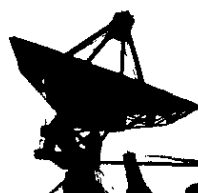
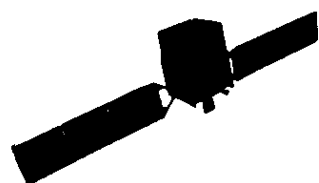


babcock[™]



Building momentum

Annual Report and Financial Statements 2023

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COMPANIES HOUSE

Creating a safe and secure world, together

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In a world of significant geopolitical instability, national security has never been more important. Governments are having to balance rising costs with a pressing need for greater and more robust defence and international collaboration. Ensuring those critical services are readily available, affordable and long-lasting is a vital task. Now more than ever, what we do matters.

No-one is closer to our customers, or as dedicated to their cause. We make their mission, our mission; delivering the capability they need, available to them wherever and whenever and however they need it. Whether it's applying engineering excellence or the latest technology, we combine our expertise with a practical mindset.

*Our transformation is delivering results;
we are stronger, more resilient and
more disciplined, with the right platform
to deliver sustainable, profitable growth.*

Our customers, and the mission we share, inspire us each and every day to strive for excellence as we create a safe and secure world, together.



Scan here to watch
our Purpose film

2023 financial highlights

Revenue

£4,439m

2022: £4,102m

Underlying operating profit

£46m

2022: £227m

Underlying free cash flow

£178m

2022: £238m

Underlying operating profit per share

£349m

2022: £42m

Underlying free cash flow per share

£75m

2022: £(191)m

Underlying operating profit per share

1.5x

2022: 1.8x

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

2023 strategic highlights

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

Further investment in improving the control environment and project risk management

Progressed delivery of our ESG strategy and commitments

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

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

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

Adjustments between statutory and underlying

The Group provides alternative performance measures, including underlying operating profit, underlying free cash flow and net debt to EBITDA, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision making, as well as the planning and allocation of capital resources. They are also understood to be used by investors to analyse business performance. The Group has defined and outlined the purpose of its alternative performance measures (APMs) in the Financial Gateway on page 18.

The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the year ended 31 March 2022, with the addition of excluding the Type 31 loss.

Forward-looking statements

Statements in this Annual Report, including those regarding the possible or assumed future 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.

At a glance

Our business today

Creating a safe and secure world, together

Babcock is an international defence company operating in our focus countries of the **UK, Australasia, Canada, France and South Africa**, with exports to additional markets with potential to become focus countries. We meet our customers' key requirements of **affordability, availability, and capability**.

What we do

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

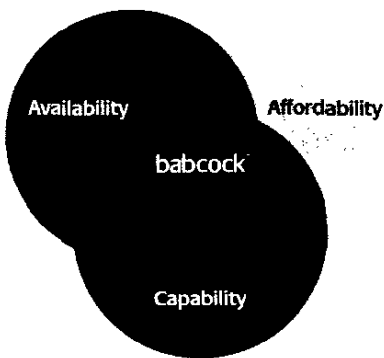
Support

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

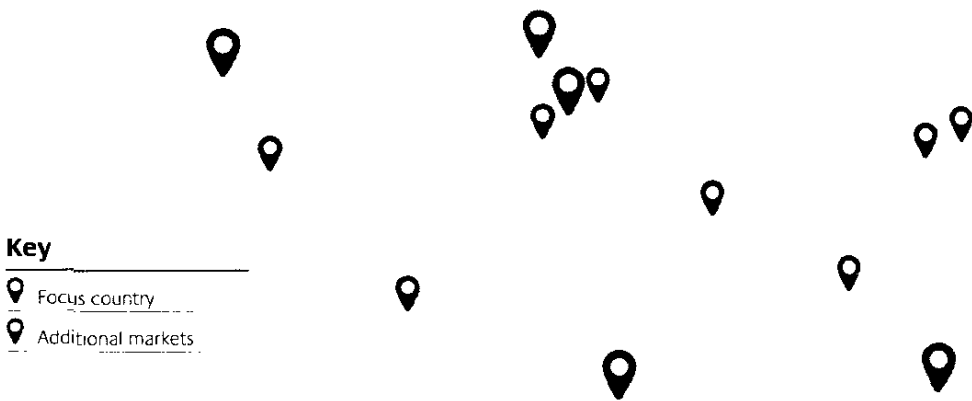
Product

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

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



Where we operate



FY23 global revenue profile*



£4.0bn

FY23 revenue*

68%

Defence*

>26,000

Employees

£9.5bn

Contract backlog

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

Delivered across our four sectors

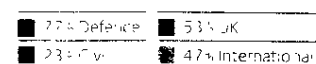
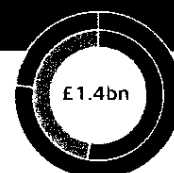
Marine

36% of FY23 revenue*



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

FY23 revenue profile



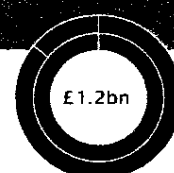
Nuclear

29% of FY23 revenue*



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

FY23 revenue profile



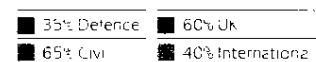
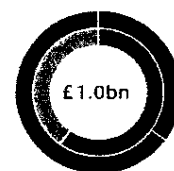
Land

25% of FY23 revenue*



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

FY23 revenue profile*



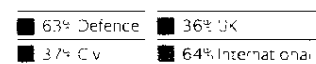
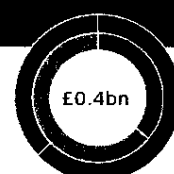
Aviation

10% of FY23 revenue*



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

FY23 revenue profile*



Strategy and business model

► See pages 6 and 20

Market review

► See page 18

Our ways of working

► See page 4

ESG strategy

► See page 58

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

Driving operational excellence



Enhanced internal controls

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

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

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

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

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

▶ See pages 87, 88, 89 and 125

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

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

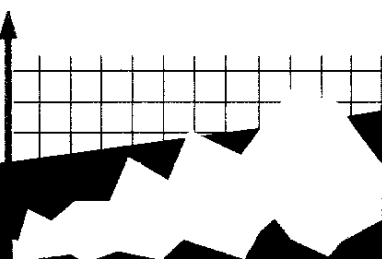
Embedded Group-wide operating model, including global functions.

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

▶ See page 12



Focused business



Standardised processes

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

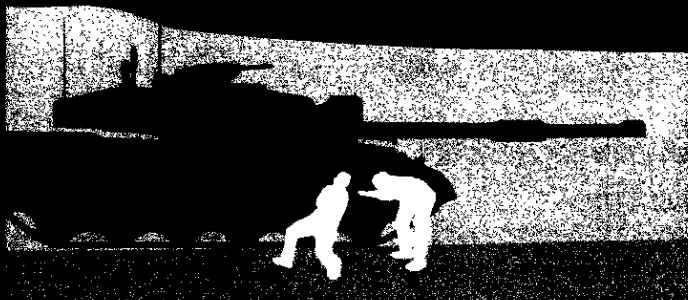
Global project management framework launched, defining and standardising categorisation.

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

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

▶ See pages 13, 78 and 107

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



Strengthened corporate culture

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

Conducted first global people survey for over a decade.

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

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

Developed reward benchmarking toolkit.

► See pages 75, 78 and 82

Enhanced reporting on progress against targets to Board.

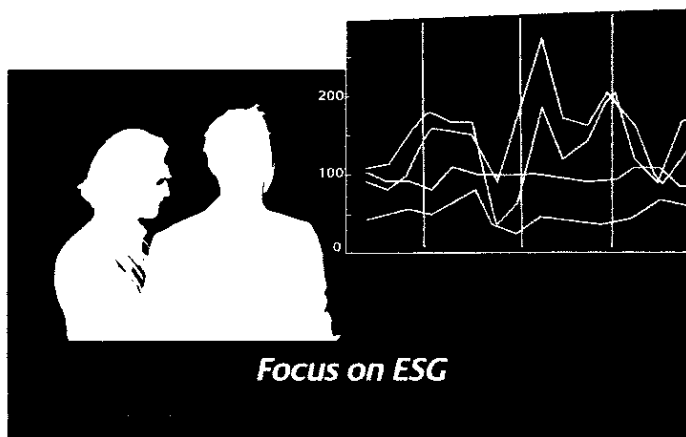
Drive to achieving Net Zero by 2040 across our estates and operations underway.

Introduced new Employee Assistance Programme provider.

Launched new Sponsorship and Employee Volunteering policies.

Climate-related risk assessment integrated into five-year plan

► See page 58, 60, 68, 80 and 107



Focus on ESG



More responsive contract management

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

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

Deep dive/assurance reviews on significant contracts.

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

► See pages 13, 56, 88 and 93

Our strategy

Strategic framework

Purpose

To create a safe and secure world, together.

Strategy

Our growth strategy is focused on three key areas:

Leverage our technical capability in growth areas of defence and security

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

Build strategic partnerships with our key customers

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

Deliver our ESG objectives

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

How we deliver

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

Support

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

Frontline support

Equipment support

Training

Product

Design, manufacture and integrate specialist systems

Design, develop and manufacture

Technology and systems integration

Through our four sectors

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

Marine

▶ See page 40

Nuclear

▶ See page 41

Land

▶ See page 48

Aviation

▶ See page 52

Our strategy aims to deliver

Over the medium and long-term, we are focused on delivering value for all our stakeholders

Improved outcomes for our customers

A better place to work

Returns for our shareholders

Strategic progress

Two years into our turnaround – building momentum

£761

Stabilise

Portfolio alignment complete

FY23 Net debt to EBITDA

1.5x

Execute

Driving operational improvement

FY23 cash conversion*

110%

Grow

Pursuing growth opportunities

FY23 organic revenue growth

10%

*Excluding the Type 31 loss

Strategic near-term priorities

Pursue growth opportunities

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

Drive operational improvements

- Improve programme execution
- Enhance processes and controls
- Improve profitability

Focus on cash flow

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

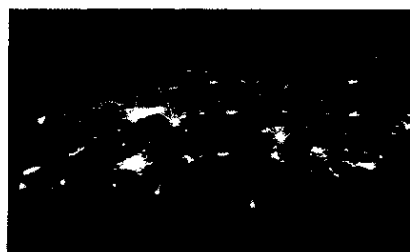
Linked to our medium term guidance and KPIs

Organic revenue growth

Underlying operating margin

Underlying free cash flow

Our strategy in action in FY23



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



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



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

Technology-led solutions

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

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

Data & Digital

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

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

Digital Facility

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

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

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

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

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

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

Advanced analytics to adaptive learning

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

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

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

Future

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

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

Benefits

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



Advanced Manufacturing

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

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

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

Future

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

Benefits

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

Autonomous Systems & automation

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

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

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

Future

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

Benefits

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

A stronger, more resilient, more disciplined Babcock



Ruth Cairnie
Chair

 Read Ruth's biography on page 108

“

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

Ruth Cairnie
Chair

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

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

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

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

Now more than ever, what we do matters

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

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

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

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

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

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

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

Control environment

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

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

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

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

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

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

Ruth Cairnie

Chair

CEO statement



David Lockwood
Chief Executive Officer



Read David's biography on page 108

“

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

David Lockwood
Chief Executive Officer

Introduction

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

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

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

Strong underlying FY23 results

Our second full year of turnaround delivered strong underlying performance excluding the £100 million loss on the UK Ministry of Defence (MOD) Type 31 programme, where we have entered a Dispute Resolution Process (DRP). We have delivered organic revenue growth of 10%⁽¹⁾, a 50 basis point increase in underlying operating margin⁽¹⁾⁽²⁾, underlying operating cash conversion⁽¹⁾⁽³⁾ of 110%, and underlying free cash flow⁽¹⁾ of £75 million, significantly ahead of expectations, despite ongoing macroeconomic headwinds.

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

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

A better Babcock

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

Stabilise: balance sheet strengthened

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

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

A focused and differentiated portfolio

Our portfolio is now aligned with our strategy to leverage our capabilities in growth areas of defence and security. On a proforma basis⁽²⁾, 68% of FY23 revenue is derived from the defence market, which we expect to steadily increase over time.

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

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

Execute: ongoing operational improvement

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

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

Enhanced control environment

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

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

Enhanced delivery

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

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

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

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

Further advancing our ESG strategy

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

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

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

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

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

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

Financial risks being better managed

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

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

Grow – building momentum

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

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

Growth drivers

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

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

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

Evidenced through our sectors

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

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

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

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

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

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

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

Nuclear – growth across defence and civil nuclear markets

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

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

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

CEO review (continued)

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

Land – MRO and training contract wins underpin growth

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

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

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

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

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

We see potential to materially grow our Canadian aviation business. Initially, through the recent award of a c.£200 million, 10-year helicopter emergency medical services contract commencing in 2025. Also, through our bid with joint venture partner Leonardo in response to Canada's Future Aircrew Training (FACt) programme for military pilot training over 25 years.

If successful, this would further strengthen our international aviation training capabilities and result in the Group delivering both new platforms and new capabilities to the Royal Canadian Air Force. The outcome is expected to be declared later in 2023.

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

Trading in the first quarter of FY24

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

Outlook⁽⁴⁾

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

Medium term guidance

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

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

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

David Lockwood OBE

Chief Executive

1. A defined Alternative Performance Measure (APM) as set out in the Financial Glossary on page 38

2. Excludes Type 31 loss of £100.1 million as described in Note 1 of the financial statements

3. Pro forma – excluding the revenue from disposed businesses of £421.6 million; UK civil training of £35.1 million and European A&S of £386.5 million, both sold in February 2023

4. Our FY24 outlook and medium-term guidance is based on FY23 results excluding the impact of disposals, the Type 31 loss and a £111.6 million one-off credit in Land. Excluding these items, FY23 revenue was c.£4 billion, underlying operating profit was c.£265 million, and underlying operating margin was 6.6%

Capital allocation

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

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

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

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

Capital allocation framework

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

Other information

Dividend

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

Board changes

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

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

Our defence and nuclear markets

Defence remains our largest market.

We have a critical role in global defence and security with operations in UK, Australia, New Zealand, Canada and France. We also design and manufacture equipment and systems for several other nations including the US and South Korea. Our defence customers all have increasingly complex requirements within a focus on value for money, high utilisation of their assets, modernisation and flexibility. These requirements are driven by:

- An unstable geopolitical environment, evolving threats and unpredictable crises
- Budget constraints during high inflation
- The need to develop and apply enhanced technology to counter new threats
- Disruption to supply chains
- Customer ESG requirements

Babcock's strategy (on page 6) aims to deliver an attractive offering for our customers: *availability, affordability and capability*.

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

Affordability – Our customers are also demanding value for money on support programmes and new platforms. Our deep understanding of our customers' needs, and our ability to bring suppliers and technologies together to deliver an integrated solution, enable us to provide the affordability and flexibility they require.

UK defence

54% of FY23 revenue*

Market position – Our primary defence market is the UK, where we provide critical support to all the UK's armed forces. We remain the UK's second largest defence supplier with around 8% of total MOD procurement spend and, as part of the Strategic Partnering Programme, we are working with the UK Government and MOD across multiple critical programmes to ensure the increasingly complex needs of our armed forces are met.

