue of £45.3 million). The current year reversal is significantly impacted by the Type 31 charge as described in Note 1 to the accounts. Excluding the impact of Type 31, the Group has recognised £50.1 million of revenue in respect of performance obligations satisfied or partially satisfied in previous periods, broadly in line with the amount recorded in 2025. This reflects the increase in expected outturn margin across our long-term contracts. We normally expect contract margins to increase gradually over time as risk on each contract reduces and as we meet the 'highly probable' test under IFRS 15 to recognise variable consideration. This therefore represents a normal part of our trading.

At 31 March 2026, there is £5.9 billion (2025 restated: £6.8 billion) of transaction price on contracts with customers that has been allocated to unsatisfied or partially satisfied performance obligations (note this metric has been prepared for IFRS 15 disclosure purposes and therefore does not align to the Group's contract backlog). Contract backlog is based on the full contractual term of the Group's agreements whilst the IFRS 15 disclosure may be a shorter contractual period in the event that the customer has the ability to exit contracts prior to the full term for non-substantive penalty payments. Management expects that 51.2% (2025 restated: 40.4%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2026 will be recognised as revenue during the next reporting period. A further 42.6% (2025 restated: 48.8%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2026.

Comparatives were restated following identification of additional contracts for which the customer has the ability to exit prior to the full term for non-substantive penalty payments. This has a resulting impact on the disclosed percentages.

Notes to the Group financial statements (continued)

4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Raw materials, subcontracts and other bought-in items used	2,215.5	2,093.0
Change in inventories of finished goods and work-in-progress	(40.9)	29.4
Other operating charges	104.4	12.2
Employee costs (note 6)	1,878.9	1,659.3
Non-payroll people-related costs (including health and safety, travel, training, recruitment and subcontracted labour)	267.2	278.4
Facility costs (excluding amortisation charges shown below)	148.0	114.9
Legal and professional fees	98.8	98.3
Hire and vehicle costs (including short and low-value leases)	59.5	53.2
Insurance costs	23.1	21.9
Depreciation of property, plant and equipment (note 12)	66.0	59.0
Depreciation of right-of-use assets (note 13)	46.2	31.2
Amortisation of intangible assets (note 11)		
• Acquired intangibles	10.0	8.2
• Other	17.7	19.3
Impairment of property, plant and equipment (note 12)	1.5	–
Impairment of right of use assets (note 13)	4.2	1.8
Gain on disposal of property, plant and equipment	(0.5)	(0.7)
Loss on disposal of intangible assets	0.2	–
(Gain)/loss on disposal of right-of-use assets	(4.1)	0.1
Net foreign exchange gain	(3.4)	(0.4)
Gain on disposal of subsidiaries and joint ventures	–	(1.5)
Gain on derivative instruments at fair value through profit or loss	(11.6)	(6.6)
Gain on trade and other receivables measured at fair value	(8.1)	(3.6)
Total operating charges	4,872.6	4,467.4

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor:

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	2.7	2.7
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	6.2	6.4
Additional fees payable to the parent auditor and its associates in respect of the prior year audits of the Company's subsidiaries	1.3	
Audit related assurance fees	–	–
Fees for other services:		
Other non-audit services	–	–
Total fees paid to the Group's auditor and network firms	10.2	9.1

5. Net finance costs

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised. Further detail on the capitalisation of borrowing costs is given in Note 12.

Finance income

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

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	32.7	37.1
Lease interest and foreign exchange movements on lease liabilities	15.3	15.1
Amortisation of issue costs of bank loan	3.1	2.1
Retirement benefit interest cost (note 25)	5.3	4.5
Other	11.1	7.4
Capitalised borrowing costs (note 12)	(3.7)	(5.0)
Total finance costs	63.8	61.2
Finance income		
Bank deposits, loans and leases	29.0	28.7
IFRIC 12 Investment income	0.3	0.4
Retirement benefit interest income (note 25)	5.7	–
Total finance income	35.0	29.1
Net finance costs	28.8	32.1

Net finance costs decreased to £28.8 million (2025: £32.1 million). Included in other finance costs are £0.9 million (2025: £0.5 million) relating to the discounting of long-term receivables in France and £8.6 million relating to interest charge on the unexpected outcome of a legal case in the US (2025: £nil) – see Note 20.

In line with current UK tax legislation, the impact on finance costs from the capitalisation of borrowing costs is fully deductible against the Group's corporation tax liability, resulting in tax relief of £0.9 million (FY25: £1.3 million).

6. Employee costs

Employee costs are recognised as an expense in the period in which they are incurred with the exception of long-term employee benefits which are recognised in accordance with IAS 19 (see Note 25 for more details) and share based payment charges which are recognised in accordance with IFRS 2 (see Note 24 for more details).

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Wages and salaries	1,507.2	1,379.6
Social security costs	190.8	147.1
Share-based payments (note 24)	17.2	14.3
Pension costs – defined contribution plans (note 25)	155.4	101.6
Pension charges – defined benefit plans (note 25)	8.3	16.7
	1,878.9	1,659.3

The average monthly number of people employed by the Group was:

	2026 Number	2025 Number
Marine	7,639	7,358
Nuclear	10,510	9,326
Land	6,132	6,346
Aviation	2,616	2,558
Central functions	1,294	1,270
	28,191	26,858

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Notes to the Group financial statements (continued)

6. Employee costs (continued)

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the operating segments. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Salaries and other short term employee benefits	16.0	16.1
Post-employment benefits	0.8	0.6
Termination benefits	0.7	0.8
Share-based payments	6.2	6.5
	23.7	24.0

7. Taxation

Current income tax

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

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

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

Deferred income tax

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

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

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

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

7. Taxation (continued)

Income tax expense

	Total	
	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Analysis of tax expense in the year		
Current tax		
• UK current year expense	15.7	15.7
• UK prior year expense	9.9	2.5
• Overseas current year expense	28.5	20.6
• Overseas prior year benefit	(0.9)	–
	53.2	38.8
Deferred tax		
• UK current year expense	47.2	53.0
• UK prior year benefit	(25.6)	(9.1)
• Overseas current year (benefit)/expense	(1.6)	1.7
• Overseas prior year benefit	(0.2)	(0.6)
• Impact of changes in tax rates	–	(3.6)
	19.8	41.4
Total income tax expense	73.0	80.2

The tax for the year is higher (2025: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Profit before tax	283.7	329.1
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2025: 25%)	70.9	82.3
Effects of:		
Expenses not deductible for tax purposes	11.8	5.7
Re-measurement of deferred tax in respect of statutory rate changes	–	(3.6)
Difference in respect of share of results of joint ventures and associates' results	(1.9)	0.7
Prior year adjustments	(16.8)	(7.1)
Differences in respect of foreign rates	(1.5)	1.4
Unrecognised deferred tax movements	10.2	6.3
Deferred tax not previously recognised/derecognised	3.1	(0.9)
Non-taxable profits on disposals and non-deductible losses on disposals	–	(0.2)
Pillar Two top-up tax	–	0.5
Other	(2.8)	(4.9)
Total income tax expense	73.0	80.2

Further information on exceptional items and tax on exceptional items is detailed in note 2.

The Group is subject to taxation in several jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities, especially where an economic judgement or valuation is involved. The outcome of tax authority disputes in such areas is not predictable, and to reflect the effect of these uncertain tax positions a provision is recorded which represents management's assessment of the most likely outcome of each issue. At 31 March 2026 the Group held uncertain tax positions of £38.1 million (2025: £44.6 million). Of this amount, £24.7 million (2025: £32.3 million) relates to ongoing discussions with HMRC regarding prior periods.

Notes to the Group financial statements (continued)

7. Taxation (continued)

Income tax expense (continued)

In July 2023, the UK enacted legislation to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting and a UK qualified domestic minimum top-up tax. The legislation applies to the Group with effect from 1 April 2024. Under the Pillar Two rules, a top-up tax liability arises where the Group's effective tax rate in a jurisdiction is below 15%. The Group has applied the temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

The Group has recorded a Pillar Two global minimum tax charge of £nil million for the period (2025: £0.5 million). Any top-up tax will be borne by Babcock International Group PLC. It is not expected that Pillar Two top-up taxes will significantly increase the Group's tax charge in future periods.

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	2026 £m	2025 £m
Deferred tax asset	96.2	102.8
Deferred tax liability	(5.1)	(5.9)
	91.1	96.9

The movements in deferred tax assets and liabilities during the year are shown below.

	Tangible assets £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2025	(41.2)	1.5	115.5	21.1	96.9
Income statement (debit)/credit	(12.9)	(5.8)	(5.8)	4.7	(19.8)
Tax credit to other comprehensive income/equity	–	12.3	–	1.2	13.5
Exchange differences	(0.2)	–	0.3	0.4	0.5
At 31 March 2026	(54.3)	8.0	110.0	27.4	91.1
At 1 April 2024	(45.1)	27.0	128.0	16.0	125.9
Income statement credit/(debit)	4.0	(21.6)	(33.6)	6.0	(45.2)
Tax credit to other comprehensive income/equity	–	(3.9)	–	(0.4)	(4.3)
Transfer to income tax receivable	–	–	17.2	–	17.2
Disposal of business	–	–	–	(0.1)	(0.1)
Income statement effect of changes in tax rates	–	–	4.2	(0.6)	3.6
Exchange differences	(0.1)	–	(0.3)	0.2	(0.2)
At 31 March 2025	(41.2)	1.5	115.5	21.1	96.9

7. Taxation (continued)

Deferred tax (continued)

The net deferred tax assets of £91.1 million (2025: £96.9 million) include deferred tax assets of £14.3 million (2025: £12.5 million) and deferred tax liabilities of £5.1 million (2025: £5.9 million) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered. The recognition of deferred tax assets in respect of losses can be subjective. The Group's approach to the recognition of deferred tax assets in respect of losses, including how the Group assesses future profitability for recognition purposes, is set out in the accounting policy above.

Net deferred tax assets have been recognised principally in respect of operations in the following jurisdictions: United Kingdom (£81.9 million), Australia (£5.9 million), France (£0.2 million), South Africa (£1.8 million) and New Zealand (£0.8 million). In the prior year net deferred tax assets were recognised principally in the following jurisdictions: United Kingdom (£90.4 million), Australia (£3.6 million), France (£0.9 million), South Africa (£7.4 million) and New Zealand (£0.5 million).

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures and joint operations where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches, associates and interests in joint ventures and joint operations is represented by their post acquisition retained earnings and amounted to £220.0 million (2025: £283 million).

At the statement of financial position date, deferred tax assets of £110.0 million (2025: £115.5 million) have been recognised in respect of unused tax losses available for carry forward. No deferred tax asset has been recognised in respect of further unutilised tax losses carried forward (excluding capital losses) and interest of £162.7 million (2025: £124.2 million). In addition to these amounts, UK capital losses of £215.2 million (2025: £201.3 million) are being carried forward, with no deferred tax asset having been recognised. Where a deferred tax asset has not been recognised in respect of losses, this is because management considers that those jurisdictions are not likely to generate sufficient taxable income of the appropriate type in the foreseeable future. The amounts shown can be carried forward indefinitely.

8. Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Interim dividend for the year ended 31 March 2026 of 2.5p (2025: 2.0p) per 60p share	12.0	9.7
Final dividend for the year ended 31 March 2025 of 4.5p (2024: 3.3p) per 60p share	22.7	17.0
	34.7	26.7

After the balance sheet date, the directors proposed a final dividend of 5.0p per ordinary share. The dividend proposed amounts to approximately £24.5m, although the exact final payment will vary depending on the level of shares held by the Babcock Employee Share Trust and as Treasury Shares (Note 23). The dividend, which is subject to shareholder approval, will be paid on 25 September 2026 to shareholders registered on 14 August 2026. The payment of this dividend will not have any tax expense consequences for the Group.

Notes to the Group financial statements (continued)

9. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue less the weighted average number of shares held by the Employee Share Trust as treasury shares.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue less the weighted average number of shares held by the Employee Share Trust, plus the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the year end. Details of share incentive schemes are provided in note 23 and note 24.

Weighted average is calculated by reference to the date of transactions which increase or reduce the number of shares in issue or the number of shares held by the Employee Share Trust.

Number of shares

	2026 Number	2025 Number
Weighted average number of ordinary shares for the purpose of basic EPS	501,329,647	503,557,679
Effect of dilutive potential ordinary shares: share options	9,811,970	10,854,861
Weighted average number of ordinary shares for the purpose of diluted EPS	511,141,617	514,412,540

Earnings per share

	Year ended 31 March 2026			Year ended 31 March 2025		
	Earnings attributable to shareholders £m	Basic per share Pence	Diluted per share Pence	Earnings attributable to shareholders £m	Basic per share Pence	Diluted per share Pence
Earnings for the year	211.2	42.1	41.3	247.1	49.1	48.0

10. Goodwill

Accounting policy information

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

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

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

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

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

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

Impairment

Goodwill is reviewed for impairment at least annually. As goodwill does not generate cash flows that are separately identifiable from other assets, the Group estimates the recoverable amount of the CGU, or group of CGUs, to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement. Subsequent reversal of historic impairments to goodwill are not permissible.

10. Goodwill (continued)

	31 March 2026 £m	31 March 2025 £m
Cost		
At 1 April	1,820.1	1,822.0
On disposal of business (note 27)	–	(0.5)
Exchange adjustments	1.6	(1.4)
At 31 March	1,821.7	1,820.1
Accumulated impairment		
At 1 April	1,041.9	1,041.9
At 31 March	1,041.9	1,041.9
Net book value at 31 March	779.8	778.2

Goodwill is allocated to groups of cash generating units ('CGUs') as set out in the table below:

	31 March 2026 £m	31 March 2025 £m
Marine	295.2	293.6
Nuclear	233.1	233.1
Land (excluding Africa)	217.8	217.8
Aviation	32.0	32.0
Africa	1.7	1.7
	779.8	778.2

The goodwill allocated to the Africa group of CGUs is immaterial and the Directors do not consider there to be any reasonably possible changes in estimates that would result in impairment of this goodwill. No further disclosures are provided in relation to Africa.

Results of goodwill impairment test

The current year impairment test results have not resulted in an impairment for any of the Group's cash generating units. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 2.0% – 4.7% (2025: 1.9 – 4.7%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long-term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level, and considered matters such as inflation.

Furthermore, in preparing this assessment the Group has considered the potential impact of climate change. In particular, the Group have considered the impact of climate change on the useful economic lives of assets, disruption to key operating sites and supply chain, and potential asset impairments. The Group identified climate risks (see page 124 for details) predominantly result in adverse cash outflows to the business and have been modelled as such within our sensitivity analysis. The Group anticipates that a number of these climate risks may result in additional cash inflows as associated climate related costs could be passed onto our customers offsetting the climate risk and a conservative assessment of such cash inflow is also modelled within the sensitivity. These considerations did not have a material impact on the goodwill impairment assessment.

Key assumptions

Key assumptions are based on past experience and expectations of future changes in the market, expected outturn on in-progress significant contracts and pipeline reflecting prevailing economic forecasts, industry specific data, competitor activity and market dynamics.

Post-tax discount rates derived from the Group's post-tax weighted average cost of capital were used to discount the estimated risk-adjusted cash flows. From these post-tax rates, pre-tax discount rates have been derived for the purpose of disclosure in line with the requirements of the Standard. These pre-tax discount rates are considered to reflect the market assessment as at the period end date of the time value of money and the risks specific to the cash-generating units.

Notes to the Group financial statements (continued)

10. Goodwill (continued)

Country-specific long-term growth rates are determined based on external analyst assessments of long-term real GDP outlooks in the associated countries. The country-specific real long-term growth rates and discount rates for the Group's operating segments are as follows:

	31 March 2026				31 March 2025			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	11.1%	12.4%	11.8%	13.3%	12.6%	11.9%	11.5%	11.9%
Post-tax discount rate	9.8%	9.4%	9.5%	9.5%	9.3%	8.8%	8.5%	8.8%
Long-term real growth rate	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, such as demand for the Group's services, together with economic factors such as estimates of costs of revenue and future capital expenditure requirements. Expected future cash flows are also subject to estimation with regard to the impact of inflation – albeit a significant proportion of the Group's longer term revenue contracts include variable consideration in respect of inflation and therefore there is a natural offset on the impact of inflation on both costs and revenue.

Key assumptions in relation to future cash flows included in the value-in-use models are set out below:

Group of CGUs	Key future cash flow assumption
Marine	Continuing delivery of work programmes with the UK Ministry of Defence, including the design and build of Type 31 frigates and the production of vertical missile tubes for the US-UK common missile compartment programme. Future international opportunities in shipbuilding.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence, including the FMSP contract and successor programmes. Continuing delivery of opportunities in the UK civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts, not all of which have been assumed to renew.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence. Expansion of activities in key overseas territories.

We have performed sensitivity analysis incorporating reasonably possible changes in each of the above key assumptions. Sensitised cases all continue to show headroom and no required impairment as at 31 March 2026.

11. Other intangible assets

Acquired intangibles

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

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

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

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

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

Amortisation charges for the year are recorded in operating costs.

11. Other intangible assets *(continued)*

Research and development

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

Total research and development costs expensed in the period was £203.3 million (2025: £214.7 million). Amounts recognised as an expense are recorded within operating costs.

Computer software

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

The Group is implementing an ERP system in phases over several years. The ERP system is being amortised over a period of up to 13 years to coincide with the expected support period from the software provider. The core asset commenced amortisation when it was available for use, which occurred once implementation was completed. Additional capitalisation for improved functionality as the platform is tailored and deployed at each respective business unit commences amortisation when those improved functionalities are available for use (when the ERP is implemented at the respective business unit).