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

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

Capability – Our customers operate in complex and ever-changing environments, which drives a continual need to adapt and enhance capability. We apply our understanding of technology integration, infrastructure management and specialist training to improve their capability, whether it be through support or product solutions.

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

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

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

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

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

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

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

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

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

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

Australia and New Zealand defence

7% of FY23 revenue*

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

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

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

Canada defence

3% of FY23 revenue*

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

Opportunities – We continue to target large military aviation training

France defence

4% of FY23 revenue*

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

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

UK civil nuclear

4% of FY23 revenue*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business model

We provide a range of products and service solutions to enhance our customers' defence capabilities and critical assets. Our business model is underpinned by a deep understanding of technology integration and engineering, infrastructure management and specialist training. We help our customers around the world to cost effectively improve the capability, reliability and availability of their most critical assets.

Our key strengths and resources

Our people

We rely on our people, and their experiences and skills, to deliver for our customers and solve challenges every day. We aim to better support and empower our workforce of over 26,000.

Customer relationships

We are a trusted partner, critical to our customers' ability to solve complex problems. Through long-term programmes and contracts, we work collaboratively with our customers to understand their needs and identify solutions that add value.

Our assets

We own critical national infrastructure across the UK, including the Rosyth and Devonport Royal dockyards. We also operate a range of customer-owned critical assets such as naval and air force bases, complex engineering facilities and aircraft for the delivery of emergency services and military training.

Our technology and know-how

We use our technology and our highly specialised engineering know-how to solve customer challenges. We have a deep understanding of our customers' assets and are able to integrate technologies and capabilities to support their needs and provide services that add value.

Safety and regulatory compliance

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

What we do



Deliver support on complex programmes

We provide through-life technical and engineering support for our customers' assets, delivering improvements in performance, availability and programme cost.

We deliver these critical services to defence and civil customers, including engineering support to naval, land, air and nuclear operations, frontline support, specialist training and asset management.

Product design, manufacture and integration

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

How we do it

1 Foundations

We work collaboratively with government departments, public bodies, highly regulated industries and blue chip companies, and are embedded on crucial long-term programmes. We focus on markets and customers with outsourcing models that require value-add engineering-based support and product development. Our five main markets are the UK, Australasia, France, Canada and South Africa, with operations in and exports to other countries.

2 Bidding and business development

We continually monitor opportunities across our markets, using strong reference cases and deep sector expertise to identify ways to solve new and existing customers' challenges and support their programmes. We have a multi-gate review process for contract bids to help ensure we only bid on value-creating work.

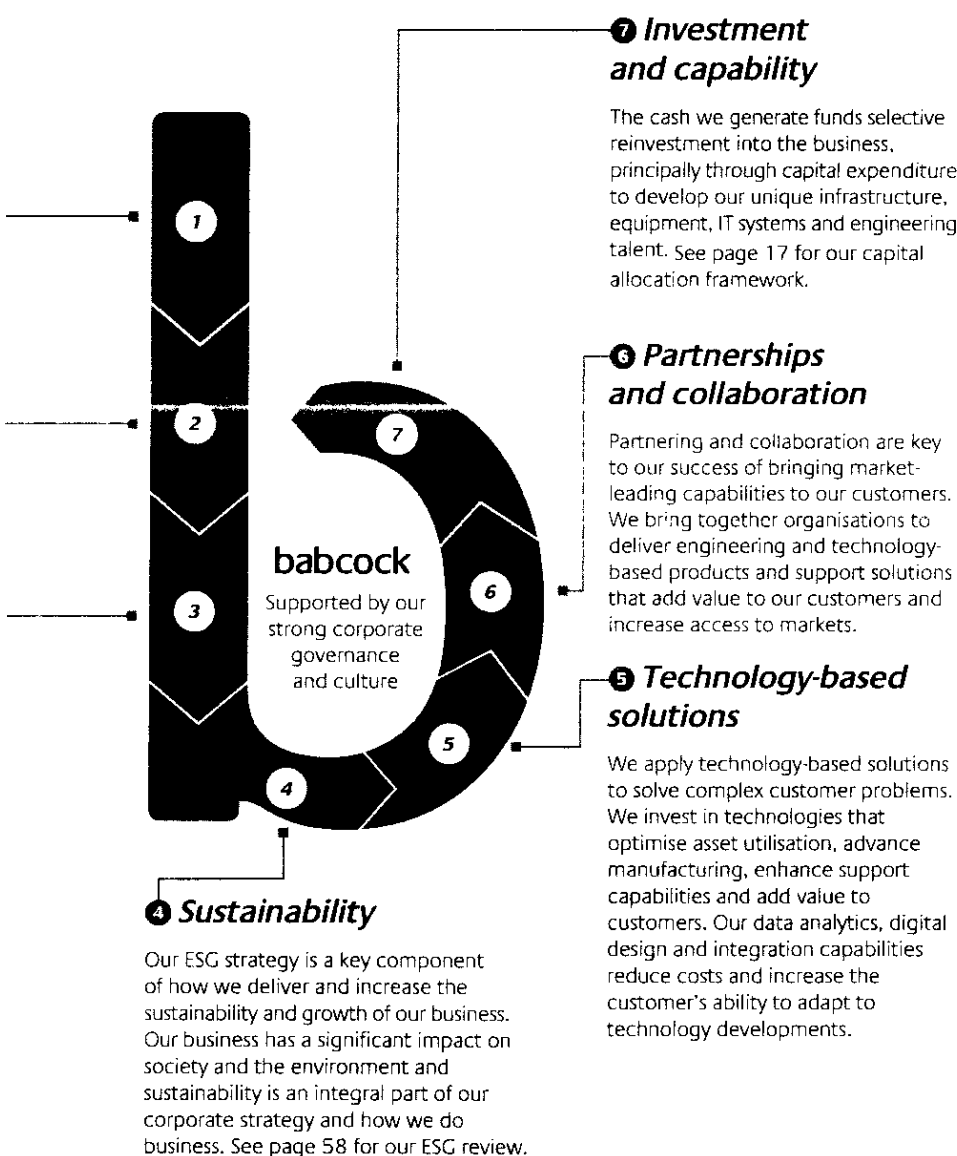
3 Contracting

A significant proportion of our business is carried out on a long-term contract or multi-year framework basis. Our contract backlog of £9.5 billion of contracted work provides a base level of revenue for the years ahead, supplemented by new business wins, framework orders, contract extensions and variations, and short-cycle work.

Revenue is recognised as we deliver on our contracts and performance obligations are satisfied. We have an established review process to manage contract risk. See page 87 for our principal risks.



Creating stakeholder value



Customers

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

Investors

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

Employees

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

Regulatory and industry bodies

Never compromising on safety and complying with regulations at all times.

Supply chain

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

Communities

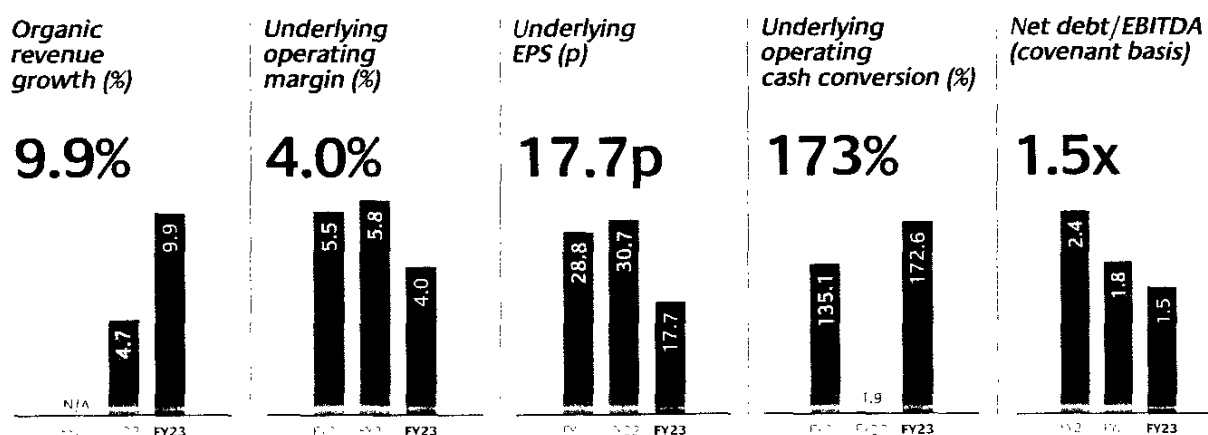
Providing jobs and investment across the UK and ensuring we act responsibly at all times in the interests of local communities around our sites.

► See page 56 for details on how we engage with stakeholders.

How we measure our progress

We have six financial and three non-financial key performance indicators (KPIs). The six financial metrics are alternative performance measures, which we use to monitor the underlying performance, are not defined by International Financial Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures. The Group has defined and outlined the purpose of its alternative performance measures in the Financial Glossary starting on page 38.

2023 Results



Definition

The movement in revenue compared to that of the previous year excluding the impact of FX, contribution from acquisitions and disposals over the prior and current year. See note 1 of the accounts for details of our revenue recognition policy.

Commentary

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

Link to glossary

Organic revenue growth

Link to medium term guidance

Organic revenue growth

Definition

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

Commentary

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

Link to glossary

Underlying operating profit margin

Link to medium term guidance

Underlying operating profit margin

Definition

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

Commentary

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

Link to glossary

Underlying basic earnings per share

Definition

Underlying operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit.

Commentary

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

Link to glossary

Underlying operating cash conversion

Link to medium term guidance

Underlying operating cash flow

Link to medium term guidance

Underlying operating cash conversion

Definition

Net debt to EBITDA as measured in our banking covenants. This uses net debt (excluding operating leases) divided by underlying earnings before interest, tax, depreciation and amortisation, plus IV dividends received. This definition makes a series of adjustments to both Group net debt and Group EBITDA, see page 31 for a reconciliation.

Commentary

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

Link to glossary

EBITDA

Net debt/EBITDA (covenant basis)

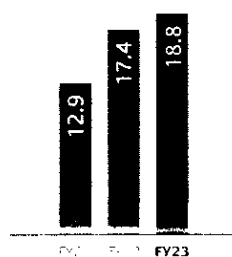
Our approach

We went through the process of the contract profitability and balance sheet review (CPBS) in FY21 to set our approach to running the Group, including creating the right baseline for future performance. We show our financial-based KPI performance for three years, and excluding the one-off CPBS adjustments in FY21. This is to provide a meaningful measurement and ongoing baseline, and reflect how we assess operational performance.

Non-Financial

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

18.8%



Definition

Underlying return on invested capital is defined as underlying operating profit plus share of JV profit after tax, divided by the sum of net debt, shareholders' funds and retirement deficit or surpluses.

Commentary

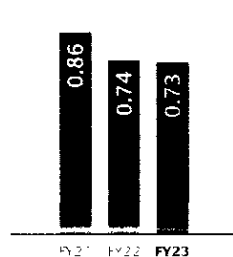
The increase in underlying ROIC reflects the reduction in invested capital, namely net debt and operating leases (due to disposals) and shareholder funds, which was proportionally greater than the reduction in underlying operating profit due to the Type 31 loss, see page 32.

Link to glossary

Underlying return on invested capital

Total injuries rate

0.73



Definition

The Total Recordable Injury Rate (TRIR) 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 recordable work related injuries and illnesses that require medical treatment beyond first aid, in any one year. Further assessment of an injury/illness or information from an extended investigation may result in a restatement of prior year figures.

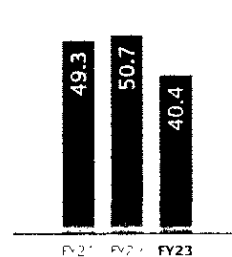
Commentary

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

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

CO₂e emissions (tCO₂e/£m)

40.4



Definition

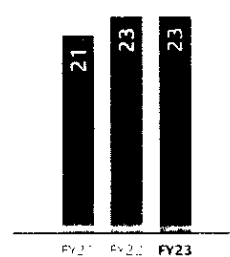
Estimated tonnes of CO₂e emitted as a direct result of revenue generating operations. The reporting period for our energy consumption and carbon emissions is the calendar year (01 January to 31 December). Reporting calendar year data enables more time to collate, analyse and report our environmental data, which has improved the accuracy and completeness of our data sets.

Commentary

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

Senior management gender diversity (%)

23%



Definition

Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Executive committee) or a strategically significant part of the Group (Sector / Functional leadership teams) and/or who are directors of subsidiary business units (Business Unit leadership). We also report the gender diversity of the Executive Committee and their direct reports in line with the UK Corporate Governance Code's requirement to report on 'senior management' (see page 76).

Commentary

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

Link to management remuneration

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

Operational performance measures

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

Financial review



David Mellors
Chief Financial Officer

 Read David's biography on page 108

“

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

David Mellors
Chief Financial Officer

Statutory to underlying

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

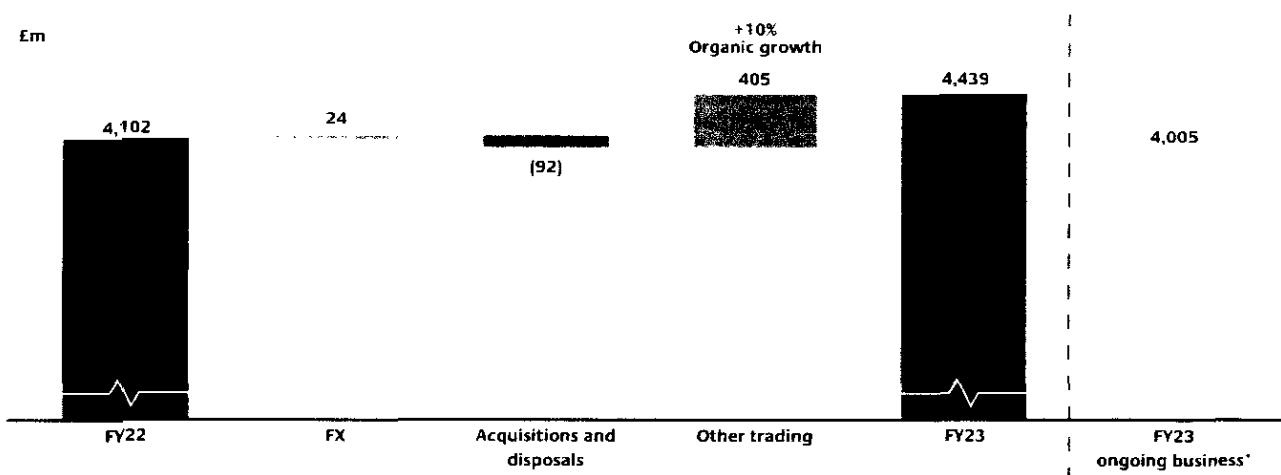
Income statement

	31 March 2023			31 March 2022		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	4,438.6	–	4,438.6	4,101.8	–	4,101.8
Operating profit/(loss)	177.9	(132.4)	45.5	237.7	(10.9)	226.8
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	9.3	–	9.3	20.1	–	20.1
Net finance costs	(58.3)	9.7	(48.6)	(61.2)	(9.6)	(70.8)
Profit/(loss) before tax	128.9	(122.7)	6.2	202.8	(20.5)	182.3
Income tax (expense)/benefit	(37.7)	(1.8)	(39.5)	(43.9)	29.5	(14.4)
Profit/(loss) after tax for the year	91.2	(124.5)	(33.3)	158.9	9.0	167.9
Basic EPS	17.7p		(6.9)p	30.7p		32.5p
Diluted EPS	17.4p		(6.9)p	30.4p		32.1p
Type 31 loss	100.1					
Underlying operating profit excl. Type 31 loss	278.0					
Underlying basic EPS excl. Type 31 loss	33.8p					

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

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

Revenue bridge



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

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

Financial review (continued)

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

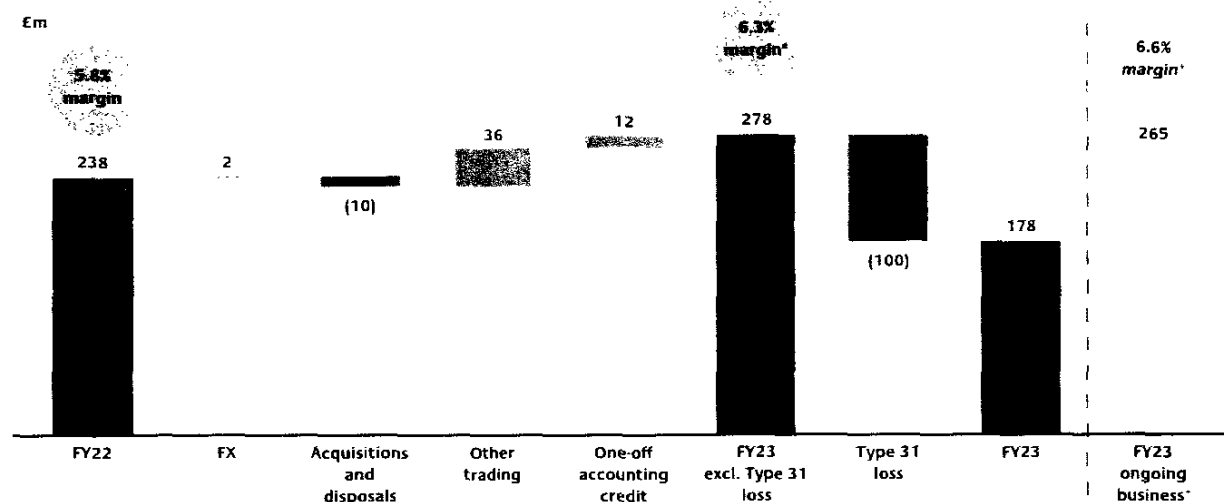
FY22 statutory operating profit included £163.1 million profit on disposal, £118.8 million exceptional charges, of which £123.6 million related to impairment of tangible and intangible assets, and £33.8 million restructuring costs. There were no exceptional items recorded in FY23. See Note 2 in the financial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

Statutory operating profit includes specific adjusting items (SAIs) that are not included in underlying operating profit, which is a key APM for the Group. A reconciliation of statutory operating profit to underlying operating profit is shown in the table below and in Note 2 in the financial statements.

Reconciliation of statutory to underlying operating profit

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

Underlying operating profit bridge



* Excluding Type 31 loss

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

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

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

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

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

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

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

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

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

Taxation: The Group tax charge was £39.5 million. Tax on underlying profits was £37.7 million representing an effective underlying tax rate of 32%. Excluding the impact of the Type 31 loss the effective tax rate was 26% (FY22: 24%), slightly higher than expected due to the geographical mix of profits and unrelieved losses in the European AES business. The underlying effective tax rate is calculated on underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). The Group's effective underlying rate of tax for this financial year will be dependent on country profit mix. The current assumption is around 26%.

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

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

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

Exchange rates

The translation impact of foreign currency movements resulted in an increase in revenue of £23.5 million and an increase in underlying operating profit of £1.6 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. Following disposal of the European AES businesses, the currencies with the greatest potential to impact results are the South African Rand and the Australian and Canadian Dollar:

- A 10% movement in the South African Rand against Sterling would affect revenue by around £30 million and underlying operating profit by around £4 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £25 million and underlying operating profit by around £2 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect revenue by around £15 million and underlying operating profit by around £1 million per annum

Cash flow and net debt

Underlying cash flow and net debt

Underlying cash flows are used by the Group to measure operating performance as they provide a more consistent measure of business performance from year to year.

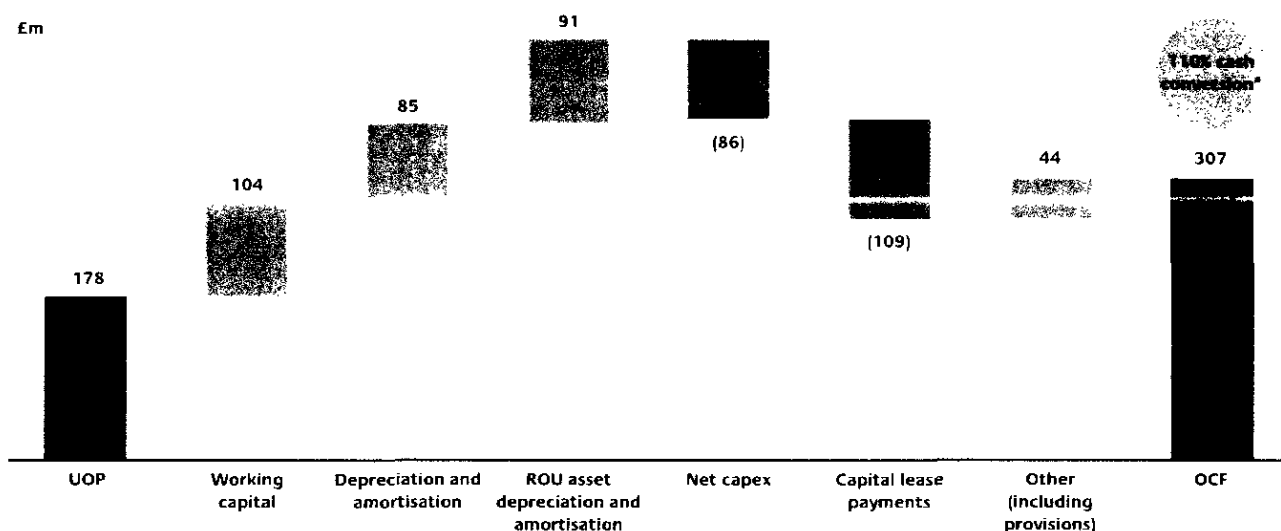
	31 March 2023	31 March 2022
	£m	£m
Operating profit	45.5	226.8
Add back: specific adjusting items	132.4	10.9
Underlying operating profit	177.9	237.7
Right of use asset depreciation	91.3	123.1
Other depreciation & amortisation	84.9	74.4
Non-cash items	6.9	0.6
Working capital movements	103.5	(173.9)
Provisions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

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

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

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

Underlying operating profit to operating cashflow bridge



Underlying operating cash flow

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

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

Financial review (continued)

Underlying free cash flow

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

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

Acquisitions and disposals

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

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

New lease arrangements

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

Net debt

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

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

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

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

Funding and liquidity

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

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

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

Capital structure

While there are several facets to balance sheet strength, a primary measurement relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenant of 3.5x. Due to strong underlying operating cash flow, the net debt/EBITDA gearing ratio at 31 March 2023 of 1.5x is lower than at the start of the year despite the £100 million Type 31 loss recognised within EBITDA in the year. This is still within our medium-term target of between 1.0x and 2.0x. Excluding the Type 31 loss, the net debt/EBITDA gearing ratio at 31 March 2023 would have been 1.1x.

Net debt to EBITDA (covenant basis)

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

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

1. Various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs.

2. Removing loans to JVs, finance lease receivables.

Interest cover (covenant basis)

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

	31 March 2023 £m Last twelve months	31 March 2022 £m Last twelve months
EBITDA (covenant basis) + JV and associate dividends	263.1	340.8
Net finance costs	(48.6)	(70.8)
Covenant adjustments ¹	7.1	18.7
Net Group finance costs	(41.5)	(52.1)
Interest cover	6.3x	6.5x

3. Various adjustments made to reflect accounting standards at the time of inception of the original RCF agreement, including lease and retirement benefit interest.

Financial review (continued)

Return on invested capital, pre-tax (ROIC)

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

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

Pensions

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme. The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

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

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

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

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

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

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

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

Accounting valuations

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

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

Cash contributions

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

Governance

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

Pensions management

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

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

Investment strategy

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

Actuarial valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. The valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2021 was completed in the last financial year, the valuation of the Babcock International Group Pension Scheme as at 31 March 2022 has been completed since year end, and work has commenced on the valuation of the Devonport Royal Dockyard Pension Scheme at 31 March 2023.

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

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

Income statement charge

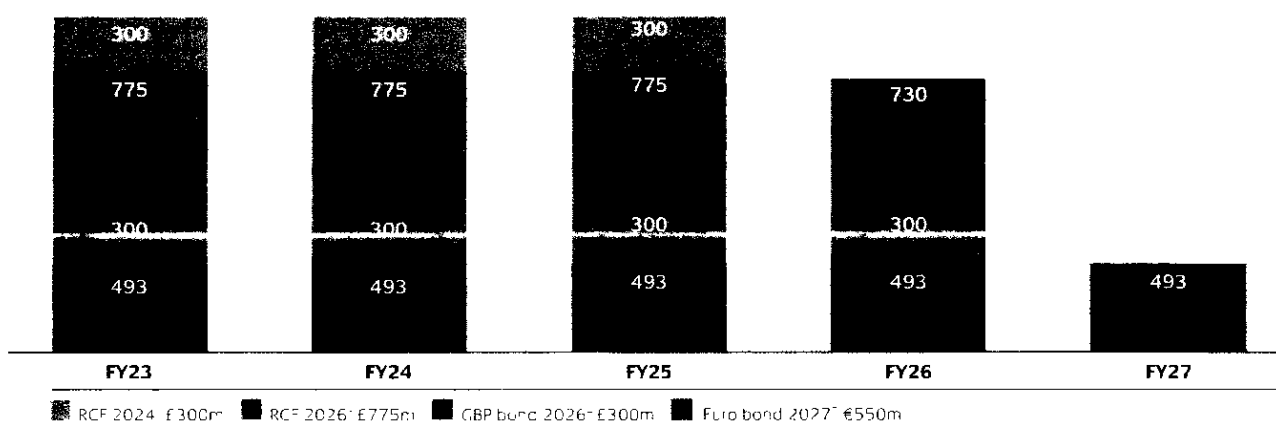
The charge included within underlying operating profit in FY23 was £32.6 million (FY22: £38.5 million), of which £25.8 million (FY22: £31.1 million) related to service costs and £6.8 million (FY22: £7.4 million) related to expenses. In addition to this, there was an interest credit of £7.5 million (FY22: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

Treasury

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

Liquidity and debt maturity profile

Debt maturity profile¹ (£m)



1. Chart shows notional value of the debt.

2. RCF 2024 £300m, matures 20 May 2024.

3. £730m of £775m RCF extended to 2026, matures 28 August 2026.

4. GBP bond 2026 £300m, matures 5 October 2026.

5. Euro bond 2027 £550m, hedged at £493m, matures 13 September 2027.

Debt

Objective

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

Policy

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

Updates

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

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

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

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

Interest rates

Objective

To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of the Group's commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.

Policy

Interest rate hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department and is subject to the policy and guidelines set by the Board and updated from time to time.

Performance

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

Liquidity

Objective

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

Policy

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

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

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

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

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. As noted above in the prior year, the Group signed a new £300 million RCF and extended the maturity of £730 million of its existing RCF to 2026. The Group continues to monitor the liquidity position and will seek to extend or replace committed debt as the need arises. Surplus cash during the year was used to either repay outstanding RCF drawings or invested in short term deposits diversified across several well rated financial institutions in accordance with policy.

Foreign exchange

Objective

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

Policy — Transaction risk

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

Policy — Translation risk

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

Performance

There was a net foreign exchange loss of £12.7 million in the income statement for the year ending 31 March 2023 (31 March 2022: £10.5 million loss).

Segmental analysis

The Group reports its performance through four reporting sectors.

31 March 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Revenue	1,439.6	1,179.2	1,017.1	802.7	4,438.6
Operating profit	5.8	63.6	80.9	(104.8)	45.5
Operating profit margin	0.4%	5.4%	8.0%	(13.1)%	1.0%
Underlying operating profit	12.7	63.5	85.9	15.8	177.9
Underlying operating margin	0.9%	5.4%	8.4%	2.0%	4.0%
Contract backlog	2,580.7	2,453.8	2,809.8	1,633.0	9,477.3
Type 311 loss	100.1				100.1
Underlying operating profit	112.8				278.0
Underlying operating margin	7.8%				6.3%

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

Financial Glossary – Alternative Performance Measures

The Group provides Alternative Performance Measures (APMs), including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

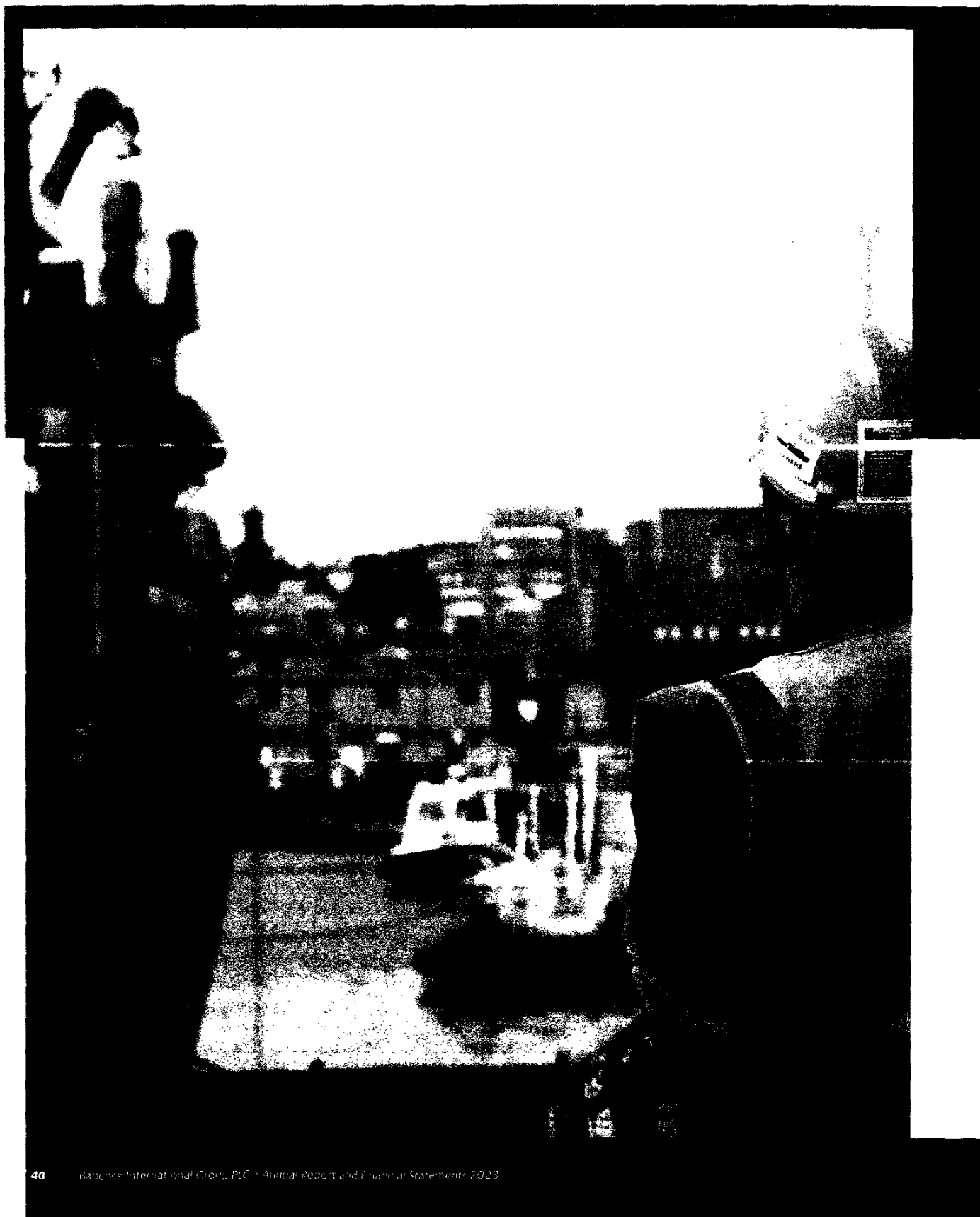
The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the year ended 31 March 2022 with the addition of measures excluding the Type 31 loss. Further information on the Group's specific adjusting items, which is a critical accounting judgement, can be found in Note 2.