Impairment

Indefinite life intangibles are reviewed for impairment at least annually. For all other intangible assets (including acquired intangible assets, capitalised development costs and software assets) the Group performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level unless the asset does not generate cash flows that are separately identifiable from other assets. In such cases, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

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

Notes to the Group financial statements (*continued*)11. Other intangible assets (*continued*)

	Acquired intangibles – relationships £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Assets under construction £m	Total £m
Cost					
At 1 April 2025 – restated	111.6	184.0	28.9	3.2	327.7
Additions	–	–	–	13.5	13.5
Transfers from property, plant and equipment (note 12)	–	5.3	–	–	5.3
Transfers from AUC to in-use assets	–	4.9	0.9	(5.8)	–
Reclassification	–	0.4	(0.4)	–	–
Disposals	–	(8.9)	(2.0)	(0.2)	(11.1)
Exchange adjustments	15.0	0.1	0.1	(0.1)	15.1
At 31 March 2026	126.6	185.8	27.5	10.6	350.5
Accumulated amortisation and impairment					
At 1 April 2025 – restated	69.2	100.6	15.5	–	185.3
Amortisation charge	10.0	15.3	2.4	–	27.7
Transfers from property, plant and equipment (note 12)	–	1.7	–	–	1.7
Reclassification	–	0.3	(0.3)	–	–
Disposals	–	(8.9)	(2.0)	–	(10.9)
Exchange adjustments	12.6	0.1	–	–	12.7
At 31 March 2026	91.8	109.1	15.6	–	216.5
Net book value at 31 March 2026	34.8	76.7	11.9	10.6	134.0
Cost					
At 1 April 2024 – as previously reported	850.9	124.0	25.6	42.6	1,043.1
Restatement – see below	(579.4)	–	–	–	(579.4)
At 1 April 2024 – restated	271.5	124.0	25.6	42.6	463.7
Additions	–	2.5	1.3	18.5	22.3
Transfers from property, plant and equipment (note 12)	–	2.6	1.8	–	4.4
Transfers from AUC to in-use assets	–	56.5	0.1	(56.6)	–
Disposal of business	(2.9)	–	–	–	(2.9)
Disposals – restated	(147.5)	(4.2)	–	–	(151.7)
Exchange adjustments	(9.5)	2.6	0.1	(1.3)	(8.1)
At 31 March 2025	111.6	184.0	28.9	3.2	327.7
Accumulated amortisation and impairment					
At 1 April 2024 – as previously reported	797.8	85.6	10.9	–	894.3
Restatement – see below	(579.4)	–	–	–	(579.4)
At 1 April 2024 – restated	218.4	85.6	10.9	–	314.9
Amortisation charge	8.2	16.6	2.7	–	27.5
Transfers from property, plant and equipment (note 12)	–	1.1	1.8	–	2.9
Disposals – restated	(147.5)	(4.2)	–	–	(151.7)
Disposal of business	(2.9)	–	–	–	(2.9)
Exchange adjustments	(7.0)	1.5	0.1	–	(5.4)
At 31 March 2025	69.2	100.6	15.5	–	185.3
Net book value at 31 March 2025	42.4	83.4	13.4	3.2	142.4

Included in Internally generated software development costs and licences is £73.3 million (2025: £79.1 million) relating to the Group's ERP system, which is amortised over a period of up to 13 years with 5 years remaining. Included in the acquired intangibles – relationships balance is £29.6 million (2025: £35.0 million) relating to the acquisition of Naval Ship Management (Australia) Pty Ltd. This is being amortised over a total period of 15 years with 11 years remaining.

Following a review of fully amortised acquired intangible assets, we have treated those assets which are fully depreciated as disposals and restated the prior year for consistency. This has no impact on the net book value or income statement in any period. The disposal of £141.0 million of gross cost and accumulated amortisation has been restated through the year to 31 March 2025 as the associated contract concluded during the period. The remaining £579.4 million of gross cost and accumulated amortisation has been restated through opening balances as at 1 April 2024.

12. Property, plant and equipment

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

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

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

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

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

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

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

Borrowing costs

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

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in Other Comprehensive Income and reclassified to the Income Statement when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate. For the year ended 31 March 2026, the average capitalisation rate of borrowing costs was 3.9% (2025: 4.0%).

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

Impairment

For property, plant and equipment the Group performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

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

Notes to the Group financial statements (continued)

12. Property, plant and equipment (continued)

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2025	225.2	34.3	602.4	112.3	128.7	1,102.9
Additions	14.1	0.6	8.1	21.8	110.8	155.4
Transfers to other intangible assets (note 11)	–	–	(0.4)	–	–	(0.4)
Reclassification from AUC to in-use assets	1.6	–	72.6	8.5	(82.7)	–
Reclassification cost/depreciation	(0.4)	–	2.8	–	–	2.4
Reclassification between categories	(0.8)	(16.4)	17.1	0.1	–	–
Disposals	(7.6)	(7.3)	(79.7)	(27.8)	(27.0)	(149.4)
Capitalised borrowing costs	–	–	–	–	3.7	3.7
Exchange adjustments	0.3	0.2	3.7	3.3	1.4	8.9
At 31 March 2026	232.4	11.4	626.6	118.2	134.9	1,123.5
Accumulated depreciation						
At 1 April 2025	90.3	15.1	398.6	33.7	6.3	544.0
Depreciation charge for the year	9.8	0.9	49.6	5.7	–	66.0
Impairment charge for the year	–	–	3.3	0.1	–	3.4
Impairment reversals in the year	–	–	–	–	(1.9)	(1.9)
Transfers to other intangible assets (note 11)	–	–	3.2	–	–	3.2
Reclassification between categories	(0.7)	(1.1)	1.8	–	–	–
Reclassification cost/depreciation	(0.4)	–	2.8	–	–	2.4
Disposals	(7.3)	(7.3)	(78.8)	(5.1)	–	(98.5)
Exchange adjustments	0.1	0.2	1.9	1.4	–	3.6
At 31 March 2026	91.8	7.8	382.4	35.8	4.4	522.2
Net book value at 31 March 2026	140.6	3.6	244.2	82.4	130.5	601.3
Cost						
At 1 April 2024	220.9	15.4	572.6	87.4	124.1	1,020.4
Additions	2.3	1.0	11.8	17.8	72.1	105.0
Transfers to other intangible assets (note 11)	–	–	(4.4)	–	–	(4.4)
Transfers from right of use assets (note 13)	–	–	5.0	–	0.5	5.5
Reclassification from AUC to in-use assets	2.5	18.6	36.2	13.5	(70.8)	–
Disposals	(0.4)	(0.7)	(13.3)	(3.6)	(1.7)	(19.7)
Disposal of business	–	–	(3.6)	–	–	(3.6)
Capitalised borrowing costs	–	–	–	–	5.0	5.0
Exchange adjustments	(0.1)	–	(1.9)	(2.8)	(0.5)	(5.3)
At 31 March 2025	225.2	34.3	602.4	112.3	128.7	1,102.9
Accumulated depreciation						
At 1 April 2024	79.8	13.0	378.8	25.4	6.3	503.3
Depreciation charge for the year	13.7	2.9	37.8	4.6	–	59.0
Transfers to other intangible assets (note 11)	–	–	(2.9)	–	–	(2.9)
Transfers from right of use assets (note 13)	–	–	5.0	–	–	5.0
Reclassification between categories	(3.4)	–	(4.3)	7.7	–	–
Disposal of business	–	–	(3.6)	–	–	(3.6)
Disposals	–	(0.7)	(11.0)	(2.6)	–	(14.3)
Exchange adjustments	0.2	(0.1)	(1.2)	(1.4)	–	(2.5)
At 31 March 2025	90.3	15.1	398.6	33.7	6.3	544.0
Net book value at 31 March 2025	134.9	19.2	203.8	78.6	122.4	558.9

13. Leases

Group as a lessee

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

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

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

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

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

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

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

Leases represent rentals payable by the Group for certain operational, distribution and office properties and other assets such as aircraft. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Right of use assets

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2025	138.5	69.4	215.2	423.1
Additions	31.1	21.9	28.0	81.0
Disposals	(35.1)	(10.2)	(2.9)	(48.2)
Exchange adjustments	2.4	0.1	11.5	14.0
At 31 March 2026	136.9	81.2	251.8	469.9
Accumulated depreciation				
At 1 April 2025	58.5	45.8	90.0	194.3
Depreciation charge for the year	16.6	10.4	19.2	46.2
Impairment charge for the year	4.2	–	–	4.2
Disposals	(19.9)	(8.1)	(2.7)	(30.7)
Exchange adjustments	1.0	0.1	6.3	7.4
At 31 March 2026	60.4	48.2	112.8	221.4
Net book value at 31 March 2026	76.5	33.0	139.0	248.5

Notes to the Group financial statements (continued)

13. Leases (continued)

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
At 1 April 2024	140.1	74.1	153.1	367.3
Additions	12.3	9.5	75.8	97.6
Transfers to property, plant & equipment (note 12)	–	(5.5)	–	(5.5)
Disposals	(9.7)	(8.4)	(4.1)	(22.2)
Disposal of business	(2.0)	–	–	(2.0)
Exchange adjustments	(2.2)	(0.3)	(9.6)	(12.1)
At 31 March 2025	138.5	69.4	215.2	423.1
Accumulated depreciation				
At 1 April 2024	53.9	49.3	88.5	191.7
Depreciation charge for the year	13.0	8.9	9.3	31.2
Impairment charge for the year	1.7	0.1	–	1.8
Transfers to property, plant & equipment (note 12)	–	(5.0)	–	(5.0)
Disposals	(8.3)	(7.4)	(3.4)	(19.1)
Disposal of business	(0.8)	–	–	(0.8)
Exchange adjustments	(1.0)	(0.1)	(4.4)	(5.5)
At 31 March 2025	58.5	45.8	90.0	194.3
Net book value at 31 March 2025	80.0	23.6	125.2	228.8

Lease liabilities

The following tables show the discounted Group lease liabilities and a reconciliation of opening to closing lease liabilities:

	Total £m
At 1 April 2025	274.6
Additions	78.5
Disposals	(5.4)
Exchange adjustments	4.1
Lease interest	17.1
Lease repayments	(61.6)
At 31 March 2026	307.3
Non-current lease liabilities	254.2
Current lease liabilities	53.1
At 31 March 2026	307.3
At 1 April 2024	230.5
Additions	99.2
Disposals	(3.0)
Disposal of business	(1.1)
Exchange adjustments	(5.6)
Lease interest	14.1
Lease repayments	(59.5)
At 31 March 2025	274.6
Non-current lease liabilities	227.4
Current lease liabilities	47.2
At 31 March 2025	274.6

13. Leases (continued)

See note 22 for a maturity analysis of the contractual undiscounted lease payments.

Amounts recognised in the Group income statement

	2026 £m	2025 £m
Interest on lease liabilities	17.1	14.1
Right-of-use asset depreciation	46.2	31.2
Right-of-use asset impairment	4.2	1.8
(Gain)/loss on disposal of right-of-use assets	(4.1)	0.1

The total expense for short term and low value leases was £44.2 million (2025: £39.6 million). The expense is deemed approximate to the cash outflow for short term and low value leases.

Amounts recognised in the Group cash flow statement

	2026 £m	2025 £m
Total cash outflow for principal element of leases	44.5	45.4
Total cash outflow for interest element of leases	17.1	14.1
Total cash outflow for leases	61.6	59.5

Group as a lessor

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

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

The Group is the lessor in an arrangement for the lease of vehicles and sub-lease of leased properties. There has been one new significant lease arrangement as a lessor in the current year (2025: none) resulting in an additional £15.4 million of lease receivables in respect of this arrangement as at 31 March 2026.

Amounts recognised in the Group income statement

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Finance lease – interest income	5.3	5.0

Finance lease payments receivable

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Within one year	16.6	18.8
Greater than one year but less than two years	12.6	18.7
Greater than two years but less than three years	7.3	9.2
Greater than three years but less than four years	5.3	2.9
Greater than four years but less than five years	2.4	0.2
Greater than five years	12.6	–
Total undiscounted finance lease payments receivable	56.8	49.8
Impact of discounting	(10.9)	(5.2)
Finance lease receivable (net investment in the lease)	45.9	44.6

There was no material impairment of lease receivables in the year ended 31 March 2026 (2025: £nil).

Notes to the Group financial statements (continued)

14. Investment in and loans to joint ventures and associates

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

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

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

The Group's material joint ventures and associates are:

	Nature of relationship	Year end	Business activity	% interest held (2026)	% interest held (2025)	Country of incorporation	Principal area of operation
AirTanker Services Limited	Associate	31 Dec	Provision of air-to-air refuelling	23.5%	23.5%	United Kingdom	United Kingdom
Ascent Flight Training (Holdings) Limited	Joint venture	31 Mar	Provision of training services	50.0%	50.0%	United Kingdom	United Kingdom

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information has been aggregated to provide useful information to users without excessive detail. Joint ventures that are not considered material to the Group are not shown below.

	31 March 2026		31 March 2025	
	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited
Summarised income statement extract (year ended)				
Revenue	176.8	275.2	165.3	239.6
Depreciation and amortisation	(0.4)	(2.2)	(0.6)	(3.3)
Interest income	3.2	3.9	3.7	3.7
Interest expense	(2.0)	(0.1)	(2.3)	(0.2)
Income tax expense	(6.6)	(2.7)	(5.9)	(1.8)
Profit/(loss) from continuing operations	20.2	0.4	(2.6)	1.0
Other comprehensive income	–	–	(3.2)	–
Total comprehensive income	20.2	0.4	(5.8)	1.0
Summarised statement of financial position				
Non-current assets	16.5	52.9	48.5	75.7
Current assets (excluding cash and cash equivalents)	55.8	72.7	25.0	65.4
Cash and cash equivalents	61.9	114.3	57.3	111.8
Non-current liabilities	(97.1)	(53.2)	(91.6)	(55.0)
Current liabilities	(9.8)	(86.7)	(12.6)	(79.3)
Net assets	27.3	100.0	26.6	118.6
Ownership	50%	23.5%	50%	23.5%
Carrying value of investment	13.7	23.5	13.3	27.9

14. Investment in and loans to joint ventures and associates *(continued)*

Reconciliation to carrying amounts

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2026 £m	2025 £m	2026 £m	2025 £m	2026 £m	2025 £m
At 1 April	43.5	59.7	3.6	3.9	47.1	63.6
Results from joint ventures and associates	7.4	(2.7)	–	–	7.4	(2.7)
Acquisition and disposal of joint ventures and associates (note 27)	–	0.4	–	–	–	0.4
Loans repaid by joint ventures and associates	–	–	(0.2)	(0.3)	(0.2)	(0.3)
Interest accrued and capitalised	–	–	0.2	0.2	0.2	0.2
Interest received	–	–	(0.3)	(0.2)	(0.3)	(0.2)
Dividends received	(11.1)	(12.2)	–	–	(11.1)	(12.2)
Fair value adjustment of derivatives	–	(2.2)	–	–	–	(2.2)
Tax on fair value adjustment of derivatives	–	0.5	–	–	–	0.5
Foreign exchange	0.5	–	–	–	0.5	–
At 31 March	40.3	43.5	3.3	3.6	43.6	47.1

The total investments in joint ventures and associates and loans to joint ventures and associates is attributable to the following reportable segments:

	2026 £m	2025 £m
Marine	4.7	3.2
Nuclear	0.1	0.9
Land	0.2	0.2
Aviation	38.6	42.8
Net book value	43.6	47.1

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed. The Group does not have any commitments that have been made to the joint ventures or associates and not recognised at the reporting date.

Joint arrangements are classified as joint ventures where the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement, respectively. There has been no impairment to loans to joint ventures and associates during the year (2025: £nil). Total cumulative expected credit losses in respect of loans to joint ventures and associates are also £nil (2025: £nil) as the joint ventures and associates are considered to have low credit risk and as such impairment risk is considered minimal.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the owners, other than those imposed by the Companies Act 2006 or equivalent local regulations.

15. Inventories

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

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

Notes to the Group financial statements *(continued)*15. Inventories *(continued)*

	31 March 2026 £m	31 March 2025 £m
Raw materials and spares	66.1	62.3
Work-in-progress	6.0	5.4
Finished goods and goods for resale	134.8	94.5
Total	206.9	162.2

Write-downs of inventories amounted to £20.0 million (2025: £18.7 million). These were recognised as an expense during the year ended 31 March 2026 and included in operating costs in the income statement. Inventory recognised as an expense in the year amounted to £388.3 million (2025: £354.7 million).

16. Trade and other receivables and contract assets

Trade and other receivables

Trade receivables are measured at amortised cost. Other receivables are generally measured at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. An immaterial amount of other receivables are held at fair value through profit and loss. The measurement basis is disclosed in note 21.

Debt factoring

The Group engages in factoring of trade receivables in relation to certain non-UK operations of its Aviation sector as part of its working capital management arrangements. Under these arrangements, the Group transfers the rights to receive factored receivables to the factor in exchange for cash. The Group does not retain late payment or credit risk, and therefore trade receivables are not recognised under the applicable contracts. Any cash received from customers under these contracts is received as agent and transferred directly to the debt factoring counterparty.

Contract assets and liabilities

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

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

Provisions for expected credit losses

Trade receivables, contract receivables and amounts due from related parties include a provision for expected credit losses. Provisions for expected credit losses are measured at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

Costs of obtaining a contract

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

Costs to fulfil a contract

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

- (i) the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
- (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

16. Trade and other receivables and contract assets *(continued)*

	31 March 2026 £m	31 March 2025 £m
Non-current assets		
Costs to obtain a contract	0.1	0.1
Costs to fulfil a contract	16.0	8.6
Other debtors	1.6	9.4
Non-current trade and other receivables	17.7	18.1
Current assets		
Trade receivables	316.1	303.4
Less: provision for impairment of receivables	(9.1)	(8.4)
Trade receivables – net	307.0	295.0
Retentions	5.1	8.8
Amounts due from related parties (note 31)	5.8	3.3
Other debtors ¹	18.1	22.1
Other taxes and social security receivables	94.6	63.2
Prepayments	107.6	96.8
Costs to obtain a contract	–	0.1
Costs to fulfil a contract	13.9	18.1
Current trade and other receivables	552.1	507.4
Contract assets	352.8	329.7
Current trade and other receivables and contract assets	904.9	837.1

1. Included in Other debtors are rebates receivable and other sundry receivables. No individual balance within other debtors is material.