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Revenue measures			
Organic revenue growth	Revenue growth year-on-year	Growth excluding the impact of foreign exchange (FX), and contribution from acquisitions and disposals over the prior and current year <ul style="list-style-type: none"> Used to measure the year on year movement in Group revenue It is a good indicator of business growth Group KPI 	FX, contribution of acquisitions and disposals in the current and prior period
Contract backlog	Transaction price under IFRS 15 on customer contracts allocated to unsatisfied / partially satisfied performance obligations	Contracted revenue excluding variable revenue, expected contract renewals, expected revenue from framework agreements and impact of termination for convenience clauses <ul style="list-style-type: none"> Used to measure revenue under contract as a good indicator of revenue visibility 	Contract backlog is based on the full contract term whereas the IFRS measure may be based on shorter periods where the customer has the ability to exit contracts early
Framework agreements	No direct equivalent	Funded and unfunded unexecuted customer contracts. Unfunded orders include the elements of contracts for which funding has not been authorised by the customer	
Profit measures			
Underlying operating profit	Operating profit	Operating profit before the impact of specific adjusting items <ul style="list-style-type: none"> Underlying operating profit is the headline measure of the Group's performance 	Specific adjusting items See table on page 10 See Note 2
Underlying operating margin	No direct equivalent	Underlying operating profit as a percentage of revenue <ul style="list-style-type: none"> To provide a measure of operating profitability, excluding one-off items Operating margin is an important indicator of operating efficiency across the Group Group KPI 	Ratio – N/A
Underlying net finance costs	Net finance costs	Net finance costs excluding specific adjusting items <ul style="list-style-type: none"> To provide an alternative measure of finance costs excluding items such as fair value measurements which can fluctuate significantly on inputs outside of management's control 	Specific adjusting items See table on page 10
Underlying profit before tax	Profit before tax	Profit before tax adjusted for <ul style="list-style-type: none"> The summation of the impact of all specific adjusting items on profit before tax 	Specific adjusting items See table on page 10
Underlying effective tax rate	Effective tax rate	Tax expense excluding the tax impact of specific adjusting items, as a percentage of underlying profit before tax (being the summation of the impact of all adjusting items on profit before tax) excluding the share of post tax income from joint ventures and associates <ul style="list-style-type: none"> To provide an indication of the ongoing tax rate across the Group, excluding one-off items 	Specific adjusting items See table on page 10
Underlying basic earnings per share	Basic earnings per share	Based on the Group's underlying profit before tax and underlying effective tax rate	Specific adjusting items See table on page 10
Underlying operating profit excluding the Type 31 loss	Operating profit	Operating profit, excluding the Type 31 loss, before the impact of specific adjusting items <ul style="list-style-type: none"> Eliminates the Type 31 loss for a better measure of the Group's underlying operating profit performance, given the one-off nature of the loss 	Specific adjusting items See table on page 10 See Note 2
Underlying operating margin excluding the Type 31 loss	No direct equivalent	Underlying operating profit, excluding the Type 31 loss, divided by revenue <ul style="list-style-type: none"> Eliminates the Type 31 loss for a better measure of the Group's underlying operating margin performance, given the one-off nature of the loss 	Ratio – N/A

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to consolidation)
Profit measures continued			
Underlying basic earnings per share excluding the Type 31 loss	Basic earnings per share	Based on the Group's underlying profit before tax, excluding the Type 31 loss, and underlying effective tax rate. <ul style="list-style-type: none"> Eliminates the Type 31 loss for a better measure of the Group's basic earnings per share performance, given the one-off nature of the loss 	Specific adjusting items See table on page 12
EBITDA	Operating profit	Underlying operating profit, plus depreciation and amortisation, and various covenant adjustments linked to the Revolving Credit Facility including the treatment of leases within operating profit and pension costs <ul style="list-style-type: none"> Used as the basis to derive the gearing ratio net debt/EBITDA, which is a key measure of balance sheet strength and the basis of our debt covenant calculations 	Specific adjusting items Depreciation and amortisation Covenant adjustments See table on page 16
Balance sheet			
Net debt	No direct equivalent	Loans, including the interest rate and foreign exchange derivatives which hedge the loans, bank overdrafts, cash and cash equivalents, loans to joint ventures and associates, lease receivables and lease obligations <ul style="list-style-type: none"> Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position 	See table on page 15
Net debt (excluding operating leases)	No direct equivalent	Net debt (defined above) excluding operating lease liabilities as previously defined by IAS 17. <ul style="list-style-type: none"> Used by management to monitor the strength of the Group's balance sheet position and to ensure the Group's capital structure is appropriate Used by credit agencies 	See table on page 16
Net debt (covenant basis)	No direct equivalent	Net debt (excluding operating leases), excluding loans to joint ventures and associates and finance lease receivables <ul style="list-style-type: none"> Used for covenants over Revolving Credit Facility Used by credit agencies 	See table on page 16
Net debt/EBITDA (covenant basis)	No direct equivalent	Net debt (covenant basis) divided by EBITDA <ul style="list-style-type: none"> A measure of the Group's ability to meet its payment obligations Used by analysts and credit agencies Group KPI 	Ratio – N/A See table on page 16
Net debt/EBITDA excluding Type 31	No direct equivalent	Net debt (covenant basis) divided by EBITDA, excluding the Type 31 loss <ul style="list-style-type: none"> Eliminates the Type 31 EBITDA loss for a better measure of the Group's balance sheet, given the one-off nature of the loss 	Ratio – N/A
Return on invested capital (pre-tax) (ROIC)	No direct equivalent	Underlying operating profit plus share of JV PAT, divided by the sum of net debt (excluding operating leases), shareholders' funds and retirement benefit deficit (surplus) <ul style="list-style-type: none"> Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated Group KPI 	Ratio – N/A See table on page 16
Cash flow measures			
Net capital expenditure	No direct equivalent	Property, plant and equipment and intangible assets, less proceeds on disposal of property, plant and equipment <ul style="list-style-type: none"> Included in underlying operating cash flow to calculate underlying operating cash conversion 	
Underlying operating cash conversion	No direct equivalent	Underlying operating cash flow after capital expenditure as a percentage of underlying operating profit <ul style="list-style-type: none"> Used as a measure of the Group's efficiency in converting profits into cash 	Ratio – N/A
Underlying free cash flow	No direct equivalent	Underlying free cash flow includes cash flows from exceptional items and the capital element of lease payment cash flows (rather than net new lease commitments, which are reflected as a debt movement) <ul style="list-style-type: none"> Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy 	See page 13

1. Refer to Note 2 in the financial statements

Marine



Marine – at a glance

Revenue

£1.4bn

Percentage of Group revenue*

36%

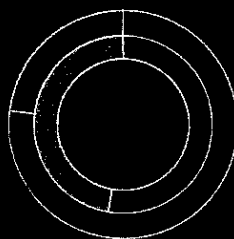
Contract backlog

£2.6bn

Number of employees

5,200

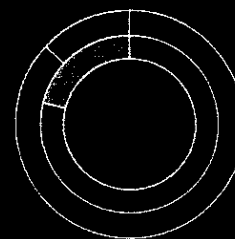
Revenue profile



77% Defence
23% Civil

53% UK
47% International

Contract backlog profile



87% Defence
13% Civil

79% UK
21% International

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

What we do

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

**International submarine
through-life support**

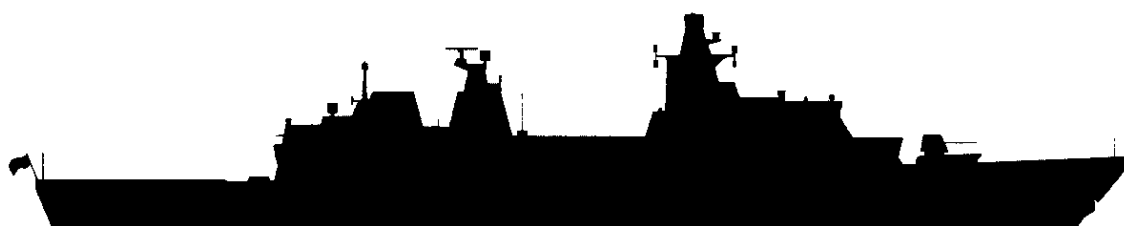
**Global naval exports:
ship design, military equipment
and engineering support**

Digital defence communications

**Energy and marine equipment
and support**

Operational highlights

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



Marine continued

Financial review

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

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

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

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

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

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

Operational review

UK defence

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

Warship support advanced in the year as we secured a 10-year contract to provide dry-dock maintenance for the Royal Navy's Queen Elizabeth Class aircraft carriers, including contingency

dockings where routine maintenance and repairs cannot be carried out afloat. In Devonport, the Type 23 frigate life-extension (LIFEX) programme continues at pace while the LIFEX and fleet time support to the amphibious assault ships is making good progress. In readiness for the first Type 26 Frigate base-ported at Devonport later this decade, we have established the Type 26 Class Output Management system to prepare for the through-life sustainment of the platforms as they enter service.

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

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

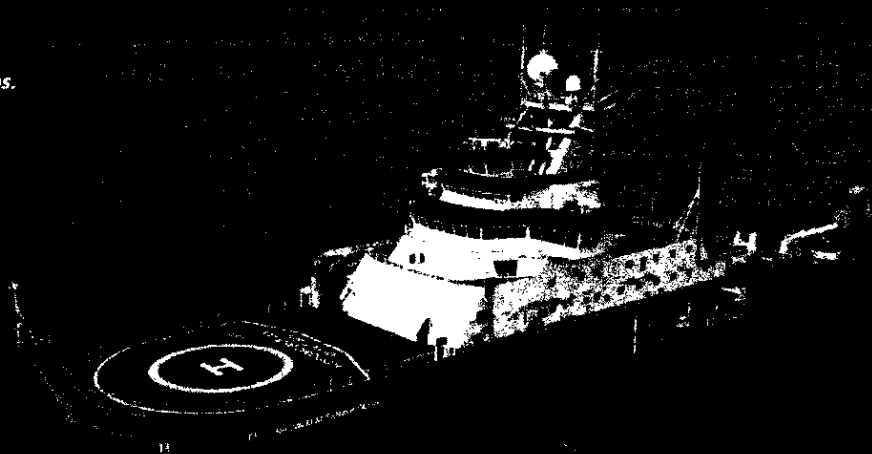
Additionally, a six-year contract was awarded to deliver, install and provide in-service support for Ardent Wolf, the maritime Communications Electronic Support Measures (CESM) capability for the Royal Navy's Type 23 frigates.

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

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

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

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



International defence

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

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

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

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

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

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

In South Korea, our weapon handling and launch team successfully completed the final milestone on the Korean Navy's Jang-Bogo III Class submarine – with all 122 Category A milestones delivered on time or ahead of schedule over the 10-year period. We continue to deliver the equipment systems for boats four and five. In September 2022,

we received a first maintenance contract from Daewoo Shipbuilding and Marine Engineering (DSME) to support the Jang Bogo III Class – Boat 1 systems, with a second phase of this work secured in October.

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

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

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

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

Energy and Marine

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

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

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

Nuclear



Nuclear – at a glance

Revenue

£1.2bn

Percentage of Group revenue*

29%

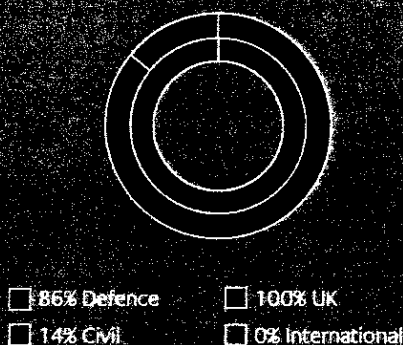
Contract backlog

£2.5bn

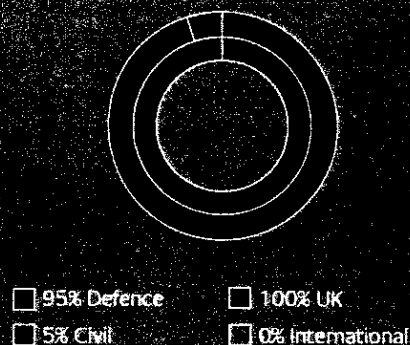
Number of employees

8,000

Revenue profile



Contract backlog profile



* Excluding divested businesses in FY23, Group revenue was £1.4 billion

What we do

Support all UK nuclear submarines and infrastructure

Own or manage key infrastructure and naval bases

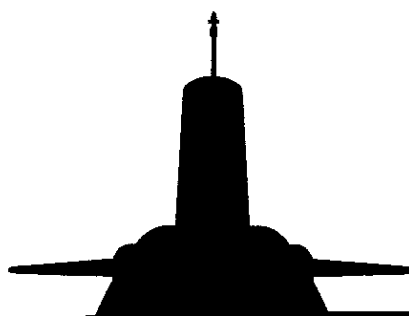
Nuclear submarine dismantling

UK civil nuclear new build, generation support and decommissioning projects

UK and international nuclear services

Operational highlights

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



Nuclear

continued

Financial review

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

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

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

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

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

Operational review

Defence

The UK is going through a phase of class transition for nuclear submarines. Astute Class submarines are currently replacing the Trafalgar Class and the future Dreadnought Class will replace the Vanguard Class. Good progress has been made in the year in meeting the current and future requirements of the MOD.

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

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

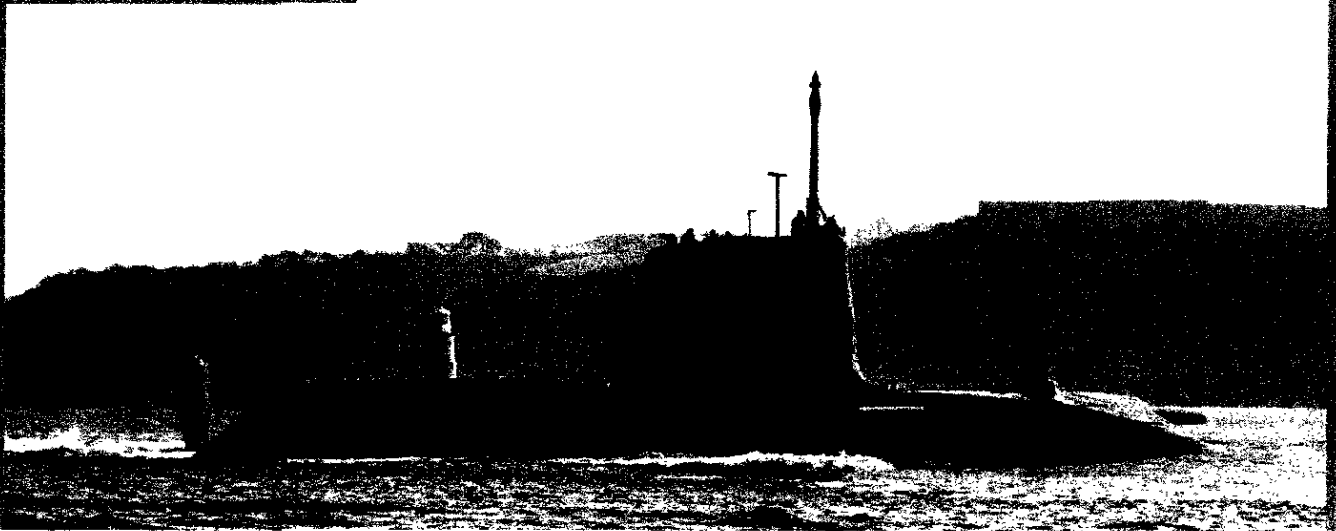
The concept design phase for 10 Dock is now complete and construction is underway to transform a large dry dock, traditionally used for large ship refit, into a seismically qualified dock in alignment with strict nuclear regulation, capable of enabling delivery of the first DMP of an Astute Class submarine.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

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



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

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



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

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

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

Civil Nuclear

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

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

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

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

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

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

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

Land



Land – at a glance

Revenue*

£1.0bn

Percentage of Group revenue*

25%

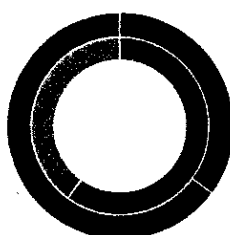
Contract backlog

£2.8bn

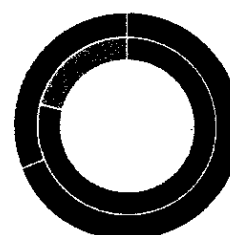
Number of employees

6,600

Revenue profile*



Contract backlog profile



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

What we do

Asset management and engineering support for British Army vehicles

Technical training and support for the British Army

Emergency services technical training and fleet management

South Africa engineering and equipment businesses

Operational highlights

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

Land continued

Financial review

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

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

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

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

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



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

Operational review

Defence

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

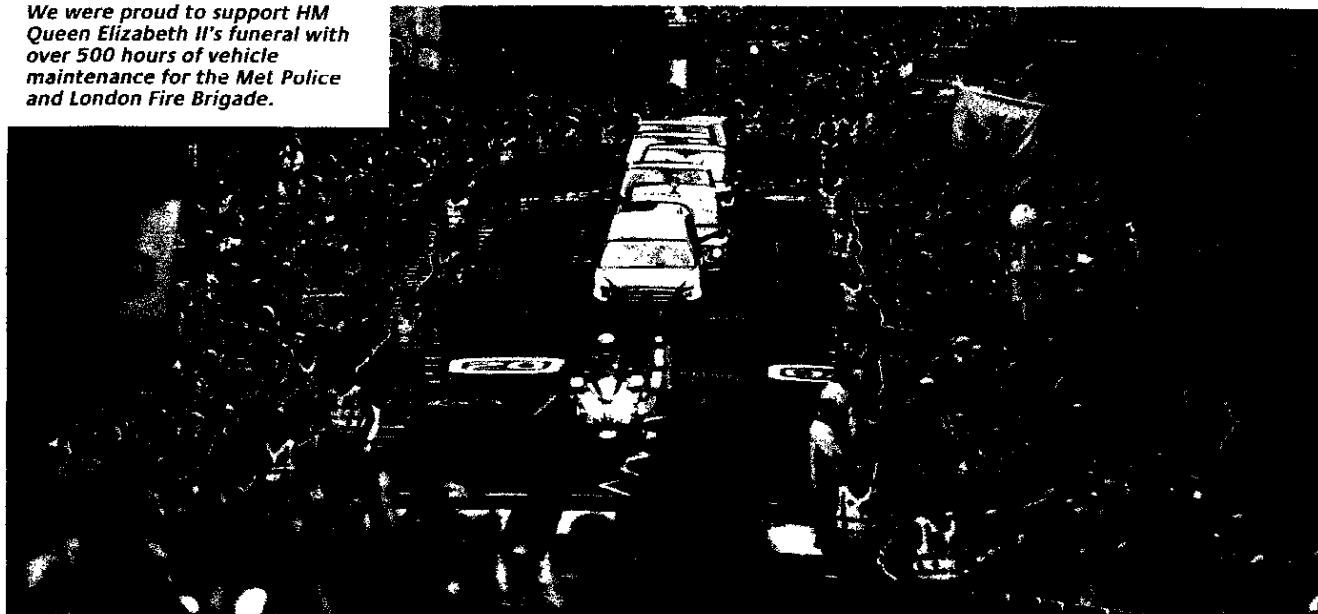
In February, we announced that we will be working in collaboration with Devon-based Supacat, to deliver an order of 70 High Mobility Transporters (HMT 400 series) from the MOD. With this initial order, the contract award could lead to the production of as many as 240 of the light armoured vehicles, should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

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

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

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

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



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

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

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

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

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

Emergency Services

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

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

South Africa

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

Other civil markets

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

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

Aviation



Aviation – at a glance

Revenue*

£0.4bn

Percentage of Group revenue*

10%

Contract backlog

£1.6bn

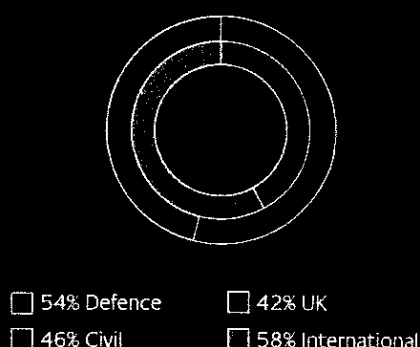
Number of employees

5,000

Revenue profile*



Backlog profile



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

What we do

UK and French pilot training and support

Military aircraft engineering and airbase support

Military and emergency services aircraft maintenance, repair and overhaul

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

Operational highlights

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



Aviation continued

Financial review

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

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

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

Underlying operating profit decreased to £15.8 million, driven by the impact of disposals, primarily European AES, which contributed a loss of £1.1 million in the 11 months of ownership compared to a profit of £0.3 million in FY22, due to higher fuel costs. Underlying operating margin declined by 30 basis points to 2.0%, primarily due to weaker performance of the disposed European AES businesses.

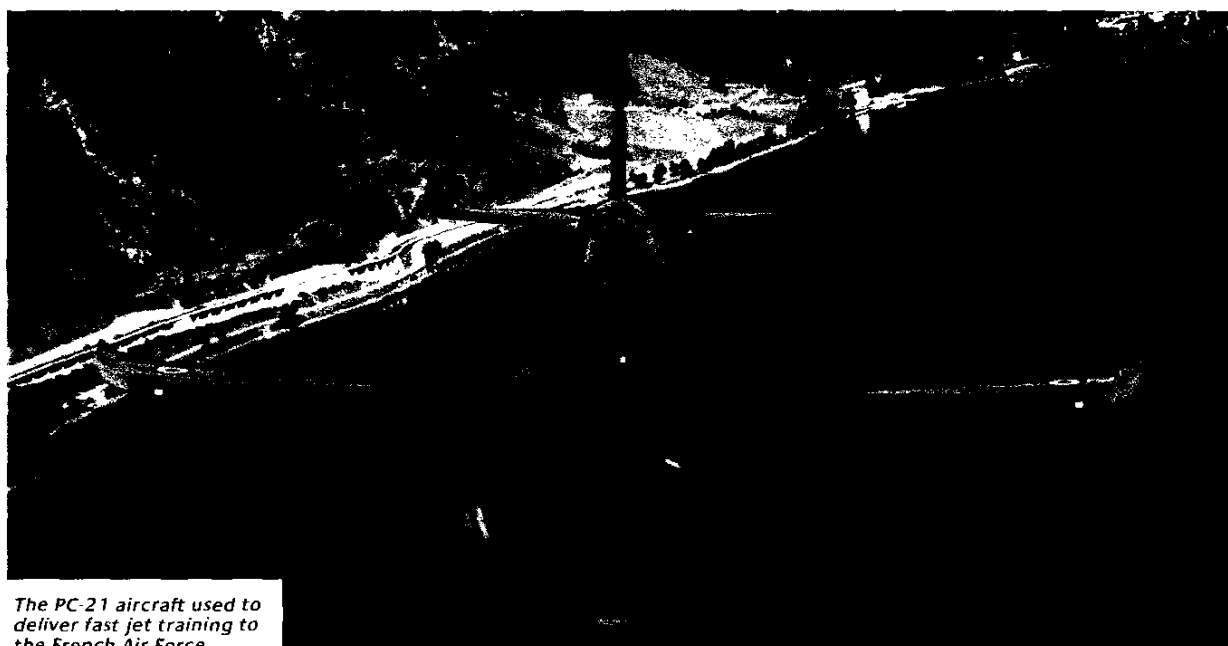
The retained business within Aviation generated revenue of £416 million (FY22: £337 million), up by 24%, and underlying operating profit of £17 million (FY22: £14 million), representing an operating margin of 4.1% (FY22: 4.1%). Growth was driven by our French defence contracts, as described above, with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

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

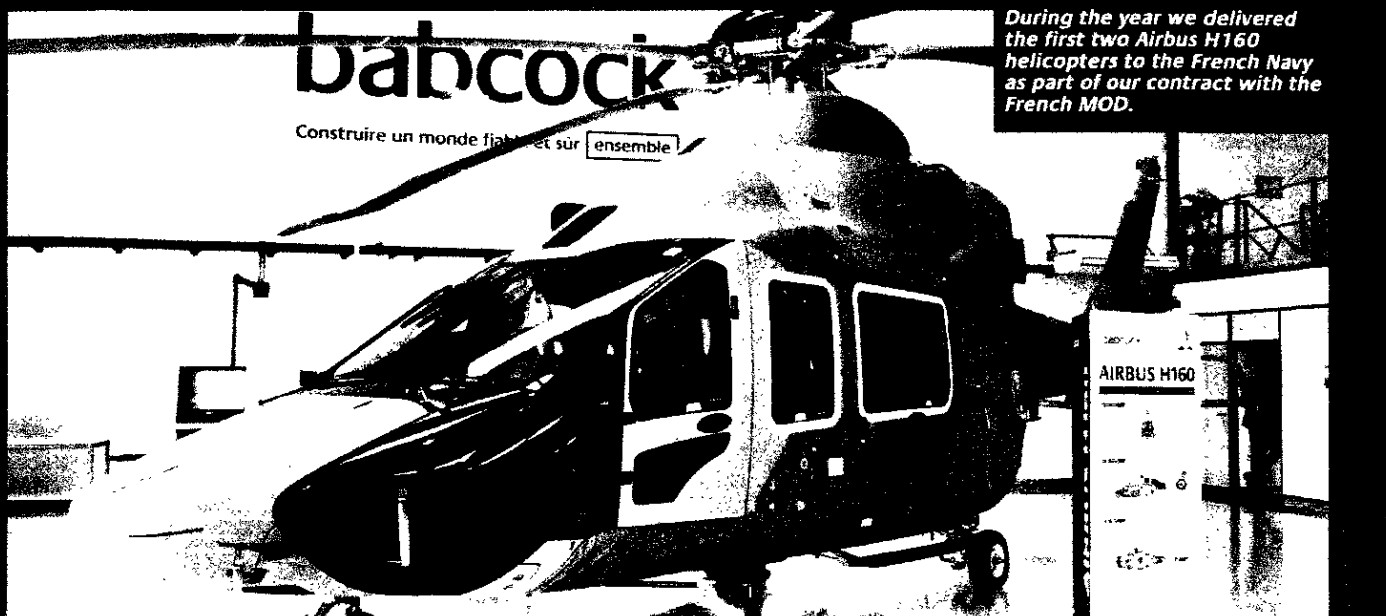
Operational review

Defence

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



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



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

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

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

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

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

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

Aerial emergency services

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

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

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

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

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

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

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

Creating a safe and secure world, together

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

Customers

Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We make their mission, our mission; working in partnership with our customers to deliver critical programmes and services. We seek to solve their challenges through the introduction of innovative solutions and technology to support their needs. We build and maintain long-term relationships with our customers to promote our mutual success.

What matters to them

- Safety
- Operational excellence
- Affordability (value for money)
- Availability
- Capability
- Innovation and expertise
- Reliability
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

How Babcock engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnering Programme
- Collaborating on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Investors

Why they matter to us

The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active IR and Treasury team.

What matters to them

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communications
- Access to management
- Governance
- Sustainability strategy

How Babcock engages

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

Suppliers

Why they matter to us

To support our global business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice.

Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers.

What matters to them

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How Babcock engages

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and 'lunch and learns'
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

Regulators

Why they matter to us

We manage complex assets in highly regulated sectors: nuclear, defence and aviation. We are committed to providing safe and effective operations. We have to maintain positive and constructive relationships with regulators in order to be able to operate, to help shape policy in our markets and to position for future opportunities.

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

How Babcock engages

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Coordinated safety improvement programmes

We recognise the impact we have on our stakeholders and our responsibility to them, which is why increased stakeholder engagement is a key part of our turnaround strategy. We are committed to open and productive engagement with all our stakeholders.