Details of expected credit losses on trade receivables are provided in note 22. There has been no impairment to either other receivables or contract assets during the year ended 31 March 2026 (2025: £nil).

In the year ended 31 March 2026, amortisation of costs to obtain a contract and costs to fulfil a contract totalled £8.3 million (2025: £6.2 million). An impairment of £nil was recorded in relation to costs to obtain a contract or costs to fulfil a contract (2025: £nil).

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 1. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

Significant changes in contract assets during the year are as follows:

	Contract assets £m
1 April 2025	329.7
Transfers from contract assets recognised at the beginning of the year to trade receivables	(287.9)
Increase due to work done not transferred from contract assets	306.6
Exchange adjustment	4.4
31 March 2026	352.8
1 April 2024	260.9
Transfers from contract assets recognised at the beginning of the year to receivables	(228.8)
Increase due to work done not transferred from contract assets	300.5
Exchange adjustment	(2.9)
31 March 2025	329.7

Details on the Group's approach to assess credit risk are included in note 22.

Notes to the Group financial statements (continued)

17. Cash and cash equivalents

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

Cash and cash equivalents are classified as financial assets held at amortised cost and bank overdrafts are classified as financial liabilities held at amortised cost.

	31 March 2026 £m	31 March 2025 £m
Cash at bank and in hand	182.6	167.9
Short-term bank deposits	557.3	478.7
	739.9	646.6

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

Currency	31 March 2026		31 March 2025	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	479.1	479.1	420.6	420.6
Euro	32.7	32.7	4.8	4.8
US Dollar	21.0	21.0	14.0	14.0
South African Rand	51.2	51.2	43.5	43.5
Canadian Dollar	80.5	80.5	63.7	63.7
Omani Rial	1.0	1.0	1.1	1.1
Australian Dollar	47.8	47.8	65.9	65.9
Norwegian Krone	0.7	0.7	2.4	2.4
Swedish Krona	6.0	6.0	5.0	5.0
New Zealand Dollar	17.3	17.3	12.4	12.4
Other currencies	2.6	2.6	13.2	13.2
	739.9	739.9	646.6	646.6

Expected credit losses of cash and cash equivalents is £nil (2025: £nil). Included within cash and cash equivalents is £67.1 million (2025: £56.4 million) which is subject to statutory, contractual or regulatory restrictions which limit the ways in which these balances can be utilised.

18. Trade and other payables and contract liabilities

Trade and other creditors are measured at amortised cost.

	2026 £m	2025 £m
Current liabilities		
Contract liabilities	786.2	759.4
Trade creditors	274.3	229.2
Amounts due to related parties (note 31)	–	3.3
Other creditors	18.9	12.2
Defined contribution pension creditor	6.7	8.2
Other taxes and social security	100.5	84.6
Accruals	641.1	610.5
Trade and other payables	1,041.5	948.0
Trade and other payables and contract liabilities	1,827.7	1,707.4
Non-current liabilities		
Non-current accruals	5.9	3.8
Other creditors	0.2	0.4
	6.1	4.2

Included in creditors is £19.0 million (2025: £10.4 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

Significant changes in contract liabilities during the year are as follows:

	Contract liabilities £m
1 April 2025	759.4
Revenue recognised that was included in the contract liability balance at the beginning of the year	(628.7)
Cash advanced	649.4
Exchange adjustment	6.1
31 March 2026	786.2
1 April 2024	685.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(552.3)
Cash advanced	631.0
Exchange adjustment	(4.6)
31 March 2025	759.4

Notes to the Group financial statements *(continued)*

19. Bank and other borrowings

	31 March 2026 £m	31 March 2025 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	0.7	0.6
Unsecured	315.3	–
	316.0	0.6
Lease obligations*	53.1	47.2
	369.1	47.8
Non-current liabilities		
Bank and other borrowings		
Secured	5.8	6.2
Unsecured	469.1	744.5
	474.9	750.7
Lease obligations*	254.2	227.4
	729.1	978.1

* Leases are secured against the assets to which they relate.

The Group's overdraft totalled £16.3 million at 31 March 2026 (2025: £0.1 million). The Group holds one overdraft facility of £50 million which is otherwise undrawn as at 31 March 2026.

The Group has £1.9 million (2025: £2.5 million) of secured debt in the Land operating segment that is secured against a property owned by the Group and £4.6 million (2025: £4.3 million) of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

The Group's Revolving Credit Facility (undrawn as at 31 March 2026 and 31 March 2025) is subject to covenants which are applicable if the Group has a net rating of less than BBB. If applicable, these covenants are tested six monthly on a rolling basis. Covenants comprise of Net Debt (covenant basis) to EBITDA and Interest Cover. The Net Debt (covenant basis) to EBITDA ratio must be lower than 3.5x at each testing date whilst the Interest Cover must be at least 4.0x at each testing date. There are no breaches in the Group's base case forecasts as prepared for going concern purposes.

Drawn facilities at the period end date primarily comprise the €550 million Eurobond and the £300 million UK bond.

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	31 March 2026		31 March 2025	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	316.0	53.1	0.6	47.2
Between one and two years	469.8	46.3	297.7	41.4
Between two and three years	5.1	36.7	453.0	32.9
Between three and four years	–	32.5	–	25.6
Between four and five years	–	28.7	–	25.0
Greater than five years	–	110.0	–	102.5
	790.9	307.3	751.3	274.6

19. Bank and other borrowings (continued)

The Group has entered into interest rate and currency swaps, details of which are included in note 21.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

Currency	31 March 2026			31 March 2025		
	Total £m	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m
Sterling	413.1	10.4	402.7	394.6	–	394.6
Euro*	516.3	107.3	409.0	500.4	93.9	406.5
US Dollar	82.5	–	82.5	46.6	–	46.6
South African Rand	9.6	4.6	5.0	8.4	4.2	4.2
Canadian Dollar	8.5	–	8.5	3.3	–	3.3
Australian Dollar	60.3	–	60.3	71.1	–	71.1
New Zealand Dollar	0.9	–	0.9	1.2	–	1.2
South Korean Won	1.3	–	1.3	0.2	–	0.2
Other	5.7	5.7	–	0.1	–	0.1
	1,098.2	128.0	970.2	1,025.9	98.1	927.8

* €550 million (2025: €550 million) has been swapped into Sterling, with €140.0 million equivalent (2025: €140.0 million equivalent) into floating rates and €410.0 million equivalent (2025: €410.0 million equivalent) into fixed rates. This is included in the Euro amount above. The split above includes the impact of hedging.

The weighted average interest rate of Sterling fixed rate borrowings is 1.9% (2025: 1.9%). The weighted average period for which these interest rates are fixed is 0.5 years (2025: 1.5 years).

The floating rate for borrowings is linked to SONIA in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The effective interest rates at the statement of financial position dates, including the impact of hedging, were as follows:

	31 March 2026 %	31 March 2025 %
UK bank overdraft	N/A	N/A
8-year Eurobond September 2027 – fixed	2.9	2.9
8-year Eurobond September 2027 – floating	6.2	6.7
£300 million bond 2026	1.9	1.9
Other borrowings	5.6 – 9.3	5.6 – 10.0
Leases obligations	3.3 – 14.6	3.3 – 14.6

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	31 March 2026 £m	31 March 2025 £m
Expiring in more than one year but not more than five years	600.0	775.0
	600.0	775.0

20. Provisions for other liabilities, including other employee benefits

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

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

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

Notes to the Group financial statements (*continued*)20. Provisions for other liabilities, including other employee benefits (*continued*)

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

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

	Contract/ warranty (a) £m	Employee related and business reorganisation costs (b) £m	Property (c) £m	Legal (d) £m	Other (e) £m	Total provisions £m
At 1 April 2025	97.0	15.2	17.6	6.0	2.5	138.3
Charge to income statement	70.3	7.3	4.7	25.6	7.8	115.7
Release to the income statement	(22.3)	(3.2)	(2.1)	(0.3)	(0.4)	(28.3)
Utilised in year	(20.7)	(5.2)	(0.1)	(0.3)	(1.0)	(27.3)
Unwinding of discount	2.0	0.1	0.2	–	–	2.3
Foreign exchange	0.5	0.1	0.2	–	–	0.8
At 31 March 2026	126.8	14.3	20.5	31.0	8.9	201.5
Current						119.7
Non-current						81.8
At 1 April 2024	117.8	12.4	23.5	2.5	2.0	158.2
Charge to income statement	31.5	8.3	7.1	4.0	1.3	52.2
Release to the income statement	(13.9)	(1.3)	(9.9)	–	(0.7)	(25.8)
Utilised in year	(42.3)	(5.0)	(0.5)	(0.5)	(0.3)	(48.6)
Reclassification	1.4	0.7	(2.3)	–	0.2	–
Disposal of business	–	–	(0.3)	–	–	(0.3)
Unwinding of discount	2.7	0.1	–	–	–	2.8
Foreign exchange	(0.2)	–	–	–	–	(0.2)
At 31 March 2025	97.0	15.2	17.6	6.0	2.5	138.3
Current						80.2
Non-current						58.1

- a) Contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes. Onerous contracts relate to expected future losses on contracts with customers – notably Type 31 as outlined in note 1.
- b) Employee related and business reorganisation costs relate to business restructuring activities including announced redundancies in addition to employee related provisions other than employee benefits.
- c) Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.
- d) Legal provisions relate to ongoing legal matters – this category has been disaggregated from other provisions during the period as a result of the material closing balance in 2026. The increase in legal provisions includes an unexpected court judgement in a legacy overseas legal case. The £25.6 million in amounts charged to the income statement includes £17.0 million classified as operating expenses (of which approximately half relates to the unexpected court judgement) and £8.6 million classified as interest expenses. The timing and extent of cash flows in regards to legal provisions is uncertain pending any appeal process and associated outcome.
- e) Other provisions include environmental provisions and provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

20. Provisions for other liabilities, including other employee benefits *(continued)*

Included within employee related and business reorganisation provisions is £7.4 million (2025: £7.0 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

21. Financial instruments and fair value measurement

Financial assets and liabilities at amortised cost

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

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

Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. For derivatives that qualify as cash flow hedges, the effective portion of fair value gains or losses are recognised in other comprehensive income until the underlying transaction is recognised. Any ineffective portion is recognised in the income statement. Changes in the value of derivatives that are carried at fair value through profit or loss are recorded in the income statement.

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Group statement of financial position are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Notes to the Group financial statements (continued)

21. Financial instruments and fair value measurement (continued)

The following table presents the Group's assets and liabilities:

31 March 2026 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	3.3	–	–	3.3	3.3
Trade and other receivables*	–	0.6	–	–	0.6	0.6
Financial assets	–	2.9	–	–	2.9	2.9
Derivatives	9.9	–	–	–	9.9	9.9
Lease receivables	–	31.4	–	–	31.4	31.4
Current financial assets						
Trade and other receivables*	–	325.1	–	–	325.1	325.1
Financial assets	–	1.3	–	–	1.3	1.3
Lease receivables	–	14.5	–	–	14.5	14.5
Derivatives	8.8	–	–	–	8.8	8.8
Cash and cash equivalents	–	739.9	–	–	739.9	739.9
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(474.9)	(474.9)	(458.0)
Lease liabilities	–	–	–	(254.2)	(254.2)	(254.2)
Derivatives	–	–	(21.9)	–	(21.9)	(21.9)
Current financial liabilities						
Bank and other borrowings	–	–	–	(316.0)	(316.0)	(316.0)
Trade and other payables*	–	–	–	(908.5)	(908.5)	(908.5)
Lease liabilities	–	–	–	(53.1)	(53.1)	(53.1)
Other financial liabilities	–	–	–	(1.0)	(1.0)	(1.0)
Derivatives	–	–	(2.9)	–	(2.9)	(2.9)
Net financial assets / (financial liabilities)	18.7	1,119.0	(24.8)	(2,007.7)	(894.8)	(877.9)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

31 March 2025 (£m) - Restated	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	3.6	–	–	3.6	3.6
Trade and other receivables*	2.4	5.7	–	–	8.1	8.1
Financial assets	–	4.2	–	–	4.2	4.2
Derivatives	5.1	–	–	–	5.1	5.1
Lease receivables	–	26.2	–	–	26.2	26.2
Current financial assets						
Trade and other receivables*	–	317.1	–	–	317.1	317.1
Financial assets	–	1.2	–	–	1.2	1.2
Lease receivables	–	18.4	–	–	18.4	18.4
Derivatives	9.3	–	–	–	9.3	9.3
Cash and cash equivalents	–	646.6	–	–	646.6	646.6
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(750.7)	(750.7)	(721.8)
Lease liabilities	–	–	–	(227.4)	(227.4)	(227.4)
Derivatives	–	–	(44.8)	–	(44.8)	(44.8)
Current financial liabilities						
Bank and other borrowings	–	–	–	(0.6)	(0.6)	(0.6)
Trade and other payables*	–	–	–	(830.6)	(830.6)	(830.6)
Lease liabilities	–	–	–	(47.2)	(47.2)	(47.2)
Derivatives	–	–	(9.1)	–	(9.1)	(9.1)
Net financial assets / (financial liabilities)	16.8	1,023.0	(53.9)	(1,856.5)	(870.6)	(841.7)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

Fair values disclosed for bank and other borrowings measured at amortised cost are based on Level 2 of the fair value hierarchy this is based on observable inputs being the reported external fair value of the Group's bonds as at the reporting date.

Comparatives have been restated to include current and non-current lease liabilities which were omitted from the table of financial liabilities in the prior period. Total balances have increased by an amount commensurate to the lease liability balances.

21. Financial instruments and fair value measurement *(continued)*

The fair value hierarchy is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

All of the financial assets and liabilities measured at fair value are classified as Level 2 or Level 3 using the fair value hierarchy. There were no transfers between levels during the period. Additional disclosures in respect of financial assets measured using Level 3 techniques are not provided as such assets are not material.

The fair values of financial instruments held at fair value have been determined based on available market information at the period end date, and the valuation methodologies listed below:

- The fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate period end rates; and
- The fair values of cross-currency interest rate swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate period end rates.

Financial assets and liabilities in the Group's Consolidated statement of financial position are either held at fair value or their carrying value approximates to fair value, with the exception of loans, which are held at amortised cost. Amortised cost items whose fair value or carrying value approximate to fair value are at Level 2 in the fair value hierarchy. Due to the variability of the valuation factors, the fair values presented at 31 March may not be indicative of the amounts the Group would expect to realise in the current market environment.

Derivative financial instruments and hedging activities

The Group enters into forward foreign currency contracts and cross-currency interest rate swaps to hedge the currency exposures that arise on sales, purchases, deposits, borrowings and leasing arrangements denominated in foreign currencies as the transactions occur. Where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. Derivatives not designated in hedge relationships have a net fair value asset of £14.7 million (2025: net asset of £3.5 million), of which £11.8 million (2025: £2.1 million) were economically hedging £0.9 billion (2025: £1.1 billion) denominated in foreign currencies purchases and sales, £0.9 million (2025: £0.8 million) was economically hedging interest rates on borrowings (see also note 22) and £2.0 million (2025: £0.6 million) was economically hedging interest rates on invoice discounting facilities. The Group's policy regarding classification of derivatives is set out in note 1. The full fair value of hedging derivatives is classified as a non-current asset or liability where the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability where the remaining maturity of the hedged item is less than 12 months.

Cash flow hedges

The Group uses cross-currency swap contracts to hedge the foreign currency risk on debt issued by the Group. These are formally designated in cash flow hedge relationships and hedge ineffectiveness is recognised immediately in the income statement. The fair value of cash flow hedges at 31 March 2026 was a net liability of £3.9 million (2025: £11.6 million). Further detail is given in note 22.

Fair value hedges

The Group maintains cross-currency interest rate swap contracts as fair value hedges of the interest rate and currency risk on fixed-rate debt issued by the Group. These derivative contracts receive a fixed rate of interest and pay a variable rate of interest. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates. The fair value of such hedges at 31 March 2026 was a liability of £16.8 million (2025: £31.4 million). Further detail is given in note 22.

22. Financial risk management

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates and the Group's cash and cash equivalents.

The Group's risk management objective, policy and performance are as follows:

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	The Group's interest rate management policy is to monitor the mix of fixed versus floating interest rate debt to ensure that it is compatible with its business requirements and capital structure.
Risk management	The Group manages interest rate risk through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.
Performance	As at 31 March 2026, the Group had 88% fixed rate debt (2025: 90%) and 12% floating rate debt (2025: 10%) based on gross debt, including lease liabilities, of £1,098.2 million (2025: £1,025.9 million).

Notes to the Group financial statements (continued)

22. Financial risk management (continued)

The following balances are exposed to interest rate risk as shown below:

	31 March 2026			31 March 2025		
	Less than one year £m	Between one and two years £m	Greater than two years £m	Less than one year £m	Between one and two years £m	Greater than two years £m
Cash and cash equivalents	739.9	–	–	646.6	–	–
Bank and other borrowings	369.1	516.1	213.0	47.8	339.2	638.9

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Year ended 31 March 2026		Year ended 31 March 2025	
	Change in interest rate	Effect on profit before tax £m	Change in interest rate	Effect on profit before tax £m
GBP	3.0%	0.3	3.0%	–
EUR	3.0%	3.2	3.0%	2.8

The effect of fair value hedges on the Group's financial position and performance for the year is as follows:

	Year ended 31 March 2026			Year ended 31 March 2025		
	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness
Hedging instruments (£m)						
Cross currency interest rate swap ¹	246.7	(16.8)	14.6	246.7	(31.4)	5.3

1. The Group has entered into three cross-currency interest rate swaps to convert €275 million of fixed rate (1.375%) debt to GBP debt linked to SONIA. This matures on 13 September 2027. Additionally, as part of the Group's financial risk management response in relation to interest rate risk, the group has entered into further interest rate swaps to fix interest rate on floating rate sterling debt – ie, the aggregated exposure that was created with €140 million fixed rate debt and the cross-currency swaps which receive Euro fixed and pay GBP floating. These new interest rate swaps were not designated in the hedge relationship and therefore they are accounted for at fair value through profit and loss.