Employees		Communities	
Why they matter to us	How Babcock engages	Why they matter to us	How Babcock engages
Our success is led by our employees. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our Principles and working on shared goals, united by our common Purpose.	<ul style="list-style-type: none"> Employee forums and meetings Global engagement platforms, including an employee app Weekly CEO and senior management vlogs Access to the CEO via a dedicated email A global people survey Regular internal updates Cascade briefings A dedicated onboarding app Regular safety stand downs and annual safety summit Apprentice and Graduate programmes Regular training Access to independent whistleblowing process Senior management and Board visits Non Executive Director responsible for employee engagement at Board level Free confidential employee support helpline 	We are committed to the communities in which we operate and the broader interests of the customers we serve. We have a responsibility to support the communities in which we operate both economically and socially; community engagement, and social value creation is a key aspect of our ESG strategy. We want to be a force for good in our communities, particularly where we have major sites of operation, and are one of the largest employers in the local area.	<ul style="list-style-type: none"> Sponsorship and donations, with new policy created in FY23 Commissioned an independent report to analyse our contribution to the UK economy Created a new employee volunteering framework University partnerships STEM Ambassadors Significant employer of service leavers, veterans and reserves Engagement with local community programmes
What matters to them		What matters to them	
<ul style="list-style-type: none"> Remuneration, reward and recognition Professional development and career progression The Group's aims, goals, priorities and reputation Regular engagement with leaders Health, safety and wellbeing An empowering culture Inclusion and diversity Our ESG agenda Employee networks 		<ul style="list-style-type: none"> Employment and economic contribution Health, safety and wellbeing Engagement in local education and STEM activities Sustainability and the local environment Support for indigenous people Support for armed forces community Community engagement 	

s172(1) Statement

The Directors confirm that they, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole, while having regard for all stakeholders. By considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term.

More information on how stakeholders are factored into our decision-making and the Board's engagement with stakeholders can be found in the Governance section in the Chair's introduction on page 106 and on pages 112 to 115, which form part of this Statement. Further information on how the Board addressed the different matters set out in s172(1) in performing their duties during the year can be found as follows:

S172 factor

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster the Company's business relationships with suppliers, customers and others
- the impact of the Company's operations on the community and environment
- the desirability of the Company maintaining a reputation for high standards of business conduct
- the need to act fairly between members of the Company

Relevant disclosures

- Our strategy (page 6)
- Business model (page 20)
- ESG strategy (page 58)
- Ensuring the safety and wellbeing of our people (pages 74 to 78)
- Being a collaborative, trusted partner across the supply chain (pages 83 to 85)
- Innovation and technology (pages 8 and 9)
- Making a positive impact on the communities in which we operate (pages 78 to 82)
- Environmental (pages 63 to 73)
- ESG Strategy: Governance (page 83 to 85)
- Investors (page 56)

ESG strategy

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

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

Our ESG priorities

- ▶ We will reduce emissions and set science-based targets to get to Net Zero across our estate, assets and operations by 2040
See page 63
- ▶ We will integrate environmental sustainability into programme design to minimise waste and optimise resources
See page 66
- ▶ We will ensure the safety and wellbeing of all our people
See page 74
- ▶ We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies
See page 78

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

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

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

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

Progress against our ESG priorities

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

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

▶ Integrating environmental sustainability into programme design

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

► Ensuring the safety and wellbeing of our people

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

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

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

► Ensuring a positive impact on the environment

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

Our focus for FY24 is to...

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

Progress vs ESG commitments and targets

Commitment and targets	Commentary
Progress Plan Zero 40 and minimise the impact on the environment	
Progress Plan Zero 40	We have continued to develop and enhance our decarbonisation strategy to ensure delivery of our carbon reduction targets. During 2022 we reduced our emissions by 8.6%, and we have reduced our absolute footprint by 12.9% against our adjusted baseline. To date we have delivered a range of initiatives such as estate rationalisation, energy efficiency improvements, awareness raising and training, EV vehicle roll-out and energy management improvements
Preparing waste management plans across all significant sites by 2024	We have identified 'significant' sites based on multiple selection criteria associated with waste types and quantity generated. We are working to develop waste management plans across the significant sites by 2024
Zero controlled waste to landfill by 2025	We are investigating a range of initiatives and working with our partners to identify opportunities to reduce our waste to landfill by 2025
Eliminate the use of avoidable single-use plastic by 2027	Within our developing waste management plans, we are working to identify initiatives and map the transition away from single use plastics by 2027
Prepare water management plans across all significant sites by 2024	We have identified 'significant' sites across our operations based on multiple selection criteria associated with location, water consumption and water extraction / discharges. We are working to develop water management plans across the significant sites by 2024
Maintaining and enhancing biodiverse ecosystems	
Conduct biodiversity assessments across all significant sites by 2024	We have identified 15 sites across the organisation where our interaction with and impact on local ecosystems has been considered to potentially be significant and are working to conduct biodiversity assessments across all these sites and are on track to complete this by 2024
Deliver a 10% biodiversity increase across the estate by 2030	The biodiversity assessments will allow Babcock to understand our baseline, against which we can develop the initiatives and roadmaps to achieve our medium term objective of 10% biodiversity increase across our estate
TCFD metrics and targets	
Develop a baseline for Scope 1 and 2 emissions by the end 2023	During FY23, we developed ten 'Pathfinder' carbon reduction plans which capture 75% of Babcock's estate related Scope 1 and 2 emissions. We are now working to scale the carbon reduction plans across our remaining estate and assets by the end of 2023
Submit science based targets for Scope 3 by Apr-23	In April we submitted our interim and Net Zero carbon reduction plans to the Science Based Targets initiative (SBTi) and are currently awaiting verification of our plans
Complete an assessment of climate related risk of all critical Babcock infrastructure by Dec-24	During 2022 we conducted high-level risk assessments across our operations. We are now working to conduct detailed climate related risk assessments across our critical infrastructure by the end of 2024
Complete a review of climate-related changes to working conditions covering all employees who are exposed at geographical locations by April 2023	Completed
Climate-related impacts to be considered in all business bid/no bid decisions and associated contract negotiations/KPIs	Completed
100% of electricity for Babcock facilities to be sourced from renewable supplies by 2030	In 2022 approximately 32% of Babcock's electricity was from renewable energy sources, this is an increase from 26% in 2021
Complete an assessment of all our critical suppliers' climate-related risks and associated impact by Sept 2022	Completed
Creating a people-centred business where everyone is included	
30% women within senior leadership teams by 2025	We have seen an improvement of female representation within our senior leadership team from 21% to 23%.
30% female representation at all levels by 2030	Our female population has reduced by 1pt to 18% this year due to divestments and natural attrition but we remain committed to reaching our gender balance target
Set clear metrics for disability and ethnicity (in addition to gender) to focus our effort, measure our performance and progress and create accountability across the Group	We are designing an Inclusion Roadmap which will help us to further develop our approach on ethnicity and disability
Reduce inequalities through a thorough review of our recruitment practices and how we support progression once in employment	We are taking a range of actions including new policies and ways of working; refreshed recruitment processes and supporting leadership development programmes amongst others

Underpinned by conducting business with honesty, transparency and integrity

Materiality assessment

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



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

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

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

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

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

- **Health safety and wellbeing:** High health and safety standards are a fundamental condition and responsibility we must meet to protect the wellbeing of all who interact with Babcock and ensure everyone gets home safely every day
- **Climate change:** We are facing a global climate crisis which has the potential to cause catastrophic impacts. We understand the risks posed by climate change and are committed to play our part in addressing the global crisis

- **Collaboration:** Collaboration is required to achieve a shared goal, foster innovation and create lasting relationships for sustainable long-term business success

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

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

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

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

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

ESG and our shareholders

Over the year we have progressed our ESG strategy and ensured progress on our corporate commitments while furthering our disclosure on key sustainability interests in line with best practice and regulation. This year we have continued to develop our approach to ESG reporting and enhanced the level of transparency providing further insight into a range of economic, social and environmental impacts.

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

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

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

Defence and nuclear

Following the completion of the portfolio alignment programme, the Group today is over two thirds defence focused. We recognise that our business is therefore of increasing relevance to investors investigating through an ESG lens: most notably that we operate in defence and civil nuclear markets. We have a critical role in global defence and national security with operations in UK, Australia, New Zealand, Canada, and France. We also design and manufacture equipment and systems for several other nations including the US and South Korea. As global instability and political turmoil increases, we support the view that democracies need to be able to defend themselves from aggressors to ensure democracy.

Nuclear deterrents and nuclear power are both crucial to our customers and a democratically elected mandate. Babcock has been supporting the UK's commitment to the Continuous At Sea Deterrent for over 50 years, while also delivering complex and critical civil nuclear through-life engineering. We will continue to support our customers, both with their defence agenda and their commitment to generate low-emission power from nuclear energy.

Certain ESG agencies and investment funds have identified internal screening policies to minimise their portfolio's exposure to controversial weapons activities. To enable compliance with their requirements, we disclose key ESG metrics to measure our exposure to these activities as percentage of revenue.

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

- We do not design, manufacture, or sell nuclear weapons or controversial weapons or their components.
- We deliver support, decommissioning and infrastructure projects for our Atomic Weapons Establishment customer in support of their programmes, representing 0.4% of FY23 pro forma revenue.
- We provide in-service and through-life support for the UK Royal Navy's ballistic nuclear submarines (SSBNs), the Continuous At Sea Deterrent. Submarine support is part of our wider FMSP contract to deliver all dockside and fleet time support, base maintenance and deep maintenance periods for both classes of non-nuclear armed (SSN) and SSBN submarines, including naval base management. We estimate the split of SSBN related support work to be around 2% of FY23 pro forma revenue.
- We design and manufacture the non-nuclear weapons handling systems for the future Dreadnought Class SSBNs and manufacture the missile tube assemblies for the joint US/UK common missile compartment for integration into the future US and UK SSBNs. This work represents less than c.2% of FY23 pro forma revenue.
- Nuclear power provides a reliable source of low-carbon electricity and is a critical component of countries' national energy strategies as they move towards net zero carbon. Our civil nuclear business is involved in new build, power generation support, fuel route management and decommissioning. This work represents around 4% of FY23 pro forma revenue.

We continue to develop our approach to ESG reporting and work proactively with ratings agencies to enhance, where possible, the level of transparency and provide further insight into a range of economic, social and governance topics.

ESG disclosure and external ratings

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

Environment



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

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

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

Babcock Group energy consumption and emissions

		Dec 19	Dec 20	Dec 21	Dec 22
UK					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	37,847	29,316	38,804	27,611
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	58,445	46,458	43,818	42,448
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	11,231	5,484	5,806	5,754
Total emissions	tCO₂e	107,522	81,258	88,428	75,813
Underlying energy consumption used to calculate emissions	kWh	422,144,618	351,936,201	396,229,990	343,074,206
Global (excluding UK)					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	91,357	103,416	102,748	99,556
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	6,364	4,724	4,747	3,666
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	351	168	126	126
Total emissions	tCO₂e	98,072	108,307	107,622	103,348
Underlying energy consumption used to calculate emissions	kWh	383,872,012	433,823,941	429,298,199	408,269,655
Babcock Group total (UK and global)					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	129,203	132,732	141,552	127,167
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	64,809	51,182	48,565	46,114
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	11,582	5,652	5,932	5,880
Total emissions	tCO₂e	205,594	189,566	196,050	179,161
Underlying energy consumption used to calculate emissions	kWh	806,016,629	785,760,142	825,528,188	751,343,861
Underlying energy consumption	GJ	2,901,660	2,828,737	2,971,901	2,704,838
Revenue (adjusted in line with emissions baseline)*	£m	4,042.5	3,842.7	3,867.8	4,438.6
Intensity ratio**	tCO₂e/£1m Revenue	50.9	49.3	50.7	40.4

Our emissions data is reported in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. Our reporting is in line with the requirements of the Streamlined Energy and Carbon Reporting (SECR) requirements. The reporting period for our energy consumption and carbon emissions is the calendar year (01 January to 31 December). Figures for UK operations for low conversion factors published by BEIS. Non-UK operations utilise emission factors applicable to the fuel source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Scope 1, 2 and 3 sources have been divided by the annual revenue to provide the intensity ratio (tCO₂e per £m). Recent organisational changes have cumulatively exceeded our materiality threshold (5% emission variance) and accordingly we have assessed and revised our carbon baseline. Emissions data for prior years have been adjusted in line with the organisational changes and to include data unavailable last year. Emission figures for this year include an element of estimated data and certain data, estimated to be immaterial to the Group's emissions, has been omitted as it has not been practical to obtain (including operations in Oman, South Korea and USA). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period a range of initiatives and activities resulted in a year-on-year reduction in carbon emissions, including estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures, reduced use of diesel, reduced aviation operations and improvements to our energy management practices. We do not have the data maturity to report quantitative reductions generated through energy efficiency measures for the current or previous years. We are progressing well on our journey to Net Zero and aim to accelerate our carbon reduction over the coming years. * The revenue figures detailed are for the corresponding fiscal year and have been adjusted so as to align with the adjusted emissions baseline. ** The Intensity Ratio is based on the adjusted emissions baseline and the adjusted revenue.

Plan Zero 40 pathway and implementation plan

Plan Zero 40

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

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

Estate and assets

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

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

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

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

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

Transport

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

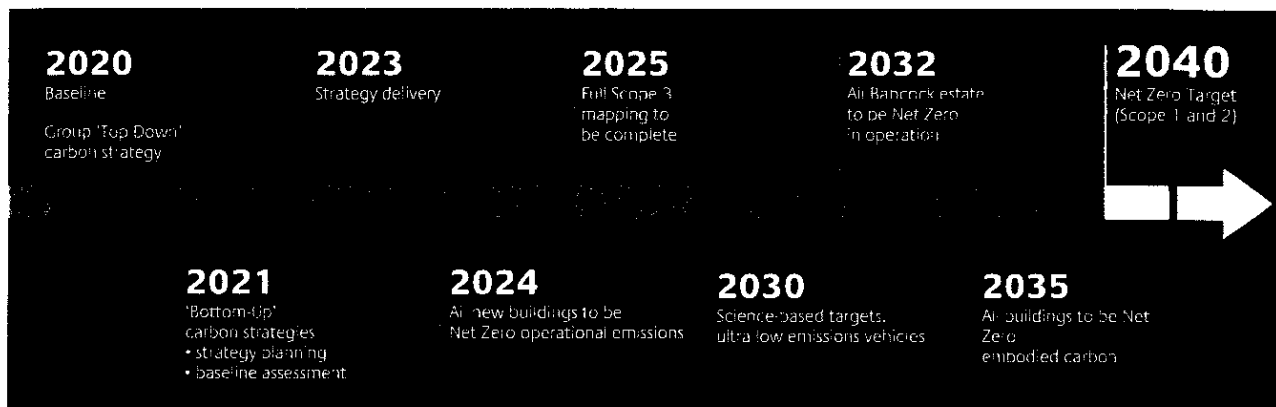
Products and services

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

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

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

Our Net Zero journey



Value chain

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

Further information

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



Climate management instruments

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

Priorities for the year ahead

For the year ahead we will be building on the existing processes, procedures and programmes established to deliver Plan Zero 40. We have also commenced work to develop Babcock's Climate Transition Plan in line with requirements of the Transition Plan Taskforce, which we aim to prepare over the coming 18 months. We will also continue to scale the development of Carbon Reduction Plans and implement renewable energy initiatives.

Tree planting at Wembury Barton Farm

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

Integrating environmental sustainability into programme design

Natural environment

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

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

Taking action on our commitments

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

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

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

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

Data management

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

Awareness raising and engagement

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

Task Force on Climate-related Financial Disclosures

Building on last year's qualitative assessment, we have been working towards full disclosure to the Task Force on Climate-related Financial Disclosures (TCFD) requirements, as per Listing Rule 9.8.6R. We are now consistent with 9 of the 11 TCFD requirements, with limited disclosures on Metrics and Targets A and B having not yet set an internal carbon price, nor fully embedded cross-industry climate-related metric categories into our targets, nor reported our full scope 3 emissions across the full value chain due to the early stages of our investigations and the limitations to the methodology utilised. Over the coming 18 months we have committed to conducting detailed carbon assessments of our products and services and developing Net Zero roadmaps.