	Year ended 31 March 2026				Year ended 31 March 2025			
	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement
Hedged item (£m)								
Debt	240.3	9.7	(13.0)	1.6	230.3	12.7	(4.7)	(0.5)

Ineffectiveness is included in the income statement in finance costs.

22. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group becomes unable to meet payment obligations in a timely manner when they become due.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objective with regards to liquidity risk is to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	The Group's policy is to ensure the business is prudently funded and that sufficient liquidity headroom is maintained on its facilities.
Risk management	Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining cash and/or availability under committed credit lines. Each of the sectors in the Group provides regular cash forecasts for liquidity planning purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and to ensure that there is sufficient liquidity to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The Group utilises debt factoring in support of the non-UK operations of its Aviation sector as part of its working capital management arrangements.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. No new facilities have been entered into.

The contracted cash outflows on bank and other borrowings, derivatives and lease liabilities at the reporting date are shown below, based on contractual undiscounted payments. Interest payments predominantly relate to repayments on the €550m Eurobond and the £300m bond and have been calculated based on the contractual fixed interest rates. Eurobond interest has been translated based on the prevailing exchange rates at the balance sheet date.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2026					
Bank and other borrowings – repayment of overdraft and loan principal	316.9	471.8	5.1	–	793.8
Bank and other borrowings – interest payments	9.7	3.4	0.4	–	13.5
Derivatives cash outflows settled gross	464.2	763.1	875.4	30.4	2,133.1
Undiscounted lease payments	66.6	58.9	124.3	131.4	381.2
At 31 March 2025					
Bank and other borrowings – repayment of overdraft and loan principal	0.6	299.8	453.0	–	753.4
Bank and other borrowings – interest payments	12.5	9.7	3.4	–	25.6
Derivatives cash outflows settled gross	590.7	274.5	897.2	8.4	1,770.8
Undiscounted lease payments	55.5	53.7	106.0	130.0	345.2

The impact of discounting for lease payments is £73.9 million (restated 2025: £70.6 million) resulting in lease liabilities of £307.3 million (2025: £274.6 million). Other financial liabilities not included in the table above such as trade and other payables are all expected to be settled within one year.

Notes to the Group financial statements (continued)

22. Financial risk management (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, when revenue or expense is denominated in a foreign currency, and the Group's net investments in foreign subsidiaries.

The functional currency of Babcock International Group PLC and its UK subsidiaries is GBP. The presentation currency of the Group is GBP. The Group has exposure primarily to EUR, ZAR, AUD and CAD.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objective is to reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the EUR, ZAR, AUD and CAD.
Policy – Transactional risk	In order to mitigate the currency risk of adverse currency movements on foreign currency denominated transactions, the Group's policy is to hedge all foreign currency transactions greater than £10k, using financial instruments where appropriate. The Group applies IFRS 9 hedge accounting treatment where appropriate.
Policy – Translational risk	The Group is also exposed to adverse foreign currency movements on translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statements or statement of financial positions of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the assets with foreign currency denominated debt.
Risk management	Currency risk management includes hedging the underlying foreign currency exposures in the foreign exchange market with approved counterparties. Currency transactions are recorded and monitored in the treasury management system. Each of the sectors in the Group provides a quarterly foreign currency exposure report to monitor the level of currency hedge cover is appropriate.
Performance	All material firm transactional exposures are economically hedged using foreign exchange forward contracts.

The effect of cash flow hedges on the Group's financial position and performance in the year was as follows:

	Year ended 31 March 2026							
	Nominal amount	Carrying value	Maturity	Hedged rate	Change in fair value used for calculating hedge effectiveness	Change in fair value recognised in other comprehensive income	Amount reclassified from cash flow hedge reserve to finance cost	Ineffectiveness recognised in profit and loss (finance cost)
Hedging instruments (£m)								
Hedge instrument: Cross currency swap	€275m	(3.9)	13/09/27	1.115	7.7	7.7	(10.0)	–
Hedged item: EUR-denominated debt	€275m	N/A	13/09/27	N/A	(10.0)	N/A	N/A	N/A

New derivatives executed to hedge purchases and sales in foreign currencies have been treated as economic hedges with the fair value changes recognised in the income statement rather than through other comprehensive income and therefore disclosure has not been provided on such items.

22. Financial risk management (continued)

Year ended 31 March 2025								
Hedging instruments (£m)	Nominal amount	Carrying value	Maturity	Hedged rate	Change in fair value used for calculating hedge effectiveness	Change in fair value recognised in other comprehensive income	Amount reclassified from cash flow hedge reserve to finance cost	Ineffectiveness recognised in profit and loss (finance cost)
Hedge instrument: Cross currency swap	€275m	(£11.6)	13/09/27	1.115	1.9	(1.9)	4.8	–
Hedged item: EUR-denominated debt	€275m	N/A	13/09/27	N/A	(4.8)	N/A	N/A	N/A

	Year ended 31 March 2026			Year ended 31 March 2025		
	Change in foreign currency rate	Effect on profit before tax £m	Effect on other components of equity £m	Change in foreign currency rate	Effect on profit before tax £m	Effect on other components of equity £m
EUR *	5%	(1.6)	(1.6)	5%	(1.0)	(1.0)
ZAR	5%	(1.4)	(1.4)	5%	(1.6)	(1.6)
AUD	5%	(0.3)	(0.3)	5%	(0.3)	(0.3)
CAD	5%	(0.8)	(0.8)	5%	(0.7)	(0.7)

Sensitivity analysis on currency risk has been prepared based on an approximation of reasonably possible changes in foreign exchange rates relative to the Group's functional and reporting currency.

Under the Group's economic hedging policy, the terms of the forward contracts are arranged to align with the expected timing, currency and amounts of the hedged items. The Group typically enters into forward contracts where the hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency transaction.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations to the Group, which would result in a loss for the Group. Credit risk arises from trade and other receivables, cash and cash equivalents, investments and derivative financial instruments.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objective is to ensure that the Group continues to operate with an acceptable level of credit risk, based on management's judgement, associated with its operating activities, such as customer trade receivables, and financial activities, including cash deposits and financial instruments.
Policy	The Group's policy is to manage credit risk by setting and reviewing appropriate credit limits for non-government commercial customers, being the Group's main exposure to credit risk. With regards to financial institutions, credit limits will be set according to the respective financial institution's credit rating. Counterparty bank credit risk is closely monitored on a systematic and ongoing basis.
Risk management	Credit risk management includes performing credit checks on non-government commercial customers and setting and only performing financial transactions with approved investment grade counterparties.
Performance	Expected credit loss on trade receivable portfolio/provisions of £9.1 million (2025: £8.4 million). The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Cash and cash equivalents and derivative financial instruments

The Group utilises approved investment-grade counterparties to carry out treasury transactions, including investments of cash and cash equivalents, with counterparty bank credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating, and as such credit risk on these counterparties is not considered to be material to the financial statements.

The Group's counterparty credit rating is as follows:

	31 March 2026	31 March 2025
AA- or higher	39.6%	14.8%
A+ to A-	55.6%	77.4%
BBB+ to BB-	4.8%	7.8%

Notes to the Group financial statements (continued)

22. Financial risk management (continued)

Trade receivables

The Group's assessment is that credit risk in relation to customers or sub-contractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from governments and sub-contractors to government customers is therefore considered immaterial in the context of the receivables balance. The Group manages credit risk in relation to trade and other receivables for all non-government commercial customers through various mitigating controls including credit checks, credit limits and ongoing monitoring. Expected credit losses are assessed for all non-government customers, however this is not considered to be material to the financial statements.

For trade receivables, contract assets and lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other assets the loss allowance is measured using 12-months expected credit losses unless there was a significant increase in credit risk since initial recognition. Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

The Group considers that default has occurred when receivables are more than 90 days overdue and recognises a provision of 100% against all such receivables unless there is evidence of recoverability at the individual receivable level. The movement on the provision for expected credit losses is as follows:

	2026 £m	2025 £m
Balance at 1 April	(8.4)	(8.5)
Charged to the income statement	(2.6)	(1.0)
Unused amounts reversed	0.5	0.3
Disposal of businesses	–	0.6
Receivables written off as uncollectable	1.4	0.1
Exchange differences	–	0.1
Balance at 31 March	(9.1)	(8.4)

The creation and release of provisions for impairment of receivables have been included in operating costs in the income statement.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. The ageing of trade receivables is detailed below:

	Year ended 31 March 2026			Year ended 31 March 2025		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	249.0	–	249.0	250.0	–	250.0
Up to 90 days overdue	32.7	(0.1)	32.6	29.6	(0.3)	29.3
Past 90 days overdue	34.4	(9.0)	25.4	23.8	(8.1)	15.7
	316.1	(9.1)	307.0	303.4	(8.4)	295.0

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business.

For contract assets the expected credit loss provision is immaterial as the probability of default is insignificant. No expected loss provision has been recorded in respect of loans to joint ventures and associates.

22. Financial risk management (continued)

Offsetting financial assets and liabilities

	Year ended 31 March 2026			Year ended 31 March 2025		
	Balance sheet £m	Amounts not offset ¹ £m	Net balances £m	Balance sheet £m	Amounts not offset ¹ £m	Net balances £m
Assets						
Cash and cash equivalents	739.9	(16.3)	723.6	646.6	(0.1)	646.5
Derivatives	18.7	(18.7)	–	14.4	(14.4)	–
Liabilities						
Bank and other borrowings	(16.3)	16.3	–	(0.1)	0.1	–
Derivatives	(24.8)	18.7	(6.1)	(53.9)	14.4	(39.5)

1. The Group has the legal right of offset within certain of its banking arrangements, however there is no intention to net settle these balances shortly after the period end and therefore these have been presented gross in accordance with IAS 32. The Group also has derivative assets and liabilities with the same financial institutions which also have offset language to allow for net settlement, however the Group has no intention to net settle and therefore the IAS 32 criteria are not satisfied and the derivative asset and derivative liabilities have been presented gross in the statement of financial position.

Capital risk

Capital risk is the risk that the entity may not be able to continue as a going concern. The capital structure of the Group consists of net debt (cash and cash equivalents, bank overdrafts, loans, including the interest rate and foreign exchange derivatives which hedge the loans, lease liabilities, lease receivables and loans to joint ventures and associates) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, and to provide returns for shareholders and other stakeholder benefits.
Policy	The Group's policy is to protect and strengthen the Group statement of financial position through the appropriate balance of debt and equity funding.
Risk management	The Group manages its capital structure and makes adjustments in response to changes to economic conditions and the strategic objectives of the Group. The Group raises finance in the public debt market from financial institutions, using a variety of capital market instruments and borrowing facilities.
Performance	No new facilities have been entered into in the current or prior period nor have any facilities been withdrawn or removed.

Notes to the Group financial statements (continued)

23. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2025 and 31 March 2026	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2024 and 31 March 2025	505,596,597	303.4

Potential issues of ordinary shares – executive share plans

The table below shows conditional share awards existing over the Company's shares as at 31 March 2026 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust ('BEST') – a total of 9,144,211 shares (2025: 11,624,363 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2026 Number	2025 Number - restated
1 December 2020	PSP ¹	01/12/2025 – 01/12/2026	–	318,585
1 December 2020	PSP ¹	01/12/2023 – 01/12/2024	–	9,089
24 September 2021	PSP ¹	24/09/2024 – 24/09/2025	–	224,829
24 September 2021	PSP ¹	24/09/2026 – 24/09/2027	80,948	80,948
1 August 2022	DBP ²	01/08/2025 – 01/08/2026	28,548	218,895
1 August 2022	PSP ¹	01/08/2025 – 01/08/2026	211,805	1,841,596
1 August 2022	PSP ¹	01/08/2027 – 01/08/2028	49,476	1,328,136
1 August 2023	PSP ¹	01/08/2026 – 01/08/2027	2,402,124	2,606,362
1 August 2023	DBP ²	01/08/2026 – 01/08/2027	129,095	129,095
1 August 2023	DBP ³	01/08/2024 – 01/08/2025	–	27,212
1 August 2023	PSP ¹	01/08/2028 – 01/08/2029	24,549	24,549
29 September 2023	PSP ¹	29/09/2028 – 29/09/2029	900,607	900,607
15 December 2023	PSP ¹	15/12/2025 – 15/12/2026	–	42,077
15 December 2023	PSP ¹	15/12/2026 – 15/12/2027	145,199	175,643
1 August 2024	DBP ²	01/08/2027 – 01/08/2028	93,254	93,254
1 August 2024	DBP ³	01/08/2025 – 01/08/2026	23,823	142,343
1 August 2024	PSP ¹	02/12/2027 – 02/12/2028	3,084,641	3,364,295
1 August 2024	PSP ¹	02/12/2027 – 02/12/2030	–	15,634
2 December 2024	PSP ¹	02/12/2025 – 02/12/2026	–	4,860
2 December 2024	PSP ¹	02/12/2026 – 02/12/2027	14,582	14,582
2 December 2024	PSP ¹	02/12/2027 – 02/12/2028	61,772	61,772
7 July 2025	DBP ³	07/07/2026 – 07/07/2027	139,512	–
7 July 2025	DBP ³	07/07/2028 – 07/07/2029	83,188	–
7 July 2025	PSP ¹	07/07/2028 – 07/07/2029	854,448	–
29 September 2025	PSP ¹	29/09/2028 – 29/09/2029	770,928	–
15 December 2025	PSP ¹	15/12/2028 – 15/12/2029	45,712	–
			9,144,211	11,624,363

2025 figures have been restated to move 574,128 shares incorrectly classified between PSP 1 year and PSP 3 year within the 1 August 2023 awards and 54,183 of shares incorrectly classified between PSP 1 year and PSP 3 year in the 15 December 2023 awards.

Options granted to Directors are summarised in the Remuneration report on pages 150 to 153 and are included in the outstanding options set out above.

1. 2019 Performance Share Plan ('PSP').

2. DBP – Award has a three-year vesting period.

3. DBP – Award has a one-year vesting period.

23. Share capital (continued)

Potential issues of ordinary shares – colleague share plans

The table below shows conditional share awards existing over the Company's shares as at 31 March 2026 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under Babcock's Colleague Share Plan plans. The awards were granted directly by the Company and satisfied by shares held in trust by MUFG – a total of 749,041 shares (2025: zero shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares or by way of transfer of shares purchase in the market into Treasury shares. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2026 Number	2025 Number
20 August 2025	Colleague Share Plan	20/08/2028	749,041	–
			749,041	–

A reconciliation of all PSP, DBP and Colleague Share Plan movements is shown below:

	31 March 2026 Number '000	31 March 2025 Number '000
Outstanding at 1 April	11,624	12,491
Granted	2,782	4,095
Exercised	(3,845)	(3,917)
Forfeited/lapsed	(668)	(1,045)
Outstanding at 31 March	9,893	11,624
Exercisable at 31 March	212	261

The weighted average share price for awards exercised during the year was 1,018p per share (2025: 514.8p per share). The weighted average fair value of awards granted in the year was 1,092p per share (2025: 497.1p per share)

Transactions in own shares

Shares held by the Babcock Employee Share Trust ('BEST')

In previous periods, the Group has financed the BEST to purchase already issued shares in the market with these shares being utilised to satisfy outstanding awards under the PSP and the DBP as such awards vest and are exercised.

As the Babcock Employee Share Trust is consolidated in the Group's financial statement, acquisition of shares by the Trust are accounted in the Group consolidated accounts consistent with Treasury shares with the cost of acquisition deducted from equity.

Treasury shares

In the reporting period, the Group announced a £200 million share buyback exercise which has resulted in shares being acquired as Treasury shares. These shares are held by the Group directly rather than through the Trust. Own shares acquired as Treasury shares are recorded at cost and deducted from equity.

Shares are purchased on the open market through brokers with subsequent cash settlement resulting in a timing difference between the cost recognised through equity and the amount recognised in the cash flow statement as at 31 March 2026 with the difference held in other creditors and accruals.

Treasury shares are, periodically, transferred to the BEST for the purpose of being used to satisfy the Group's executive share plans and to MUFG to satisfy the Colleague Share Plan.

In accordance with UK company law, as shares are issued from the Trust to employees, the amount acquired is recycled from Treasury Shares to Retained Earnings at the weighted average price of shares held in treasury at the point of transfer. A separate Treasury Shares reserve is not shown in the Group's Statement of Financial Position or Statement of Changes in Equity and instead is recorded as part of Retained Earnings.

Notes to the Group financial statements (continued)

23. Share capital (continued)

	Year ended 31 March 2026		Year ended 31 March 2025	
	# of shares	Total cost £m	# of shares	Total cost £m
Treasury shares				
Shares in treasury as at 1 April	–	–	–	–
Own shares purchased	12,543,295	152.6	–	–
Shares transferred to BEST	(1,100,000)	(12.2)	–	–
Shares transferred to MUFG	(702,960)	(7.4)	–	–
Shares remaining in Treasury as at 31 March	10,740,335	133.0	–	–

Treasury shares held have a nominal value of £6.4 million (2025: £nil) and a total market value of £124.4 million (2025: £nil) representing 2.12% (2025: 0%) of the issued share capital at that date. The Company does not pay dividends on Treasury shares.

The table below shows shares held by the trustees of the BEST in order to meet future executive share plan awards.

	Year ended 31 March 2026		Year ended 31 March 2025	
	# of shares	Total cost £m	# of shares	Total cost £m
Shares held by BEST				
Shares in BEST as at 1 April	1,196,571	7.6	1,872,433	5.6
Own shares purchased	1,846,399	16.7	3,267,012	18.8
Shares transferred from treasury shares	1,100,000	12.2	–	–
Shares issued to satisfy employee share plans	(3,837,620)	(33.4)	(3,942,874)	(16.8)
Shares remaining as at 31 March	305,350	3.1	1,196,571	7.6

Shares held by the trust have a nominal value of £183,210 (2025: £717,943) and a total market value of £3,535,953 (2025: £8,663,174) representing 0.06% (2025: 0.24%) of the issued share capital at that date. The Company did not pay dividends to the Trust during the year. The Company meets the operating expenses of the Trust.

The Trust enables shares in the Company to be held or purchased and made available to employees through the exercise of rights or pursuant to awards made under the Company's employee share scheme. The Trust is a discretionary settlement for the benefit of employees within the Group. The Company is excluded from benefitting under it. It is controlled and managed outside the UK and has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company.

The table below shows shares already held by MUFG in order to meet future awards arising from the Colleague Share Plan.

	Year ended 31 March 2026		Year ended 31 March 2025	
	# of shares	Total cost £m	# of shares	Total cost £m
Shares held by MUFG				
Shares held as at 1 April	–	–	–	–
Shares transferred from treasury shares	702,960	7.4	–	–
Shares issued to satisfy employee share plans	(8,613)	(0.1)	–	–
Shares remaining as at 31 March	694,347	7.3	–	–

24. Share-based payments

For awards which are subject to performance conditions, the charge to the income statement has been based on the assumptions below and is based on the application of Black Scholes model or on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions as deemed necessary. The detailed description of the plans below is included within the Remuneration report. For other awards not subject to performance conditions, the charge is based on the share price on grant issue or modification date.

During the year the total charge relating to employee share-based payment plans was £17.2 million (2025: £14.3 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £12.9 million (2025: £10.7 million).

24. Share-based payments (continued)

The fair value per option granted and the assumptions used in the calculation are as follows:

PSP, DBP and CSP¹

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2025 DBP	139,512	1,101	–	2.0	100.0%	–	1,101	–	07/07/25
2025 DBP	83,188	1,101	–	4.0	100.0%	–	1,101	–	07/07/25
2025 CSP	702,960	980	–	3.0	100.0%	–	980	–	20/08/25
2025 PSP	929,031	1,101	–	4.0	100.0%	–	1,101	–	07/07/25
2025 PSP	45,712	1,259	–	4.0	100.0%	–	1,259	–	15/12/25
2025 PSP	803,271	1,302	32.9%	4.0	100.0%	–	1,167	–	29/09/25
2024 DBP	93,254	523	–	4.0	100.0%	–	523	–	01/08/24
2024 DBP	162,444	523	–	2.0	100.0%	–	523	–	01/08/24
2024 PSP	1,799,822	523	–	4.0	100.0%	–	523	–	01/08/24
2024 PSP	1,887,244	523	31.5%	4.0	100.0%	–	470	–	01/08/24
2024 PSP	70,742	523	31.5%	6.0	100.0%	–	470	–	01/08/24
2024 PSP	61,772	510	–	4.0	100.0%	–	510	–	02/12/24
2024 PSP	4,860	510	–	2.0	100.0%	–	510	–	02/12/24
2024 PSP	14,582	510	–	3.0	100.0%	–	510	–	02/12/24
2023 PSP	1,259,675	371	32.6%	4.0	100.0%	–	334	–	01/08/23
2023 PSP	1,234,901	371	–	4.0	100.0%	–	371	–	01/08/23
2023 PSP	737,280	371	32.6%	6.0	100.0%	–	334	–	01/08/23
2023 PSP	78,571	413	32.0%	6.0	100.0%	–	372	–	29/09/23
2023 PSP	822,036	413	–	6.0	100.0%	–	413	–	29/09/23
2023 PSP	42,077	385	–	3.0	100.0%	–	385	–	15/12/23
2023 PSP	127,553	385	–	4.0	100.0%	–	385	–	15/12/23
2023 PSP	131,707	385	32.0%	6.0	100.0%	–	347	–	15/12/23
2023 DBP	129,095	371	–	4.0	100.0%	–	371	–	01/08/23
2023 DBP	179,247	371	–	2.0	100.0%	–	371	–	01/08/23
2022 PSP	2,302,009	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 PSP	613,078	351	19.0%	6.0	100.0%	–	316	–	01/08/22
2022 PSP	806,511	351	19.0%	6.0	100.0%	169	316	55.0%	01/08/22
2022 DBP	218,895	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 DBP	551,420	351	19.0%	2.0	100.0%	–	351	–	01/08/22
2021 PSP	769,165	372	19.0%	6.0	100.0%	149	316	55.0%	24/08/21
2021 PSP	626,704	380	19.0%	6.0	100.0%	–	325	–	24/09/21
2021 PSP	1,780,849	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2020 PSP	695,458	350	19.0%	6.0	100.0%	–	305	–	01/12/20
2020 PSP	2,091,247	350	19.0%	4.0	100.0%	–	350	–	01/12/20
2020 PSP	1,341,477	350	19.0%	6.0	100.0%	138	305	55.0%	01/12/20

1. PSP = 2019 Performance Share Plan, DBP = 2022 Deferred Bonus Plan, CSP = Colleague Share Plan.

All awards have an exercise price of £nil and as such the weighted average exercise price for shares granted, exercised, forfeited and outstanding are all £nil.

The vesting period and the expected life of PSP awards are between one and three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends. The vesting period for the CSP is three years.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

Notes to the Group financial statements (continued)

24. Share-based payments (continued)

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

For PSP awards made in August to December 2023, 3,611,764 were made via the use of restricted shares with a three-year to five year vesting period. There are no performance conditions attached. A further 822,036 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

For PSP awards made in August to December 2024, 1,881,036 were made via the use of restricted shares with a three-year to five year vesting period. There are no performance conditions attached. A further 1,957,986 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

For PSP awards made in July to December 2025, 974,743 were made via the use of restricted shares with a three-year to five year vesting period. There are no performance conditions attached. A further 803,271 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

There are no performance conditions attached to the DBP or the Colleague Share Plan ('CSP').

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The weighted average remaining contractual life for share options outstanding at the end of the period was 2 years.

In addition to the Colleague Share Plan providing employees with free shares during 2025, the Colleague Share Plan allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 53,397 matching shares (2025: 92,641 matching shares) at a cost of £0.4 million (2025: £0.5 million).

The Group also operates the Babcock Colleague Share Plan International ('BCSPI') which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2025: no matching shares) and 1,056 matching shares vested (2025: 1,182 matching shares). 1,056 shares were transferred to the BCSPI from the Employee Share Trust leaving a balance of 2,544 matching shares (2025: 2,544 matching shares).

25. Retirement benefits and liabilities

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

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

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

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	Year ended 31 March 2026 £m	Year ended 31 March 2025 £m
Defined contribution schemes	155.4	101.6

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	31 March 2026 £m	31 March 2025 £m
Retirement benefits – funds in surplus	77.3	98.8
Retirement benefits – funds in deficit	(111.3)	(107.2)
	(34.0)	(8.4)

25. Retirement benefits and liabilities (continued)

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme ('DRDPS'), the Babcock International Group Pension Scheme ('BIGPS') and the Rosyth Royal Dockyard Pension Scheme (together, 'the Principal schemes'). Each of these schemes is predominantly a final salary plan in which future pension levels are defined relative to number of years' service and final salary. Retirement age varies by scheme. The nature of these schemes is that the employees only contribute whilst they are active employees of a scheme, with the employer paying the balance of the cost required. All principal schemes are closed to future accrual of benefits. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

The Group also participates in the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme ('the Railways scheme'). This scheme is a multi-employer shared cost scheme with the contributions required, the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments all agreed with the trustees who are advised by an independent, qualified actuary. The costs are, in the first instance, shared such that the active employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. However, the assumption is that as the active membership reduces, the liability will ultimately revert to the Group, and as such, it is assumed that the entire cost of the Railways Scheme is met by the Group. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in the Railways scheme.

Defined benefit scheme risks

Through its defined benefit pension schemes, the Group is exposed to a number of risks, the most notable of which are as follows:

Risk	Mitigation
Asset volatility – discount rates (determined with reference to AA corporate bond yields) are used to determine expected returns on plan assets. Asset yields which vary from this expected return will result in an increase or decrease in the overall surplus/deficit.	Pension scheme assets are held in a diversified portfolio of assets in order to minimize risk arising from asset return volatility. Investments are well diversified, such that failure of any singular investment would not have a material impact on the overall level of assets. The asset investment strategy is agreed following consultation between the Group and the plan Trustees. The Group and the plan Trustees monitor the schemes closely – especially during periods of significant turmoil and will maintain a diversified investment strategy intended to minimize asset volatility.
Inflation – the majority of pension scheme obligations are index-linked and therefore exposed to inflation risk. Increasing inflation will lead to higher liabilities. Inflation assumptions as applied to pension obligations are a long-term assessment of inflation over the life of the scheme.	The plan Trustees asset management policy includes investing in inflation hedging assets such as inflation linked bonds to mitigate this risk.
Life expectancy – the majority of obligations are to provide benefits for the life of the member and therefore changes in life expectancy of the scheme participants will impact the liability position.	The Group monitors the risk of increasing life expectancy and will, from time to time, take out longevity swaps to mitigate this risk – the most recent of which was in 2009.
Interest rate – movements in corporate bond yields will result in a change to the plan liabilities. Similarly, movements in gilt yields in isolation will have an impact on the schemes funding positions.	The trustee's asset management policy includes investing in bonds and therefore any impact on change in bond yields on the plan liabilities is partially offset by returns on assets. The asset portfolio invests in assets which increase in value as interest rates decrease and thus the schemes holdings are designed to hedge against interest rate risk for most of the funded liabilities.

Notes to the Group financial statements (continued)

25. Retirement benefits and liabilities (continued)

Risk	Mitigation
Salary increases – changes in long-term salary increases will impact the final salary position on which pension benefits are determined.	In 2019, the Group closed the Babcock International Group Pension Scheme to future accrual for some employees but they retained the salary link to their accrued benefits at that time. Subsequently, in September 2024, the salary link was broken following the scheme closure. The Devonport Royal Dockyard Pension Scheme was closed to future accrual for all members with effect from 30 November 2024, with some members opting to break the salary link in return for a cash sum. The Rosyth Royal Dockyard Pension Scheme was closed to future accrual and salary link broken for all employees in 2020.

The defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The details of the latest formal actuarial valuation of the scheme are as follows (the actuarial valuations of the Devonport Royal Dockyard Scheme as at 31 March 2023, Rosyth Royal Dockyard Scheme as at 31 March 2024 and the Babcock International Group Scheme as at 31 March 2025 have been completed):

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2023	31/03/2025	31/03/2024	31/12/2022
Number of active members at above date	1,181	–	–	131
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,330m	£908m	£653m	£262m
Level of funding	92%	107%	89%	100%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group Section of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme, which commenced winding up in 2021, and for which the MOD retains liability.

The Group's cash contribution rates payable to the schemes are expected to be as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	–	–	–	7.68%	–	–
Future service cash contributions	–	–	–	£0.2m	£2.9m	£3.1m
Deficit contributions	£12.7m	–	£4.5m	–	£0.9m	£18.1m
Additional longevity swap payments	£1.8m	–	–	–	–	£1.8m
Expected employer cash costs for 2026/27	£14.5m	–	£4.5m	£0.2m	£3.8m	£23.0m
Expected salary sacrifice contributions	–	–	–	£0.1m	£0.8m	£0.9m
Expected total employer contributions	£14.5m	–	£4.5m	£0.3m	£4.6m	£23.9m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme is completed; valuations are carried out every three years.

The expected payments from the schemes are primarily pension payments and lump sums. Most of the pensions increase at a fixed rate or in line with RPI or CPI inflation when in payment. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary. The levels of deficit contributions reflected above are expected to continue until technical provisions (self-sufficiency for the Babcock International Group Pension Scheme) funding levels are met either through asset performance or funding.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Group also considers that the trustees do not have the power to unilaterally wind-up the schemes or vary benefits.

25. Retirement benefits and liabilities (continued)

Virgin Media Case

The Group is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for it to have an impact on the Group's UK pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test.

Where scheme rules were amended prior to 6 April 2016, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation for the purposes of Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the High Court ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case was appealed and, in a judgment delivered in July 2024, the Court of Appeal upheld the High Court's decision.

The Group is aware that a further case has been heard in the High Court in 2025 (judgment in respect of which is still awaited) and that such case may provide additional clarity on issues related to the Virgin Media case and its implications for certain schemes and relevant historic amendments.

The Group and the trustees of its defined benefit pension schemes had taken initial advice on the implications of the Virgin Media case for the Group's defined benefit pension schemes. For one scheme we received confirmation that there is no evidence to conclude that pension scheme liabilities have been understated as a result of non-compliance with section 37 of the Pension Schemes Act 1993 during the relevant period. For the other potentially impacted schemes, there was a process to identify areas that may require further investigation, depending on developing case law and the introduction of legislation on this point.

The Pension Schemes Act 2026 (which gained Royal Assent on 29 April 2026) now includes a so-called legislative solution in relation to this issue. The Group understands this provides, broadly, for a process for schemes to obtain retrospective actuarial confirmation in relation to historic benefit changes which (subject to the relevant steps and conditions) could result in the scheme being treated as having met the requirements of Section 37 of the Pension Schemes Act 1993 in respect of the identified benefit changes.

The next steps for the potentially impacted schemes, which may include the use of the legislative solution, will now be considered in light of the Pension Schemes Act 2026. The potential impact on the Group is therefore not yet known and continues to be assessed.

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2026 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
March 2026				
Rate of increase in pensionable salaries	3.20%	–	–	0.50%
Rate of increase in pensions (past service)	3.00%	3.25%	3.35%	2.95%
Discount rate	6.00%	5.95%	6.00%	6.10%
Inflation rate (RPI)	3.35%	3.35%	3.35%	3.30%
Inflation rate (CPI)	3.00%	3.00%	3.00%	2.90%
Weighted average duration of cash flows (years)	11	10	11	12
Total life expectancy for current pensioners aged 65 (years) – male	85.5	86.7	84.9	85.2
Total life expectancy for current pensioners aged 65 (years) – female	87.4	89.0	86.9	87.3
Total life expectancy for future pensioners currently aged 45 (years) – male	86.6	87.4	85.9	86.2
Total life expectancy for future pensioners currently aged 45 (years) – female	88.8	89.9	88.1	88.5
March 2025				
Rate of increase in pensionable salaries	2.90%	–	–	0.50%
Rate of increase in pensions (past service)	2.70%	3.00%	3.10%	2.70%
Discount rate	5.70%	5.70%	5.70%	5.70%
Inflation rate (RPI)	3.10%	3.10%	3.10%	3.10%
Inflation rate (CPI)	2.70%	2.70%	2.70%	2.70%
Weighted average duration of cash flows (years)	11	10	11	12
Total life expectancy for current pensioners aged 65 (years) – male	85.2	86.1	84.5	84.9
Total life expectancy for current pensioners aged 65 (years) – female	87.3	88.8	86.8	87.2
Total life expectancy for future pensioners currently aged 45 (years) – male	86.2	87.1	85.6	85.9
Total life expectancy for future pensioners currently aged 45 (years) – female	88.5	89.9	88.0	88.4

Notes to the Group financial statements (continued)

25. Retirement benefits and liabilities (continued)

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

	2026				2025			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities and equity-related derivatives	154.5	9.8	11.3	175.6	56.2	9.5	27.4	93.1
Property funds	145.8	–	3.5	149.3	147.7	0.1	5.1	152.9
High yield bonds/emerging market debt	–	–	6.0	6.0	–	–	0.4	0.4
Absolute return and multi-strategy funds	1.3	107.8	48.5	157.6	1.5	110.7	30.9	143.1
Low-risk assets								
Bonds	1,143.6	10.1	33.6	1,187.3	992.6	10.7	52.5	1,055.8
Matching assets*	1,235.1	70.9	75.3	1,381.3	1,513.0	68.5	48.9	1,630.4
Longevity swaps and annuities	(239.4)	–	(10.2)	(249.6)	(234.6)	–	(10.1)	(244.7)
Fair value of assets before impact of asset ceiling	2,440.9	198.6	168.0	2,807.5	2,476.4	199.5	155.1	2,831.0
Impact of IFRIC 14 asset ceiling	–	–	(3.1)	(3.1)	–	–	–	–
Fair value of assets	2,440.9	198.6	164.9	2,804.4	2,476.4	199.5	155.1	2,831.0
Percentage of assets quoted	89%	38%	10%	81%	83%	–	33%	74%
Percentage of assets unquoted	11%	62%	90%	19%	17%	100%	67%	26%
Present value of defined benefit obligations								
Active members	–	28.0	71.4	99.4	–	27.4	71.9	99.3
Deferred pensioners	791.3	60.1	27.3	878.7	819.6	58.0	26.3	903.9
Pensioners	1,695.4	118.0	46.9	1,860.3	1,668.5	125.7	42.0	1,836.2
Total defined benefit obligations	2,486.7	206.1	145.6	2,838.4	2,488.1	211.1	140.2	2,839.4
Net (liabilities)/assets recognised in the statement of financial position	(45.8)	(7.5)	19.3	(34.0)	(11.7)	(11.6)	14.9	(8.4)