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

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

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

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

Governance

Board oversight of climate-related risks and opportunities

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

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

See page 110 for further details on our governance framework.

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

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

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

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

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

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

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

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

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

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

For further details on decarbonisation, see page 63.

Strategy

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

Approach to scenario analysis

Advancing our climate maturity, we have undertaken quantified scenario analysis of our shortlisted climate-related risks and opportunities to assess our organisational resilience. Two potential future climate scenarios were selected which use economic constraints associated with the International Panel on Climate Change's (IPCC) Shared Socioeconomic Pathway 2 (SSP2) middle of the road scenario: a Paris-aligned 1.5°C for the best-case scenario and a business-as-usual 4°C scenario for the baseline scenario. These align with TCFD recommendations.

The baseline scenario considers how the global economy could look in the absence of new climate policies beyond those in place today. The 1.5°C counterfactual simulates a potential future pathway of the world economy assuming a successful introduction of climate policies. The 4°C baseline, utilised and agreed by climate modeling experts within the UN IPCC Change, assumes the scenario in which no further intervention on climate change is taken, leading to a global-mean temperature rise of 4°C above pre-industrial levels by 2100.

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

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

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

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

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

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

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

An economic analysis was used to assess transition risks. The global economic model analysed the potential carbon emissions of economic activities and the consequential impact on macroeconomics of constraining these emissions, in order to achieve the target global-mean temperature at 2100. The economic model disaggregated these economic considerations to a market level, producing price and volume impacts on commodities and sectors across the global economy, against which our supply chain cost structure was assessed.

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

For further details see the scenario table on page 71.

Risks

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

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

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

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

Climate mitigation strategies

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

Opportunities

We also recognise there will be opportunities in the transition towards a greener economy. Through our Liquid Gas Equipment (LGE) business, we aim to continue to develop our ecoFGSS-FLEX® ammonia fuel gas supply system with an aim of bringing this to market in FY23/24. LGE also see an increasing demand for the bulk marine transportation of hydrogen, in the form of ammonia (rather than pure liquid hydrogen) and are supporting several opportunities for dedicated ammonia-carrying ships based on existing technologies. LGE continues to see a growing demand for the capture, transportation, and storage of CO₂ from current emitters and are working closely with several project developers, shipyards and shipowners to develop the end-to-end solution for liquefied CO₂ carriers.

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

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

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

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

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

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

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

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

Financial impact

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

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

Risk management

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

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

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

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

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

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

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



Curious about Climate

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

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

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

Metrics and targets

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

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

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

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

TCFD progress vs priorities

	FY23 progress	FY24 priorities
Governance	<ul style="list-style-type: none"> • ESG updates to the Board included climate action • The Remuneration Committee set ESG related targets relating to reduction in carbon emissions for the 2023 PSP grant. See page 133 Remuneration Committee Report 	<ul style="list-style-type: none"> • Board to continue the discussion on the topic of sustainability • Board to ensure progress on Plan Zero 40
Strategy	<ul style="list-style-type: none"> • Completed quantitative scenario analysis to assess organisational resilience • Aligned ESG workstreams and financial planning process to understand FY24 Sector priorities and actions in support of climate-related risks and opportunities • Defined financial implications of climate-related risks and opportunities and included mitigation steps in strategic planning • Included climate-related impacts in all material new business decisions and associated contract negotiations/KPIs 	<ul style="list-style-type: none"> • Align Plan Zero 40 and Climate strategy workstreams to create a Babcock climate transition plan aligned with TPT requirements
Risk management	<ul style="list-style-type: none"> • Risk management policy and climate-related risk registers updated to accommodate updated climate scenarios • Completed a review of climate related changes to working conditions for four sites with the most significant occupational risks • Assessment and report delivery for all of our critical suppliers' climate-related risks and associated impact on Babcock in Autumn 2022 	<ul style="list-style-type: none"> • Assess progression of climate-related risk registers and ongoing management • Complete physical inspection across all sites by end of 2024 • Climate risk to be scheduled annually for Risk Committee review • Embed sustainable procurement checkpoints, inclusive of climate-related onboarding requirements for new suppliers and sub-contractors
Metrics and targets	<ul style="list-style-type: none"> • We established baseline and submitted carbon reduction targets to the Science Based Targets initiative in April 2023 	<ul style="list-style-type: none"> • Progress against SBTi emissions reduction target of 4.2% year on year • Progress on Plan Zero 40 by scaling across the rest of the organisation by December 2023 • Delivery of energy efficiency and renewable energy projects

Scenario details	1.5°C warning	4°C warning
Economic Constraints	Moderate global population growth which levels off in the second half of the century. GDP growth in line with historical growth	
Policy Expectations	Global climate policies align with emissions to 1.5°C pathway	No further climate policy intervention
Physical Impacts	Reduced likelihood of severe climate related weather events	Likely increased severity of climate-related weather events





Climate-related risks and opportunities

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

1. Business interruption does not consider penalty costs from customers or clients that may be incurred because of down time following a physical hazard event

2. Time horizon of < 5 years and > 5 years considers the potential future impact of climate-related risks and opportunities in line with our five-year strategic planning process

Impact

 Insignificant
  Moderate
  Major
  Severe

Analysis Findings

Site disruptions due to physical risks are dominated by flooding at Bristol Ashton Vale and forest fires in Manitoba. The likelihood of extreme heat increases at other sites, but the disruption is not financially material. Although physical hazards represent a greater percentage of revenue in the 4°C scenario, we could experience greater overall growth in the 1.5°C scenario. Therefore, physical hazards could still result in high levels of lost revenue in both scenarios.

Labour cost changes drive the risk within Babcock's supply chain. Direct carbon costs also increase significantly as a result of government pressure on decarbonisation. Variations in other costs are seen to be less significant up to 2050.

Cost increases could be greater in the 1.5°C scenario because of larger labour and carbon cost increases as well as greater growth overall. Supply chain disruption because of the transition to a Net Zero economy is therefore considered a significant risk.

Dockyard disruption due to coastal flooding has not been identified as a significant physical risk in terms of business interruption or value at risk. However, the scope of this desktop assessment does not consider all aspects of dockyard construction and further on-site analysis for key sites is recommended. Similar to the dynamics of People Welfare, sea level rise is greater in the 4°C scenario. However, potential greater demand for services in the 1.5°C scenario could result in higher levels of lost revenue from a coastal inundation event. Therefore, in both scenarios coastal inundation could cause similar levels of financial impact.

Demand for LGE's services in the 4°C scenario could see strong growth but significant reduction in the demand for gas in the 1.5°C scenario could result in reduced revenue. Demand for civil nuclear could fall in the 4°C scenario and grow in 1.5°C because of changes to the competitiveness of nuclear power. The transition to low carbon fuels in the 1.5°C scenario may limit the global demand for gas, potentially reducing demand for LGE's services. Higher carbon taxes may also impact the competitiveness of nuclear power, increasing demand for civil nuclear services. In 2050, the combined impact of these changes in demand results in a significant difference between scenarios. Under both scenarios the air transport sector may grow, albeit at different rates. Falling carbon intensity of the air transport sector occurs under both scenarios with the greatest decarbonisation in the 1.5°C. Failure to decarbonise in line with the increased rate and extent of decarbonisation within the aviation sector in the 1.5°C scenario could result in greater lost market share when compared with the 4°C scenario.

In Africa, electricity generating technologies may vary between the 1.5°C and 4°C scenarios. Babcock's established support services with steam-based energy generators is seen to be constrained in the 1.5°C scenario. The potential shift from thermal electrical generation to renewables in the 1.5°C scenario may result in reduced revenues for Babcock's South Africa engineering services when compared with the 4°C scenario.

Under both scenarios the water transport sector may grow. However, growth will be greater under a 4°C scenario. Nonetheless, decarbonisation occurs under both scenarios with greater decarbonisation in the 1.5°C. Failure to decarbonise in line with the increased rate and extent of decarbonisation across the economy in the 1.5°C scenario could result in greater lost market share when compared with the 4°C scenario.

The Devonport site experiences significant cost increases under a 1.5°C due to the impact of direct carbon prices. Energy and gas costs would increase, most notably following the expiry of the Energy from Waste contract in 2040 and a switch to the market mix.

The introduction and increase in carbon taxes in the 1.5°C scenario could result in higher costs to Babcock when compared with the 4°C scenario.

Control Measures

At our three sites exposed to extreme heat risk, occupational health assessments have identified those working in higher risk scenarios such as field service mechanics and confined space maintenance operatives. Training, hazard notices, and health guidance are installed at these sites to recognise early signs of temperature related health conditions, such as heat stroke. These sites comply with and adhere to climate-related, public instruction and guidance, with Bristol currently reviewing local instruction for flooding through business continuity planning process.

To manage climate change risks, our future supplier selection criteria will assess carbon footprint and the profundity of transparent carbon reduction plans, conduct annual supply chain mapping to identify vulnerabilities, collaborate with suppliers and perform regular risk assessments through due diligence, performance management and audits. These measures will enable us to proactively manage climate change risks and contribute to our sustainability goals.

Natural external hazards assessments at our sites consider the impact of low probability risks, such as extreme weather events. Devonport mandates these assessments onsite as part of our requirement to ensure full through life management of our nuclear facilities and to meet established nuclear safety standards, subject to both Defence and Civil Nuclear regulation. To then appraise the best environmental options for infrastructure designs, Devonport works with industry leads, our customers, and local authority to conduct DREAM assessments and BAT reviews where applicable.

We aim to continue to develop our ammonia fuel gas supply system, as well as solutions for the transportation and storage of CO₂ in line with customer and legislative requirements. This will ensure that we are optimising efficiency while developing zero-carbon solutions and increasing business resilience against carbon pricing and its potential result of falling LNG demand.

Investment and regulatory compliance within new sustainable fuel and platform contracts, such as Project MONET, currently mobilised to investigate synthetic fuel application within Defence, specifically light aircraft for elementary flight training. Babcock Aviation is also continuing to work with industry leaders such as Vertical Aerospace, to look at the applications of eVTOL aircraft within our current and future capabilities.

We currently undertake emissions abatement projects such as an enhancement strategy to maximise all opportunities within NOx, SOx and PM, and are working with technological partners to identify further abatement projects where we can support. Possible further opportunities are now being assessed eg conversion of Fossil Fuel boilers to 'Clean Coal Technologies' over the next 10–20 years, re-purposing of current coal fired stations, and the next steps to evaluate the nuclear energy market regarding our entry levels and required qualifications.

Through projects such as CMDC Neptune, Babcock Marine is building our market awareness of new marine-based technologies available. Our newly formed Clean Maritime SME group is the knowledge focal point in marine engineering for new green technologies and low-emission fuels. The combination of our high-level engineering skill, with LGE and the Nuclear expertise provides Babcock the opportunity of being at the forefront on the green technology race with potential capitalisation in IP and skills.

Commitments across Nuclear to Plan Zero 40 this year has allowed this sector to reduce our risk probability ranking from very likely to possible.

Social

► Ensuring the safety and wellbeing of our people

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

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

Governance and engagement

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

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



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



Performance and Improvements

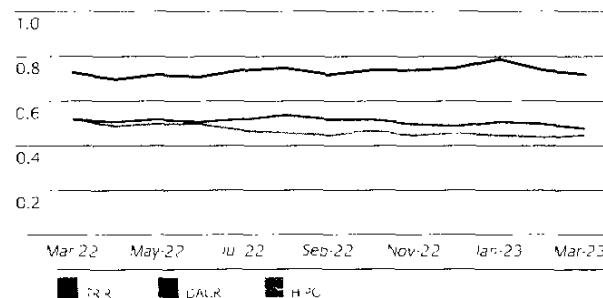
We have implemented consistent investigation training across Babcock using TOPSET methodology to improve our ability to identify the root causes of issues and build as a learning organisation. Identifying and addressing a number of the underlying and root causes has led to a reduction in serious accidents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

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

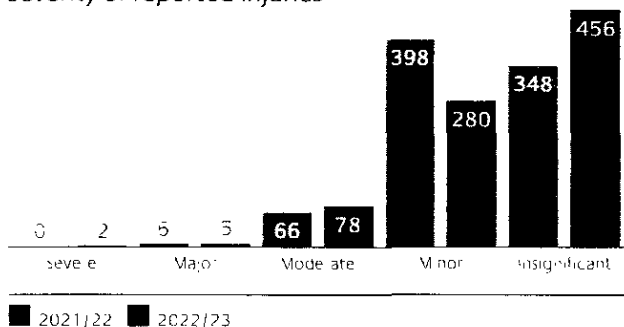
The Total Recordable Injury Rate (TRIR) relates to injuries that required medical treatment beyond first aid and whilst we saw a significant reduction from 2021, the rate overall has remained broadly static across the year; whereas we have seen a decrease in our Days Away Case Rate (DACR) and High Potential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

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

TRIR, DACR and HIPO Rates



Severity of reported injuries



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

Deepening inclusion, increasing diversity

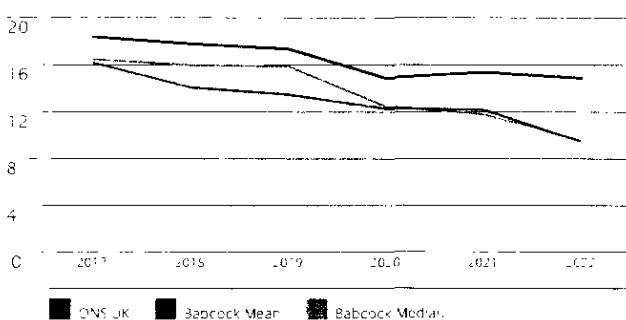
At Babcock we are guided by our Purpose: creating a safe and secure world together — and a clear set of Principles that are central to everything we do. We are committed to creating and maintaining a working environment that is inclusive, diverse and supportive, which provides opportunities for all our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

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

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

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

Gender pay gap (2017–2022)



FY23 Gender split

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

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

Agile, effective and inclusive

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

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

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

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

Developing and evolving in 2023 and beyond

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

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

ESG strategy (continued)

Gender balance Action Plan

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

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

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

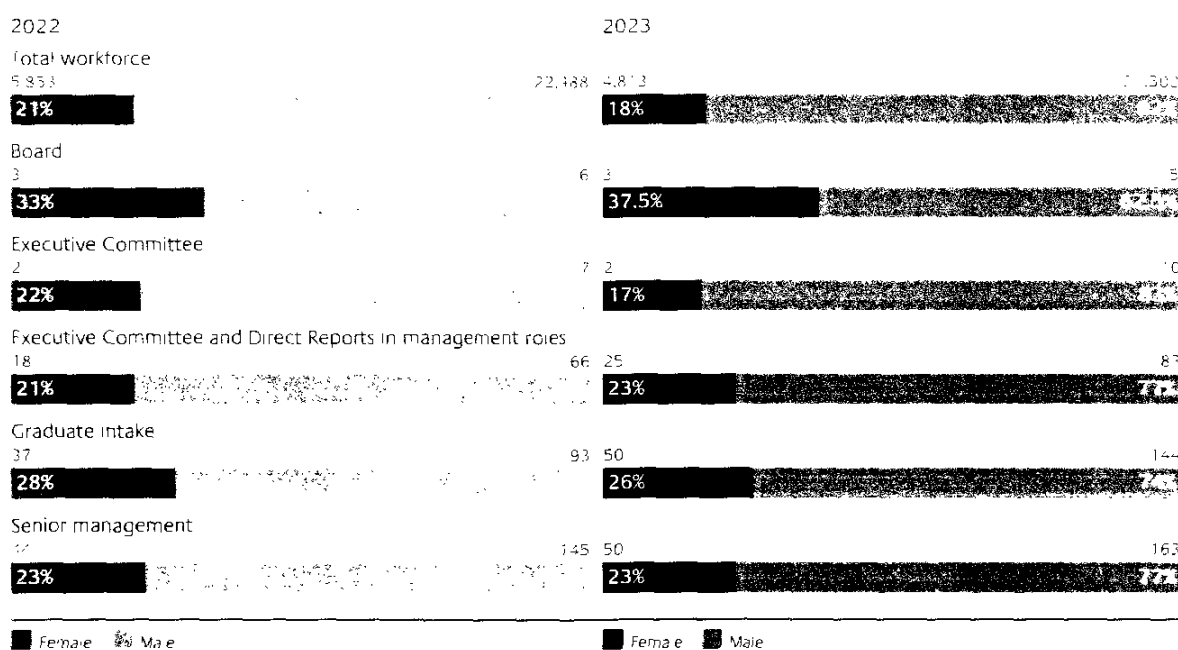
Driving business-led change, creating success

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

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

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

Gender diversity



1. Our total workforce is 26,480 which includes 21,302 men, 4,813 women, 10 individuals identifying as non-binary, 290 who 'did not specify' and 65 who chose 'prefer not to say'.
2. Executive Committee total is 12. This figure excludes Executive Committee members on the Board.
3. Executive Committee and direct reports in management roles total is 108. This excludes Executive Committee members on the Board.
4. Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing and controlling the activities of the group (Executive Committee) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (Business leadership).
5. Senior management role total is 213.
6. Graduate intake is 194 (154 UK, 40 Australia).