* The matching assets for the Babcock International Group Pension Scheme, Devonport Royal Dockyard Pension Scheme and Rosyth Royal Dockyard Pension Scheme primarily comprise a "Liability Driven Investment" portfolio for each scheme, which invest in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis. For the Babcock International Group Pension Scheme and the Devonport Royal Dockyard Pension Scheme, there are also investments in investment grade credit, via both segregated portfolios and pooled investment vehicles. The various segregated portfolios and pooled investment vehicle each utilise derivative contracts. The Trustee has authorised the use of derivatives by the investment managers for efficient portfolio management purposes including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives is gilt repurchase agreements, interest rate and inflation swaps in the matching portfolios; total return swaps in the return seeking portfolios. These derivatives are included within the matching assets and equities classifications. The matching assets category includes gross assets of £2,490 million (2025: £2,605 million) and associated repurchase agreement liabilities of £1,255 million (2025: £1,092 million). Repurchase agreements are entered into with counterparties to better offset the scheme's exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

Amounts recorded in the Group income statement

	2026				2025			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	–	–	3.4	3.4	7.9	0.1	3.1	11.1
Incurred expenses	3.9	0.2	0.8	4.9	6.1	0.4	0.3	6.8
Past service cost	–	–	–	–	(1.2)	–	–	(1.2)
Total included within operating profit	3.9	0.2	4.2	8.3	12.8	0.5	3.4	16.7
Net interest cost/(credit)	–	0.6	(1.0)	(0.4)	5.1	0.1	(0.7)	4.5
Total included within income statement	3.9	0.8	3.2	7.9	17.9	0.6	2.7	21.2

25. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	Year ended 31 March 2026				Year ended 31 March 2025			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	(17.5)	2.0	3.7	(11.8)	(239.8)	(34.8)	(18.0)	(292.6)
Experience losses arising on scheme liabilities	(24.4)	(1.0)	(3.6)	(29.0)	(9.4)	(0.5)	(1.9)	(11.8)
Changes in assumptions on scheme liabilities	(13.3)	3.7	4.1	(5.5)	276.4	26.1	17.4	319.9
Asset ceiling restriction	–	–	(3.1)	(3.1)	–	–	–	–
At 31 March	(55.2)	4.7	1.1	(49.4)	27.2	(9.2)	(2.5)	15.5

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2026				Year ended 31 March 2025			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
At 1 April	2,476.4	199.5	155.1	2,831.0	2,739.0	235.1	110.2	3,084.3
Interest on assets	136.9	11.0	9.0	156.9	124.4	11.0	6.7	142.1
Actuarial loss on assets	(17.5)	2.0	3.7	(11.8)	(239.8)	(34.8)	(18.0)	(292.6)
Employer contributions	25.0	0.2	6.5	31.7	99.7	0.5	6.8	107.0
Employee contributions	–	–	–	–	–	–	–	–
Benefits paid	(179.9)	(14.1)	(6.3)	(200.3)	(192.0)	(12.3)	(5.5)	(209.8)
Settlements	–	–	–	–	(54.9)	–	54.9	–
At 31 March	2,440.9	198.6	168.0	2,807.5	2,476.4	199.5	155.1	2,831.0
Impact of IFRIC 14 asset ceiling	–	–	(3.1)	(3.1)	–	–	–	–
Fair value of assets	2,440.9	198.6	164.9	2,804.4	2,476.4	199.5	155.1	2,831.0
Present value of benefit obligations								
At 1 April	2,488.1	211.1	140.2	2,839.4	2,856.2	237.4	100.4	3,194.0
Current service cost	–	–	3.4	3.4	7.9	0.1	3.1	11.1
Incurred expenses	3.9	0.2	0.8	4.9	6.1	0.4	0.3	6.8
Past service cost	–	–	–	–	(1.2)	–	–	(1.2)
Interest cost	136.9	11.6	8.0	156.5	129.5	11.1	6.0	146.6
Employee contributions	–	–	–	–	–	–	–	–
Experience loss	24.4	1.0	3.6	29.0	9.4	0.5	1.9	11.8
Actuarial loss/(gain) – demographics	36.7	1.0	(0.7)	37.0	(4.0)	(0.4)	(0.3)	(4.7)
Actuarial gain – financial	(23.4)	(4.7)	(3.4)	(31.5)	(272.4)	(25.7)	(17.1)	(315.2)
Benefits paid	(179.9)	(14.1)	(6.3)	(200.3)	(192.0)	(12.3)	(5.5)	(209.8)
Settlements	–	–	–	–	(51.4)	–	51.4	–
At 31 March	2,486.7	206.1	145.6	2,838.4	2,488.1	211.1	140.2	2,839.4
Net (deficit)/surplus at 31 March	(45.8)	(7.5)	19.3	(34.0)	(11.7)	(11.6)	14.9	(8.4)

Notes to the Group financial statements (continued)

25. Retirement benefits and liabilities (continued)

The movement in net deficits for the year ended 31 March 2026 is as a result of the movement in assets and liabilities shown above. The disclosures below relate to post-retirement benefit schemes which are accounted for as defined benefit schemes in accordance with IAS 19. The changes to the Group statement of financial position at 31 March 2026 and the changes to the Group income statement for the year to March 2027, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2026 £m	Income statement 2027 £m
Initial assumptions	2,838.4	8.8
Discount rate assumptions increased by 0.5%	(144.7)	(9.6)
Discount rate assumptions decreased by 0.5%	159.0	8.9
Inflation rate assumptions increased by 0.5%	112.8	7.0
Inflation rate assumptions decreased by 0.5%	(106.3)	(6.6)
Total life expectancy increased by half a year	52.5	3.2
Total life expectancy decreased by half a year	(52.3)	(3.2)
Salary increase assumptions increased by 0.5%	5.6	0.5
Salary increase assumptions decreased by 0.5%	(5.4)	(0.4)

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets are assumed not to be affected by any sensitivity changes shown and so the statement of financial position values would increase or decrease by the same amount as the change in the defined benefit obligations. There have been no changes in the methodology for the calculation of the sensitivities since the prior year.

26. Changes in net debt

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

	31 March 2025 £m	Cash flow £m	Lease interest £m	Additional leases £m	Other non-cash movement ¹ £m	Changes in fair value £m	Exchange movement £m	31 March 2026 £m
Cash and bank balances	646.6	87.4	–	–	–	–	5.9	739.9
Bank overdrafts	(0.1)	(16.2)	–	–	–	–	–	(16.3)
Cash, cash equivalents and bank overdrafts	646.5	71.2	–	–	–	–	5.9	723.6
Debt	(751.2)	3.0	–	–	(3.1)	(13.0)	(10.3)	(774.6)
Derivatives hedging Group debt	(10.8)	–	–	–	–	7.7	–	(3.1)
Lease liabilities	(274.6)	61.6	(17.1)	(73.1)	–	–	(4.1)	(307.3)
Changes in liabilities from financing arrangements	(1,036.6)	64.6	(17.1)	(73.1)	(3.1)	(5.3)	(14.4)	(1,085.0)
Lease receivables	44.6	(66.3)	5.2	60.9	–	–	1.5	45.9
Loans to joint ventures and associates	3.6	(0.2)	–	–	(0.1)	–	–	3.3
Derivatives hedging interest on Group debt	(31.4)	–	–	–	–	14.6	–	(16.8)
Net debt	(373.3)	69.3	(11.9)	(12.2)	(3.2)	9.3	(7.0)	(329.0)

26. Changes in net debt (continued)

	31 March 2024 £m	Cash flow £m	Lease interest £m	Additional leases £m	Other non-cash movement ¹ £m	Disposal of business £m	Changes in fair value £m	Exchange movement £m	31 March 2025 £m
Cash and bank balances	570.6	87.1	–	–	–	–	–	(11.1)	646.6
Bank overdrafts	(18.0)	18.2	–	–	–	–	–	(0.3)	(0.1)
Cash, cash equivalents and bank overdrafts	552.6	105.3	–	–	–	–	–	(11.4)	646.5
Debt	(749.5)	0.5	–	–	(2.1)	–	(4.7)	4.6	(751.2)
Derivatives hedging Group debt	(11.1)	–	–	–	–	–	0.3	–	(10.8)
Lease liabilities	(230.5)	59.5	(14.1)	(96.2)	–	1.1	–	5.6	(274.6)
Changes in liabilities from financing arrangements	(991.1)	60.0	(14.1)	(96.2)	(2.1)	1.1	(4.4)	10.2	(1,036.6)
Lease receivables	35.5	(20.7)	5.0	24.7	–	–	–	0.1	44.6
Loans to joint ventures and associates	3.9	(0.3)	–	–	–	–	–	–	3.6
Derivatives hedging interest on Group debt	(36.3)	–	–	–	–	–	4.9	–	(31.4)
Net debt	(435.4)	144.3	(9.1)	(71.5)	(2.1)	1.1	0.5	(1.1)	(373.3)

1. Other non-cash movements predominantly relate to amortisation of loan fees.

27. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

Acquisitions

There have been no acquisitions in the year ended 31 March 2026 nor in the prior financial year.

Disposals

During the current year, the Group has received settlement of loan notes held at fair value through profit and loss related to the historic disposal of its Civil Training business. The gain on settlement of £8.1 million has been recorded as a specific adjusting item (Note 2).

During the prior year the Group disposed of its 70.0% investment in National Training Institute LLC in Oman ('NTI'). The details of the disposal are provided in the table below. In addition, during the prior year, Airwork Technical Services & Partners LLC ('ATS'), a partly owned subsidiary registered in Oman, entered liquidation proceedings. As a result of the liquidation (combined with the Group only holding a 51.0% interest that limits the ability to further influence or unwind the liquidation process), the Group has concluded that the IFRS 10 criteria regarding control are no longer satisfied and, as such, the entity has been deconsolidated. Details are provided in the table below.

	Year ended 31 March 2025	
	NTI £m	ATS £m
Net assets disposed (excluding cash & goodwill)	0.2	(0.4)
Goodwill disposed	0.5	–
Cash and cash equivalents disposed	0.4	0.8
Recycling of translation reserve	(2.5)	–
Net assets/(liabilities) disposed adjusted for movements in translation reserve	(1.4)	0.4
Cash consideration	0.1	–
Recognition of investment in associate	–	0.4
Gain on disposal	1.5	–
Disposal related items – release of provisions	–	–
Business acquisition, merger and divestment related items	1.5	–

28. Transactions with non-controlling interests

There were no material transactions with non-controlling interests in the current or prior year.

Notes to the Group financial statements (*continued*)

29. Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities in its statement of financial position – such matters are only recognised in the statement of financial position when the obligation rises from possible to probable and the outflow of economic benefits becomes probable and can be measured reliably.

There are a number of contingent liabilities that arise in the normal course of business, including:

- a) The nature of the Group's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Group takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.
- b) As a large contracting organisation, the Group has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Group cannot deliver all those services and products itself. The Group is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Group.
- c) The Group is subject to corporate and other tax rules in the jurisdictions in which it operates. Changes in tax rates, tax reliefs and tax laws, or interpretation of the law, by the relevant tax authorities may result in financial and reputational damage to the Group. This may affect the Group's financial condition and performance if such matters result in charges in excess of those already provided in the financial statements – see notes 7 and 20 for further details of amounts provided.
- d) The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.
- e) Corporate rules in certain jurisdictions may extend to compensatory trade agreements, or economic offset rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Group if not undertaken appropriately.

30. Capital and other financial commitments

Capital commitments

	31 March 2026 £m	31 March 2025 £m
Contracts placed for future capital expenditure not provided for in the financial statements	14.2	17.1

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Legal entity name	Company number	Legal entity name	Company number
Airwork Limited	00322249	Babcock Marine (Rosyth) Limited	SC333105
Appledore Shipbuilders (2004) Limited	02052982	Babcock Marine Limited	02141109
Babcock Airports Limited	03954520	Babcock Marine Design Limited	16393958
Babcock Assessments Limited	02881056	Babcock Marine Products Limited	03658278
Babcock Aviation Services (Holdings) Limited	08993601	Babcock Marine Shipbuilding Limited	14302509
Babcock Company Holdings Limited (previously Babcock IP Management (Number Three) Limited)	15413856	Babcock Mission Critical Services Design and Completions Limited	05035651
Babcock Contractors Limited	04540026	Babcock Mission Critical Services Leasing Limited	04635275
Babcock Critical Assets Holdings LLP	OC376675	Babcock Mission Critical Services Limited	08010453
Babcock Defence & Security Holdings LLP	OC376674	Babcock Mission Critical Services Topco Limited	08338012
Babcock Defence and Security Investments Limited	08132272	Babcock Mission Critical Services UK Limited	07527245
Babcock Defence Systems Limited	02999029	Babcock MSS Limited	01996548
Babcock Design & Technology Limited	SC173117	Babcock Nuclear Limited	05265567
Babcock DS 2019 Limited	01199791	Babcock Overseas Investments Limited	02669327
Babcock Education & Training Holdings LLP	OC376676	Babcock Project Investments Limited	03463927
Babcock Education and Skills Limited	03494815	Babcock Project Services Limited	04539887
Babcock Education Holdings Limited	08132276	Babcock Services Group Limited	03939840
Babcock Fire Services Limited	03707192	Babcock Services Limited	10278084
Babcock Group (US Investments) Limited	07445425	Babcock Southern Careers Limited	03007083
Babcock Information Analytics and Security Limited	02275471	Babcock Southern Holdings Limited	01915771
Babcock Integrated Technology (Korea) Limited	09566389	Babcock Support Services (Investments) Limited	04393168
Babcock Integration LLP	OC356460	Babcock UK Finance	00096730
Babcock International Limited	00065805	Babcock Ukraine Limited	15155796
Babcock International Support Services Limited	03335786	Babcock US Investments Limited	07422616
Babcock Investments (Fire Services) Limited	04380306	Bond Aviation Topco Limited	08493398
Babcock Investments (Number Four) Limited	05269128	Brooke Marine Shipbuilders Limited	02113314
Babcock Investments Limited	00165086	FBM Babcock Marine Holdings (UK) Limited	02530482
Babcock Land Limited	03493110	FBM Babcock Marine Limited	00828219
Babcock Learning and Development Partnership LLP	OC372058	FBM Marine International (UK) Limited	02530345
Babcock M 2019 Limited	02530351	Flagship Fire Fighting Training Limited	03700728
Babcock Management 2019 Limited	03613756	LGE IP Management Company Limited	SC695940
Babcock Management Limited	00107414	Marine Engineering & Fabrications (Holdings) Limited	03936451
Babcock Marine (Clyde) Limited	SC220243	Marine Engineering & Fabrications Limited	02742584
Babcock Marine (Devonport) Limited	02959785	Peterhouse Group Limited	01517100

Babcock International Group PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 March 2026 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012.

Notes to the Group financial statements (continued)

31. Related party transactions

Related party transactions for the year ended 31 March 2026 are:

	2026 Revenue to £m	2026 Purchases from £m	2026 Year-end debtor balance £m	2026 Year-end creditor balance £m
2026				
Joint ventures and associates				
Ascent Flight Training (Management) Limited	4.3	–	0.8	–
Rotary Wing Training Limited	6.0	–	0.6	–
Fixed Wing Training Limited	6.3	–	0.6	–
Advanced Jet Training Limited	3.2	–	0.3	–
Rear Crew Training Limited	1.4	–	0.1	–
AirTanker Services Limited	13.0	–	2.7	–
Alert Communications Limited	5.2	–	0.7	–
Alkali Metal Processing Limited	1.8	(15.2)	–	–
	41.2	(15.2)	5.8	–
Other				
Fusion Business Solutions (UK) Limited	–	(0.3)	–	–
	–	(0.3)	–	–

	2025 Revenue to £m	2025 Purchases from £m	2025 Year-end debtor balance £m	2025 Year-end creditor balance £m
2025				
Joint ventures and associates				
Ascent Flight Training (Management) Limited	2.8	–	1.2	–
Rotary Wing Training Limited	6.5	–	0.5	–
Fixed Wing Training Limited	5.3	–	0.5	–
Advanced Jet Training Limited	3.3	–	–	–
Rear Crew Training Limited	1.2	–	0.1	–
AirTanker Services Limited	12.1	–	0.1	–
Alert Communications Limited	–	–	0.5	–
Alkali Metal Processing Limited	1.7	(4.9)	0.4	(3.3)
	32.9	(4.9)	3.3	(3.3)

- a) Other related parties represent transactions with entities in which members of the Board, or their immediate family, hold interests and/or directorships.
- b) All transactions noted above arise in the normal course of business – typically revenue transactions (including those part of the year-end debtor balance) are non-interest bearing and on standard 30-day payment terms.
- c) Loans to Joint Ventures and Associates are set out in note 14.
- d) Defined benefit pension schemes. Please refer to note 25 for transactions with the Group defined benefit pension schemes.
- e) Key management compensation is shown in note 6.
- f) Transactions in employee benefits trusts are shown in note 23.

32. Events after the reporting period

The Group announced a further £200 million share buyback programme on 13 May 2026 (subsequent to the £200 million share buyback programme announced in June 2025 and completed in April 2026). This buyback programme is planned to be executed over the course of the year ended 31 March 2027. This will reduce cash and the number of shares in issue and impact future earnings per share.

In June 2026, the Group utilised the ability to extend the Maturity Date of the RCF by a further 365 days to 18 July 2031.

There are no other events after the reporting period which would materially impact the balances reported in this Annual Report.

33. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2026 is disclosed below. Unless otherwise stated, the Group's interest in the voting share capital is represented by one type of ordinary share and is 100%, the entities are unlisted, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. Babcock (UK) Holdings Limited is the only entity held directly by Babcock International Group PLC. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited	Babcock Defence & Security Holdings LLP	Babcock International France SAS
Appledore Shipbuilders (2004) Limited ¹	Babcock Defence and Security Investments Limited	21 Rue Leblanc 75015, Paris, France
Armstrong Technology Associates Limited*	Babcock Defense (USA) Incorporated	Babcock International France Terre SAS
Babcock (NZ) Limited	251 Little Falls Drive, Wilmington, Delaware 19808, United States	21 Rue Leblanc 75015, Paris, France
Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand	Babcock Defence Systems Limited	Babcock International Holdings BV
Babcock (UK) Holdings Limited ³	Babcock Design & Technology Limited	Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands
Babcock Aerospace Limited	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	Babcock International Holdings Limited ¹
Babcock Africa Investments (Pty) Ltd Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa	Babcock Education & Training Holdings LLP	Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta
Babcock Airports Limited	Babcock Education Holdings Limited	Babcock International Limited ⁵
Babcock Australia Holdings Pty Ltd	Babcock Engineering Limited*	Babcock International Support Services Limited
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia	Babcock Fire Services (SW) Limited	Babcock International US Inc
Babcock Aviation Services Holdings International Limited ¹²	Babcock Fire Services Limited	251 Little Falls Drive, Wilmington, Delaware 19808, United States
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta	Babcock Fire Training (Avonmouth) Limited	Babcock Investments (Fire Services) Limited
Babcock Aviation Services (Holdings) Limited ¹	Babcock Group (US Investments) Limited	Babcock Investments (Number Four) Limited
Babcock B.V.	Babcock Holdings (USA) Incorporated ⁷	Babcock Investments Limited
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands	251 Little Falls Drive, Wilmington, Delaware 19808, United States	Babcock IP Management (Number One) Limited
Babcock Canada Inc.	Babcock Holdings Limited ³	Babcock IP Management (Number Two) Limited
99 Bank St., Suite 500, Ottawa ON K1P 6B9, Canada	Babcock Information Analytics and Security Holdings Limited*	Babcock Ireland Finance Limited
Babcock Communications Cyprus Limited	Babcock Information Analytics and Security Limited ⁵	44 Esplanade, St Helier, JE4 9WG, Jersey
Nikiforou Foka 36, Limassol 3040, Cyprus	Babcock Integrated Technology (Korea) Limited	Babcock Korea Limited
Babcock Communications Limited	Babcock Integrated Technology GmbH	72-1, Shinsan-ro, Saha-gu, Busan, 49434, South Korea
Babcock Company Holdings Limited	Am Zoppenberg 23, 41366 Schwalmthal, Germany	Babcock Land Limited
Babcock Contractors Limited	Babcock Integrated Technology Limited	Babcock Land Defence Limited
Babcock Corporate Secretaries Limited*	Babcock Integration LLP	Babcock M 2019 Limited
Babcock Corporate Services Limited	Babcock International Belgium SRL	Babcock Malta (Number Two) Limited 44 Esplanade, St Helier, JE4 9WG, Jersey
Babcock Critical Assets Holdings LLP	11 rue de colonies, Brussels, Belgium, 1000	Babcock Management Limited
Babcock Critical Services Limited	Babcock International Estonia OU	Babcock Marine (Clyde) Limited
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom	Harju maakond, Tallinn, Kesklinna linnaosa, Pärnu mnt 139e/2-8, 11317, Estonia	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
	Babcock International France Aviation SAS	Babcock Marine (Devonport) Limited ¹
	Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France	

Notes to the Group financial statements (continued)

33. Group entities (continued)

Subsidiaries, wholly owned (continued)

Babcock Marine (Rosyth) Limited Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	Babcock Services Group Limited Babcock Services Limited Babcock Southern Careers Limited Babcock Southern Holdings Limited ⁶ Babcock Support Services (Investments) Limited Babcock Support Services Limited ⁸ 103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom Babcock Training Limited Babcock UK Finance Babcock Ukraine Limited Babcock Ukraina LLC Nazalezhnosti Maidan, Building 2, Kyiv City, 01012, Ukraine Babcock USA LLC ¹ 251 Little Falls Drive, Wilmington, Delaware 19808, United States Babcock US Investments (Number Two) LLC ¹ 251 Little Falls Drive, Wilmington, Delaware 19808, United States Babcock US Investments Inc. ¹ 251 Little Falls Drive, Wilmington, Delaware 19808, United States Babcock US Investments Limited ⁵ Babcock Vehicle Engineering Limited ⁴ BNS Pension Trustees Limited* Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland BNS Pensions Limited* Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland Bond Aviation Topco Limited ⁵ Cavendish Nuclear (Overseas) Limited* Cavendish Nuclear (USA) Incorporated 251 Little Falls Drive, Wilmington, Delaware 19808, United States Cavendish Nuclear Japan KK Regus Tokyo, Arca Central – Office 104, Arca Central Building 14F 1-2-1, Kinshi , Sumida-ku, Tokyo, Japan Cavendish Nuclear Limited ⁵ Chepstow Insurance Limited PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey Crucible Training Systems Limited* Devonport Royal Dockyard Limited ⁹ Devonport Royal Dockyard Pension Trustees Limited*	FBM Babcock Marine Holdings (UK) Limited FBM Babcock Marine Limited Flagship Fire Fighting Training Limited INAER Helicopter Chile S.A.* 2880 Americo Vespucio Norte Avenue, Suite 1102, Conchali, Santiago, Chile LGE IP Management Company Ltd Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom Liquid Gas Equipment Limited Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom Liquid Gas Equipment LLC ¹ 251 Little Falls Drive, Wilmington, Delaware 19808, United States Liquid Gas Equipment (Singapore) PTE. Limited 19 Raffles Quay, 33-03 Hong Leong Building, 048581, Singapore Marine Engineering & Fabrications Limited Marine Industrial Design Limited c/o Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand Naval Ship Management (Australia) Pty Ltd 9, 70 Franklin Street, Adelaide, SA 5000, Australia Peterhouse Group Limited Port Babcock Rosyth Limited* Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland PT Babcock Indonesia International Sahid Sudirman Centre, 56th Floor, Jl. Jend. Sudirman No.86, Jakarta, 10220, Indonesia Rosyth Royal Dockyard Limited ¹⁰ Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland Rosyth Royal Dockyard Pension Trustees Limited* Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland SBRail Limited* Vosper Thornycroft (UK) Limited
Babcock Marine Design Limited Babcock Marine Holdings (UK) Limited ⁵ Babcock Marine Limited Babcock Marine Products Limited* Babcock Marine Shipbuilding Limited Babcock Marine Training Limited ¹ Babcock MCS Congo SA* Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, The Republic of Congo Babcock Mission Critical Services Australasia Pty Ltd Level 9, 70 Franklin Street, Adelaide SA 5000, Australia Babcock Mission Critical Services Design and Completions Limited Babcock Mission Critical Services (Ireland) Limited 13-18 City Quay, Dublin 2, Ireland Babcock Mission Critical Services Leasing Limited Babcock Mission Critical Services Ltd Babcock Mission Critical Services Onshore Limited Babcock Mission Critical Services Topco Ltd ¹ Babcock Mission Critical Services UK Limited Babcock MSS Limited Babcock Norge AS c/o Ernst&Young, Vassbotnen 11A, Sandnes, 4313, Norway Babcock Nuclear Limited Babcock Oman LLC P.O. Box 2315, Ghala, Muscat, 130, Oman Babcock Overseas Investments Limited Babcock Polska sp. z o.o. Plac Trzech Krzyzy 10/14, 00-499, Warszawa, Poland Babcock Project Investments Limited Babcock Project Services Limited Babcock Pty Ltd Level 9, 70 Franklin Street, Adelaide SA 5000, Australia Babcock Rail Limited Babcock Rail Ireland Limited Block 1, Harcourt Centre, Harcourt Street, Dublin. DUBLIN 2, Ireland		

33. Group entities (continued)

Subsidiaries, partly owned:

Babcock Africa (Pty) Limited (90.0%)⁷
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Africa Holdings (Pty) Ltd (90.0%)¹¹
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Africa Services (Pty) Ltd (90.0%)
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Dyncorp Limited⁹ (56.0%)
 Babcock Education and Training (Pty) Ltd
 (90.0%)
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Financial Services (Pty) Ltd (90.0%)
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Learning and Development
 Partnership LLP (80.1%)
 Babcock Mission Critical Services France SA
 (49.00%)

Lieu dit le Portaret, 83340, Le Cannet-des-
 Maures, France
 Babcock Moçambique Limitada (90.0%)
 Av. Samora Machel 3380/1, Mozambique
 Babcock Namibia Services Pty Ltd (90.0%)
 Unit 3 Ground Floor, Dr Agostinho Neto Road,
 Ausspahn Plaza, Ausspahnplatz, Windhoek,
 Namibia
 Babcock Ntuthuko Aviation (Pty) Limited
 (66.78%)*
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Ntuthuko Engineering (Pty) Limited
 (46.37%)⁹
 Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock Ntuthuko Powerlines (Pty) Limited
 (46.81%)*
 Unit G3 Victoria House, Plot 132 Independence
 Avenue, Gaborone, Botswana
 Babcock Plant Services (Pty) Ltd (64.82%)⁵

Riley Road Office Park, 15E Riley Road,
 Bedfordview, Gauteng, 2007, South Africa
 Babcock TCM Plant (Proprietary) Limited
 (90.0%)⁷
 Unit G3 Victoria House, Plot 132 Independence
 Avenue, Gaborone, Botswana
 Babcock Zambia Limited (90.0%)
 16 Arusha, Town Centre, Ndola, Copper Belt,
 Zambia
 Cognac Formation Aero (90.0%)
 Base Aérienne 709 Cognac 16100
 Châteaubernard, France
 European Hems (Ireland) Limited (49.0%)
 4th Floor, 35 Shelbourne Road, Ballsbridge,
 Dublin 4, Ireland
 European Hems Limited (49.0%)
 4th Floor, 35 Shelbourne Road, Ballsbridge,
 Dublin 4, Ireland

Joint ventures and associates (equity accounted):

AirTanker Services Limited (23.5%)¹²
 AirTanker Hub RAF Brize Norton, Carterton,
 Oxfordshire, England, OX18 3LX, United
 Kingdom
 Alert Communications Group Holdings
 Limited (20%)
 Alkali Metal Processing Limited (50.0%)
 Ascent Flight Training (Holdings) Limited
 (50.0%)
 Cavendish Boccard Nuclear Limited (51.0%)
 Cavendish Dounreay Partnership Limited
 (50.0%)⁹
 Cavendish Fluor Partnership Limited (65.0%)
 Debut Services (South West) Limited (50.0%)
 5 Merchant Square, Level 9 London, England,
 W2 1BQ, United Kingdom
 Duqm Naval Dockyard SAOC (49.0%)
 The Special Economic Zone at Duqm, Al-Duqm,
 Al-Wusta'a, 3972 112, Oman
 FSP (2004) Limited (50.0%)¹
 8 Stephenson Place, Hamilton International
 Technology Park, Blantyre, G72 0LH, Scotland
 H&B Defence Pty Ltd (49%)
 Unit G3, 55 Blackall Street, Barton ACT 2600,
 Australia
 Okeanus Vermögensverwaltungs
 GmbH & Co. KG (50.0%)
 Vorsetzen 54, 20459, Hamburg, Germany

Subsidiaries in Members Voluntary Liquidation:

Babcock Assessments Limited
 11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 Babcock DS 2019 Limited
 11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 Babcock Education and Skills Limited
 11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 Babcock Europe Finance Limited
 Trident Park, Notabile Gardens, No.2 – Level 3,
 Mdina Road, Zone 2, Central business District,
 Birkirkara CBD 2010, Malta
 Babcock (Ireland) Treasury Limited
 Custom House Plaza, Block 6, IFSC, Dublin, 1,
 Ireland
 Babcock Malta Finance (Number Two)
 Limited²
 Trident Park, Notabile Gardens, No. 2 – Level
 3, Mdina Road, Zone 2, Central Business
 District, Birkirkara CBD 2010, Malta
 Babcock Malta Holdings Limited²
 Trident Park, Notabile Gardens, No. 2 – Level
 3, Mdina Road, Zone 2, Central Business
 District, Birkirkara CBD 2010, Malta
 Babcock Malta Holdings (Number Two)
 Limited
 Trident Park, Notabile Gardens, No. 2 – Level 3,
 Mdina Road, Zone 2, Central Business District,
 Birkirkara CBD 2010, Malta
 Babcock Management 2019 Limited
 11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 Babcock Mission Critical Services Germany
 GmbH
 Maximiliansplatz 17, 80333, Munich, Germany
 Marine Engineering & Fabrications Holdings
 Limited

11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 Brooke Marine Shipbuilders Limited
 11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 Babcock Support Services GmbH
 Bismarckstraße 100, 41061 Mönchengladbach
 FB Marine International (UK) Limited
 11th Floor, Landmark, St. Peter's Square, 1
 Oxford Street, Manchester, M1 4PB, United
 Kingdom
 INAER Helicopter Peru S.A.C.
 1118 Av. Los Conquistadores, Santa Cruz, San
 Isidro, Lima, Peru
 Peterhouse GmbH
 Bismarckstraße 100, 41061 Mönchengladbach

Notes to the Group financial statements *(continued)*

Joint ventures and associates in Members Voluntary Liquidation / Dissolution:

ABC Electrification Ltd (33.3%)⁹

Alstom, Litchurch Lane, Derby, England DE24
8AD

Airwork Technical Services & Partners LLC
(51.0%)

PO Box 248 (Muaskar Al Murtafa'a (MAM)
Garrison), Muscat, 100, Sultanate of Oman

Babcock MCS Ghana Limited (90.0%)
No. 9, Carrot Avenue, Adjacent Lizzy Sport
Complex, East Legon, Accra, Ghana

Notes

* Dormant entity.

1. Holding of two types of ordinary shares.
2. Holding of three types of ordinary shares.
3. Holding of four types of ordinary shares.
4. Holding of six types of ordinary shares.
5. Holding of ordinary and preference shares.
6. Holding of ordinary and deferred shares.
7. Holding of ordinary and redeemable preference shares.
8. Holding of ordinary and five types of preference shares.
9. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
10. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
11. Holding of one type of ordinary share and one type of preference share, where more than two types of share are authorised or in issue.
12. Year end 31 December.

Company statement of financial position

As at 31 March

	Note	31 March 2026 £m	31 March 2025 £m
Non-current assets			
Investment in subsidiaries	5	3,452.1	3,451.4
Right of use assets	6	1.7	2.6
Trade and other receivables	7	154.5	324.5
Retirement benefit surplus	11	56.1	–
		3,664.4	3,778.5
Current assets			
Trade and other receivables	7	14.0	201.3
Other financial assets		–	0.8
Cash and cash equivalents		–	–
		14.0	202.1
Total assets		3,678.4	3,980.6
Non-current liabilities			
Bank and other borrowings	8	468.2	744.5
Lease liabilities	6	1.5	2.4
Deferred tax liabilities		2.8	–
Provisions		–	0.3
Other financial liabilities	9	20.1	43.0
		492.6	790.2
Current liabilities			
Bank and other borrowings	8	300.0	–
Trade and other payables	10	47.6	490.4
Other financial liabilities	9	1.1	–
Lease liabilities	6	0.9	0.9
		349.6	491.3
Total liabilities		842.2	1,281.5
Net assets		2,836.2	2,699.1
Equity			
Called up share capital	12	303.4	303.4
Share premium account		873.0	873.0
Capital redemption reserve		30.6	30.6
Other reserve		768.8	768.8
Retained earnings		860.4	723.3
Total equity		2,836.2	2,699.1

The accompanying notes are an integral part of this Company statement of financial position. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual income statement of the Company is disclosed. The Company's profit (2025: loss) for the financial year was £286.6 million (2025: £44.5 million).

The financial statements on pages 269 to 280 were approved by the Board of Directors on 19 June 2026 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Company statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 31 March 2024	303.4	873.0	768.8	30.6	795.2	2,771.0
Loss for the year	–	–	–	–	(44.5)	(44.5)
Other comprehensive income ⁽¹⁾	–	–	–	–	1.6	1.6
Total comprehensive income	–	–	–	–	(42.9)	(42.9)
Dividends	–	–	–	–	(26.7)	(26.7)
Share-based payments	–	–	–	–	14.3	14.3
Tax on share-based payments	–	–	–	–	2.2	2.2
Purchase of own shares	–	–	–	–	(18.8)	(18.8)
Net movement in equity	–	–	–	–	(71.9)	(71.9)
At 31 March 2025	303.4	873.0	768.8	30.6	723.3	2,699.1
Profit for the year	–	–	–	–	286.6	286.6
Other comprehensive income ⁽¹⁾	–	–	–	–	36.2	36.2
Total comprehensive income	–	–	–	–	322.8	322.8
Dividends	–	–	–	–	(34.7)	(34.7)
Share-based payments	–	–	–	–	17.2	17.2
Tax on share-based payments	–	–	–	–	1.1	1.1
Purchase of own shares	–	–	–	–	(169.3)	(169.3)
Net movement in equity	–	–	–	–	137.1	137.1
At 31 March 2026	303.4	873.0	768.8	30.6	860.4	2,836.2

1. Other comprehensive income relates to pension movements and hedge reserve movements net of deferred tax of £36.8 million (2025: £1.6 million).

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

The retained earnings account includes £327.3 million (2025: £290.9 million), the distribution of which is limited by statutory or other restrictions.

Notes to the Company financial statements

1. General information

Babcock International Group PLC ('the Company') is incorporated and domiciled in England, UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX. The Company has no ultimate controlling party. The principal activity of the Company is that of a holding company. The Company also arranges certain borrowing facilities on behalf of the wider Group.

2. Material accounting policy information

The material accounting policy information relevant to specific notes is set out within the associated note. Other general policy information is set out below. Material accounting policies have been applied consistently throughout the year and the comparative year except as otherwise stated.

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1, 'Share capital and reserves';
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the year).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38A-38D, 40A-40D, 111, and 134-136.
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The financial statements have been prepared on a going concern basis using the historical cost convention, as modified by the revaluation of certain financial instruments. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £0.1 million.

There were no changes to accounting standards that had a material impact on these Financial Statements. New accounting standards, amendments and interpretations not yet adopted are also not anticipated to have a material impact on future periods.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

After making enquiries, the Directors, at the time of approving the financial statements, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Taxation

Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Notes to the Company financial statements (*continued*)

2. Material accounting policy information (*continued*)

Finance costs

Finance costs are recognised as an expense in the year in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are either recharged to the relevant subsidiaries or recognised as capital contributions in the associated investments. Full details of the share-based compensation plans are disclosed in note 24 to the Group financial statements.

(b) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme. See note 11 for further details.

Financial risk management

All treasury transactions are carried out only with investment grade counterparties as are investments of cash and cash equivalents.

Company guarantees

The Company had previously guaranteed or had joint and several liability for bank facilities that were shared across multiple Group companies, these were cancelled in the period to 31 March 2025. The Company reviewed and concluded that these arrangements constitute financial guarantee contracts. IFRS 17 allows an accounting policy choice to account for such contracts under either IFRS 9 or IFRS 17. This policy choice can vary from contract to contract however the choice for each contract is irrevocable. The Company has elected to apply IFRS 9 (rather than IFRS 17) to such arrangements. These guarantees are measured initially at their fair values, and subsequently measured at the higher of the expected credit loss and the amount initially recognised less cumulative amortisation.

The Company has guaranteed the performance of certain contracts by subsidiaries with their customers. The Company has reviewed and concluded that some of these performance guarantee contracts also meet the definition of financial guarantee contracts (thereby granting a policy choice between IFRS 9 and IFRS 17), whilst others do not meet the definition of a financial guarantee contract (thereby requiring accounting under IFRS 17). In all instances, the Company has elected to apply IFRS 17 (rather than IFRS 9) to performance guarantee contracts in issue as at 31 March 2026.

The probability of losses on performance guarantees has been assessed and it has been determined that the probability is remote after consideration of both historical and forward-looking triggers. As such the estimated liability is immaterial.

Dividends

Dividends are recognised in the Company's financial statements in the year in which they are approved and in the case of interim dividends, when paid.

Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. We have not identified any key sources of estimation uncertainty impacting the reporting period. Other estimates that are not key sources of estimation uncertainty are discussed below.

Estimates which are not key sources of estimation uncertainty

The carrying value of investment in subsidiaries is tested annually for impairment, in accordance with IAS 36. The impairment assessment is based on assumptions in relation to the cash flows expected to be generated by the subsidiaries, together with appropriate discounting of the cash flows.

In the current and prior years, we have not identified the carrying value of investments in subsidiaries as a critical accounting estimate as the headroom in the base case in both periods is such that no reasonably possible changes in assumptions could result in the complete elimination of the headroom.

Critical accounting judgements

There are not considered to be any critical accounting judgements in respect of the Company for the current period.

3. Company profit

The Company has no employees other than the Directors.

The Company has taken advantage of the exemption granted by section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit (2025: loss) for the financial year was £286.6 million (2025: £44.5 million).

Fees payable to the parent auditor and its associates in respect of the audit of the Company's financial statements were £1.8 million (2025: £1.8 million).

4. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors' emoluments, excluding Company pension contributions, were £4.2 million (2025: £5.2 million); these amounts are calculated on a different basis from emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for the Directors' services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gain made by Directors from the exercise of Long Term Incentive Plans in 2026 as at the date of exercise was £3.5 million (2025: £5.0 million) and the net aggregate value of assets received by Directors in the year ended 31 March 2026 from Long Term Incentive Plans as calculated at the date of vesting was £10.1 million (2025: £7.6 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

Investments are stated at cost less provision for impairment in value.

Investments are reviewed for impairment at least annually. The recoverable amount is measured as the higher of fair value less costs of disposal, and value-in-use. In assessing value in use, the estimated future cash flows of the underlying investment are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Company income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years.

	31 March 2026 £m	31 March 2025 £m
Cost at 1 April	3,451.4	3,450.7
Additions	0.7	0.7
Cost at 31 March	3,452.1	3,451.4

Investment additions in the current year and prior year relate to the capitalisation of share-based payments charges not recharged to the associated Group undertaking.

As at 31 March 2026, the Group's market capitalisation of £5.7 billion (2025: £3.7 billion) exceeded the net assets of the Company of £2.8 billion (2025: £2.7 billion). Given this position, and the Directors' consideration of other factors, no impairment indicators have been identified. Notwithstanding the lack of impairment indicators, management has performed an impairment test of the Company's investments in line with the Group's accounting policy and consistent with the wider requirements of IAS 36 '*Impairment of assets*'.

Babcock (UK) Holdings Limited is the only entity held directly by Babcock International Group PLC. Babcock International Group PLC holds 100% of the ordinary shares and voting rights in Babcock (UK) Holdings Limited which has a place of domicile of the United Kingdom and registered office of 33 Wigmore Street, London, W1U 1QX.

Results of the impairment test for the year ended 31 March 2026

This impairment test for the year ended 31 March 2026 did not result in an impairment (2025: £nil).

Impairment methodology

Cash-generating units

The CGU for the purpose of this analysis is the Group as a whole, as the Company has an investment in a single holding company through which it indirectly owns the rest of the Group. The recoverable amount of the CGU is the higher of its value-in-use and its fair value less costs of disposal.

Calculation of recoverable amount

The recoverable amount of the Company's investment in subsidiary undertakings was assessed by reference to value-in-use calculations. Note 10 of the Group financial statements sets out further details in relation to how the value-in-use calculations are determined.

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in Note 10 of the Group financial statements.

The discount rates and long-term growth rates used to determine the recoverable amount of the Company's investment in subsidiary undertakings are set out below.

Notes to the Company financial statements (*continued*)5. Investment in subsidiary undertakings (*continued*)

	31 March 2026				31 March 2025			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	11.1%	12.4%	11.8%	13.3%	12.6%	11.9%	11.5%	11.9%
Post-tax discount rate	9.8%	9.4%	9.5%	9.5%	9.3%	8.8%	8.5%	8.8%
Long-term growth rate	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Sensitivity

The Directors carried out sensitivity analyses on the reasonably possible changes in key assumptions used to determine the recoverable value of the Company's investment in subsidiary undertakings. No reasonably possible changes in estimates led to any potential impairment being identified with headroom remaining under these reasonably possible sensitivities.

6. Leases

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

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

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

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

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

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

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed on a straight-line basis to the income statement as permitted by IFRS 16, 'Leases'. The total expense for short term and low value leases was £nil in both the current and prior year.

Right of use assets

	Leasehold property £m	Total £m
Cost		
At 1 April 2024	–	–
Additions	3.4	3.4
At 31 March 2025	3.4	3.4
Additions	–	–
At 31 March 2026	3.4	3.4
Accumulated depreciation		
At 1 April 2024	–	–
Depreciation charge for the year	0.8	0.8
At 31 March 2025	0.8	0.8
Depreciation charge for the year	0.9	0.9
At 31 March 2026	1.7	1.7
Net book value at 31 March 2026	1.7	1.7

6. Leases (continued)

Lease liabilities

The following tables show the discounted Group lease liabilities and a reconciliation of opening to closing lease liabilities:

	Total £m
At 1 April 2024	–
Additions	4.1
Lease interest	0.1
Lease repayments	(0.9)
At 31 March / 1 April 2025	3.3
Non-current lease liabilities	0.9
Current lease liabilities	2.4
At 31 March / 1 April 2025	3.3
Additions	–
Lease interest	0.1
Lease repayments	(1.0)
At 31 March 2026	2.4
Non-current lease liabilities	0.9
Current lease liabilities	1.5
At 31 March 2026	2.4

7. Trade and other receivables

Financial assets at amortised cost

Amounts due from subsidiary undertakings are classified as financial assets held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method. The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. As at 31 March 2026, we have not assessed any significant increase in credit risk and therefore a 12-month expected credit loss has been measured.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

	31 March 2026 £m	31 March 2025 £m
Non-current		
Amounts due from subsidiary undertakings	154.5	314.5
Deferred tax	–	10.0
Total non-current trade and other receivables	154.5	324.5
Current		
Amounts due from subsidiary undertakings	3.9	201.0
Income tax receivable	9.8	–
Prepayments	0.3	0.3
Total current trade and other receivables	14.0	201.3

Amounts due from subsidiary undertakings that do not carry interest are repayable on demand.

Amounts due from subsidiary undertakings are held at amortised cost less expected credit losses. The Company's profit for the year includes a reduction from the release of expected credit losses of £57.2 million (2025: income statement charge of £9.7 million). As at 31 March 2026, the amount due from subsidiary undertakings is stated net of an expected credit loss provision of £nil (2025: £57.2 million).

Notes to the Company financial statements (*continued*)7. Trade and other receivables (*continued*)

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	31 March 2026 £m	31 March 2025 £m	31 March 2026 £m	31 March 2025 £m
SONIA + 1.5%	154.5	221.6	–	–
4.5%	–	92.9	–	–
Interest-free	–	–	3.9	201.0
	154.5	314.5	3.9	201.0

8. Bank and other borrowings

Financial liabilities at amortised cost

Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

	31 March 2026 £m	31 March 2025 £m
Non-current		
Bank loans and other borrowings	468.2	744.5

	31 March 2026 £m	31 March 2025 £m
Current		
Bank loans and other borrowings	300.0	–

The Company has £1,368.0 million (2025: £1,519.5 million) of committed borrowing facilities, of which £768.2 million (2025: £744.5 million) was drawn at the year end. The effective interest rates applying to bank loans and other borrowings were as follows:

	31 March 2026 %	31 March 2025 %
UK bank overdraft	N/A	N/A
8-year Eurobond September 2027 – fixed	2.9	2.9
8-year Eurobond September 2027 – floating	6.2	6.7
£300 million bond 2026	1.9	1.9

9. Other financial liabilities

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into, and they are subsequently remeasured at their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, the effective portion of gains and losses are deferred in equity until such time as the firm commitment is recognised. The gain or loss relating to the ineffective portion is recognised in the income statement immediately.

The full fair value of hedging derivatives is classified as a non-current asset or liability where the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability where the remaining maturity of the hedged item is less than 12 months.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in profit or loss immediately.

9. Other financial liabilities (continued)

	31 March 2026 £m	31 March 2025 £m
Non-current		
Other financial liabilities – currency and interest rate swaps	20.1	43.0

	31 March 2026 £m	31 March 2025 £m
Current		
Other financial liabilities	1.1	–

Disclosures in respect of the fair value of other financial assets and liabilities are provided in note 21 to the Group accounts.

10. Trade and other payables

Financial liabilities at amortised cost

Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

	31 March 2026 £m	31 March 2025 £m
Current		
Amounts due to subsidiary undertakings	22.5	480.4
Accruals and deferred income	25.1	10.0
	47.6	490.4

The amounts due to subsidiary undertakings are repayable on demand and £22.5 million (2025: £480.4 million) is interest-free.

11. Retirement benefits and liabilities

The Company operates and sponsors the Babcock International Group Pension Scheme ('BIGPS') – a defined benefit scheme. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Following closure of the scheme to future benefit accrual in the year ended 31 March 2025, the Group has reassessed its allocation basis in respect of this scheme with the scheme being fully recognised within the accounts of the Company. The reassessment in allocation basis has been accounted for as a remeasurement of plan assets and plan liabilities with effect from the point of reassessment (1 April 2025) resulting in a £81.5 million credit recognised in other comprehensive income.

The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity.

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

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	31 March 2026 £m	31 March 2025 £m
Retirement benefits – funds in surplus	56.1	–

Details of key matters impacting the Group's pension schemes (including those impacting BIGPS), the scheme's principal risks and the most recent formal valuation are provided in Note 25 of the Group's consolidated financial statements.

Notes to the Company financial statements (continued)

11. Retirement benefits and liabilities (continued)

The latest full actuarial valuations of the defined benefit pension scheme have been updated to 31 March 2026 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2026	Babcock International Group Scheme
Rate of increase in pensionable salaries	–
Rate of increase in pensions (past service)	3.20%
Discount rate	5.95%
Inflation rate (RPI)	3.35%
Inflation rate (CPI)	3.0%
Weighted average duration of cash flows (years)	10
Total life expectancy for current pensioners aged 65 (years) – male	86.7
Total life expectancy for current pensioners aged 65 (years) – female	89.0
Total life expectancy for future pensioners currently aged 45 (years) – male	87.4
Total life expectancy for future pensioners currently aged 45 (years) – female	89.9

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

	31 March 2026 £m	31 March 2025 £m
Fair value of plan assets		
Growth assets		
Equities and equity-related derivatives	(1.1)	–
High yield bonds/emerging market debt	0.4	–
Low-risk assets		
Bonds	442.8	–
Matching assets*	446.9	–
Longevity swaps and annuities	(49.1)	–
Fair value of assets	839.9	–
Percentage of assets quoted		
Percentage of assets unquoted	73%	–
Present value of defined benefit obligations	27%	–
Active members	–	–
Deferred pensioners	223.1	–
Pensioners	560.7	–
Total defined benefit obligations	783.8	–
Net assets recognised in the statement of financial position	56.1	–

The scheme does not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

11. Retirement benefits and liabilities (continued)

Amounts recorded in the income statement

	2026 £m	2025 £m
Incurred expenses	2.2	–
Total included within operating profit	2.2	–
Net interest credit	(4.6)	–
Total included within income statement	(2.4)	–

Amounts recorded in the statement of comprehensive income

	2026 £m	2025 £m
Re-measurement of change in allocation basis	81.5	–
Actual return less interest on pension scheme assets	(4.6)	–
Experience losses arising on scheme liabilities	(9.2)	–
Changes in assumptions on scheme liabilities	(16.9)	–
Total included within the statement of comprehensive income	50.8	–

Analysis of movement in the Group statement of financial position

	2026 £m	2025 £m
Fair value of plan assets		
At 1 April	–	–
Re-measurement of change in allocation basis	855.1	–
Interest on assets	47.1	–
Actuarial loss on assets	(4.6)	–
Employer contributions	3.0	–
Benefits paid	(60.7)	–
At 31 March	839.9	–
Present value of benefit obligations		
At 1 April	–	–
Re-measurement of change in allocation basis	773.7	–
Incurred expenses	2.2	–
Interest cost	42.5	–
Experience loss	9.2	–
Actuarial gain – demographics	24.2	–
Actuarial gain – financial	(7.3)	–
Benefits paid	(60.7)	–
At 31 March	783.8	–
Net surplus at 31 March	56.1	–

The movement in net deficits for the year ended 31 March 2026 is as a result of the movement in assets and liabilities shown above. The disclosures below relate to post-retirement benefit schemes which are accounted for as defined benefit schemes in accordance with IAS 19. The changes to the statement of financial position at 31 March 2026 and the changes to the Group income statement for the year to March 2027, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2026 £m	Income statement 2027 £m
Initial assumptions	783.8	(1.1)
Discount rate assumptions increased by 0.5%	(35.7)	(2.6)
Discount rate assumptions decreased by 0.5%	30.8	2.4
Inflation rate assumptions increased by 0.5%	21.2	1.3
Inflation rate assumptions decreased by 0.5%	(20.9)	(1.2)
Total life expectancy increased by half a year	16.3	0.2
Total life expectancy decreased by half a year	(15.1)	(0.9)

Notes to the Company financial statements (*continued*)

11. Retirement benefits and liabilities (*continued*)

The figures in the previous table have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets are assumed not to be affected by any sensitivity changes shown and so the statement of financial position values would increase or decrease by the same amount as the change in the defined benefit obligations. There have been no changes in the methodology for the calculation of the sensitivities since the prior year.

12. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2025 and 31 March 2026	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2024 and 31 March 2025	505,596,597	303.4

The Company holds its own shares through the Babcock Employee Share Trust and via Treasury Shares. For more details on transactions in own shares see note 23 of the Group financial statements.

13. Contingent liabilities, financial guarantee contracts and performance guarantee contracts

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

- The Company had previously guaranteed or had joint and several liability for bank facilities that are shared across multiple Group companies, these were cancelled in the period to 31 March 2025
- Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2026 these amounted to £224.9 million (2025: £293.2 million), of which the Company had counter-indemnified £133.1 million (2025: £177.9 million).
- The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification. The liability recognised in respect of these guarantees in the balance sheet as at both 31 March 2026 and 31 March 2025 is immaterial.
- The company has given guarantees on behalf of certain Group companies in connection with payments due into their pension schemes. The liability recognised in respect of these guarantees in the balance sheet as at both 31 March 2026 and 31 March 2025 is immaterial.
- The company has provided specific guarantees to the Group's banking partners that Group companies will honour certain derivative and other performance obligations. The liability recognised in respect of these guarantees in the balance sheet as 31 March 2026 is immaterial (2025: Immaterial).

14. Group entities

See note 33 of the Group financial statements for further details.

15. Events after the reporting period

See note 32 of the Group financial statements for further details.

Shareholder information

Financial calendar

Financial year end	31 March 2026
2025/26 full year results announced	22 June 2026
Annual General Meeting	16 September 2026
Final dividend payment date (record date 14 August 2026)	25 September 2026

Registered office and Company number

33 Wigmore Street
London, W1U 1QX

Registered in England
Company number 02342138

Registrars

MUFG Corporate Markets
Central Square
29 Wellington Street
Leeds, LS1 4DL
Email: shareholderenquiries@cm.mpms.mufg.com

www.babcock-shares.com

Shareholdings can be managed by registering for the Share Portal at www.babcock-shares.com. Alternatively, shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc, can be addressed to MUFG using their postal or email addresses given above.

Tel: +44 (0)37 1664 0300

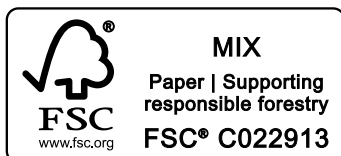
(Calls are charged at standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)

www.babcock-shares.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations.

Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org



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