Broadening our inclusion strategy

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

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

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

Bringing it back to the business

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

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

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

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

About Me campaign

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

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

The campaign had a total disclosure rate of 21% and our disability figure increased to 10%. The data also indicated that we have 456 disabled people working in the business and 1,456 with caring responsibilities.

Building a Babcock for the future

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

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

1. Enabling employees to fulfil their potential within Babcock

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

2. Growing new talent pipeline for the long term

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

3. Attracting the best female talent

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

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

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

Our Global People Survey

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

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

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

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

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

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

Making a positive impact on the communities in which we operate

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

Oxford Economics assessment

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

Oxford Economics Impact Assessment
Published in November 2022

Scan here to find out
more about the Oxford
Economics report



THE CONTRIBUTION OF BABCOCK TO THE UK ECONOMY

ECONOMIC IMPACT

 **£3.3bn**
Total UK GDP contribution

£3.3bn
£1.1bn
£2.2bn

 **56,800**
Total UK jobs supported

56,800
21,600
35,200

 **£770m**
Total UK tax revenues

£770m
£230m
£540m

BUSINESS AREA ECONOMIC IMPACT

Naval engineering, support
and systems

£2bn contribution to GDP
35,200 jobs supported



Critical services: defence
and civil

£1.3bn contribution to GDP
21,600 jobs supported





IMPACT IN SOUTH WEST ENGLAND AND SCOTLAND

Scotland
£370m total
contribution to GDP
6,300 jobs supported

South West England
£1.1bn total
contribution to GDP
19,400 jobs supported

SOCIO-ECONOMIC IMPACT

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

 **30,000** students
engaged through STEM
outreach activities.

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



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



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

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

Indigenous peoples

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

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

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

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

In Australia, we partner with Supply Nation to expand our supply chain to include Aboriginal and Torres Strait Islander owned businesses across the region. In New Zealand, we work within the Amotai Initiative, to expand our supply chain and commitment to Māori and Pasifika owned businesses in New Zealand.

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

Volunteering

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

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

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

- Carrying out renovations at Bokantsho Primary School in Viljoensdrift, Free State, South Africa
- Volunteering at Goatacre Animal Sanctuary, UK

- Supporting native tree planting in New Zealand
- Helping Bude Surf Veterans charity deliver surf experiences to Blesma, The Limbless Veterans in the UK
- Volunteering at Foodbank South Australia & Central Australia in Pooraka to help sort through donated fruit and vegetables

Charities

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

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

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

STEM

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

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

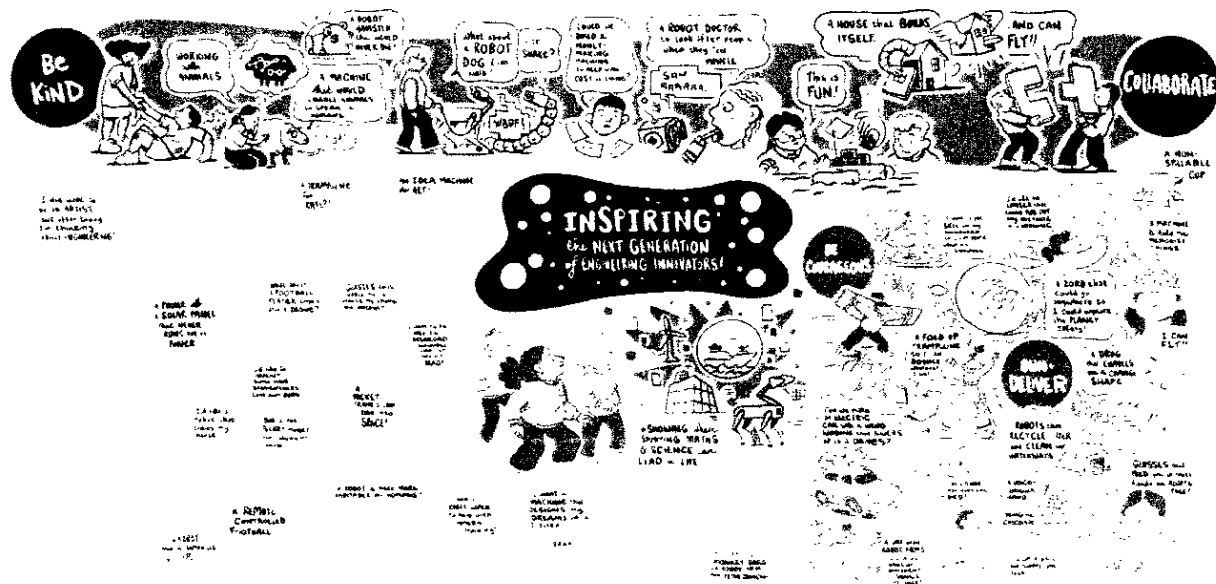
The team delivered several events and activities including working with secondary schools to deliver 'Babcock's STEM In a Box of Fun' which provides schools with a STEM resource that they could teach pupils without the need of a STEM ambassador being present. The Team also supported students with mock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

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

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

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

24th May 2023



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Talent and development

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

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

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

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

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

Leadership

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

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

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

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

Early careers

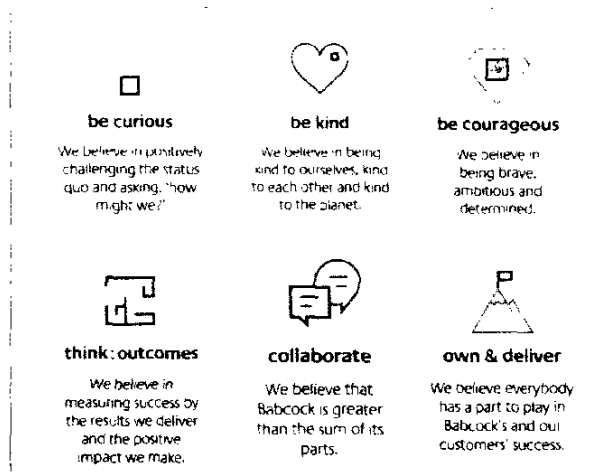
Our early careers programme continued to grow through 2022 with 1,509 apprentices and graduates currently on programmes across the Group. We also expanded our apprenticeship offer and introduced our first L2 Industrial Coatings Apprenticeship in Devonport along with piloting our first ever T-Levels in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

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

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

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

Our Principles



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

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



Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. It is the right and proper way to behave, ensuring we uphold high ethical standards across the Group. It also supports our long-term success.

We understand our reputation and good name are amongst our greatest assets and could easily be lost by actual or suspected unprincipled behaviour. To support good governance and ethical behaviour across our Group, our actions and those of our employees, suppliers and partners are guided by a series of Group policies. These are reviewed periodically to ensure that they continue to meet current best practice principles and legislative needs. By establishing transparent policies and procedures we can reduce risk to our business and to our customers.

Code of Business Conduct and Ethics policy

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

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

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

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

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

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves.

To ensure that anyone with a concern is able to access advice and support, our independent whistleblowing hotline, EthicsPoint, (operated by NAVEX Global) allows for confidential and anonymous reporting and is available 24 hours a day, seven days a week, in all territories where we are based.

Diverse and robust supply chain

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

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

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

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

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

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

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

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

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

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

Sustainable sourcing

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

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

Scope 3 carbon emissions mapping

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

Working with SMEs

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

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

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

Payment to suppliers

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

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

Human rights

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

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

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

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

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

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

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

Modern slavery

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

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

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

Fair operating practices

As part of our supplier selection process, we conduct thorough assessments to ensure our suppliers are capable of meeting our financial, commercial, safety, governance, technical, health, and security requirements. We periodically review and revalidate these standards to ensure continued compliance throughout the supplier engagement lifecycle. In the UK, we use the Joint Supply Chain Accreditation Register due diligence tool, which is a shared industry-wide management system for defence contractors that collects pre-qualification and compliance information about individual suppliers across the UK supply chain.

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

Our commitment to ethical and responsible business practices is underpinned by our supplier's code of conduct. It serves as a fundamental component that provides a clear framework for our suppliers to align with Babcock's values, policies, and legal requirements. By ensuring that our supply chain operates with integrity and transparency, we are able to maintain a high standard of accountability and sustainability throughout our operations.

Cyber security

Babcock recognises the threat of cyber attack and the potential consequences including operational disruption, unlawful access or theft of information and resultant reputational damage. Babcock works hard to mitigate such risks and holds an Information Security Committee which meets quarterly to provide governance, direction and assurance that the Babcock security posture is appropriate and effective.

Babcock applies all required international and government security standards for secure installation and operation of information systems. Security operations are deployed to establish threats and to protectively monitor for risks to information, systems and networks.

Core IT services are certified to ISO27001 (Information Security) and ISO22301 (Business Continuity) standards as well as Cyber Essential Plus, a requirement for UK government working.

Babcock is a member of the joint UK Ministry of Defence and industry Defence Cyber Protection Partnership (DCPP) which seek to ensure the defence supply chain understand the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and the DCPP Executive committee.

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

Non-financial and sustainability information statement

Reporting on material yet non-financial measures is important in understanding the performance, opportunities and long-term sustainability of the Company and our ability to generate value for all our stakeholders. We disclose non-financial information in the ESG strategy report and throughout the Strategic report. We are committed to providing greater transparency about our policies, standards and governance approach through the global reporting frameworks and insight in the ESG strategy report.

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

* Available to employees through the Babcock intranet but not published externally.

** Available on the Babcock website and available to employees through the Babcock intranet.



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

Our principal risks and management controls

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

David Lockwood
Chief Executive Officer

Risk enhancement highlights in the year

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

Forging resilience and strengthening risk control

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

FY22/23 saw material investment in Enterprise Risk Management (ERM) capability within the Group through the recruitment of specialist ERM professionals, both at Director and Head of Department levels. There has also been robust resilience building around operational risk management for resource capability, particularly in the areas of project management, procurement, supply chain and commercial. Effective risk management starts with the right conversations to enable us to deliver better risk-based decision-making. Our risk management framework considers management of risk in the round, top-down and bottom-up correlated through a series of risk conversations with the members of the Group Executive Committee and critical risk influencers.

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

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

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

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

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

Our Risk Management framework

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

The Board sets the Group's strategy (Page 6). To help deliver this strategy, the Board has in place procedures for identifying, evaluating, and managing the risks inherent in our strategy, alongside the emerging risk landscape. As part of those procedures, the Board reviews and approves the Group's Corporate Risk Register on a bi-annual basis to ensure alignment with the Group's strategy. It makes this determination using a risk-rating matrix, which assesses the probability and the impact of each risk occurring. The Board makes this assessment after taking into consideration the controls and mitigations that the Group has in place.

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

Principal risks and management controls (continued)

Likelihood	Very likely (more than 90% chance)	Impact	Severe
	Likely (60–90% chance)		Major
	Possible (30–60% chance)		Moderate
	Unlikely (10–30% chance)		Minor
	Very unlikely (less than 10% chance)		Insignificant

Group Risk engages with Sectors quarterly, providing guidance to the sectors and ensuring a common approach as to how to measure probability and impact. We have included the current rating for each principal risk alongside its description (page 92).

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

Our Internal Control Environment

In FY23, the Group has continued to make progress in its internal control environment which aims to protect the Group's assets and to check the reliability and integrity of the Group's information, thereby providing assurance that the Group appropriately manages the risks in our business model and the delivery of our strategy. Internally published policies set the framework for the Group's internal controls. These policies cover a range of matters intended to mitigate risk, such as health and safety, project management, information security, trade controls, contracting requirements and accounting policies.

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

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

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

Our Risk Assurance

We use the three lines of defence model to assure ourselves about the management of the risks that we face. The first line of defence is management control, policies and procedures, together with management oversight. The second line is internal assurance activities including group risk management and compliance teams who deliver functional oversight. The third line is independent assurance activities, such as internal audits.

Risk Management and Internal Control Annual Review

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

Risk Committee

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

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

A 'black swan' event refers to an unforeseen and unlikely occurrence that typically has extreme consequences. A 'grey rhino' is a slowly emerging highly probable and high impact threat that is ignored.

Risk Appetite

Low – Avoidance of risk and uncertainty with low appetite for risk that is likely to have adverse consequences and aim to eliminate or substantially reduce such risks.

Medium – A degree of risk is tolerated with some appetite for risk and a balance of mitigation effects with a view of the potential rewards and opportunities.

High – Open to opportunities that may result in a higher residual risk where we have the capability and capacity to manage that risk.

Forward Looking Risk Priorities – FY24

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

Our risk management framework and our internal control environment

External audit

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

► Please see page 159 for the independent auditor's report

Internal audit

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

► For more information, please see page 129

Board

Overall responsibility for the Group's strategy and risk management

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

Reviews and approves the Group's risk register

Reviews the Group's financial reports, including annual budget and five-year plan, to monitor financial performance and identify potential issues/emerging risks

Audit Committee

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

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

Approves the annual audit plan for the external and internal audits

Group Executive Committee

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

Committee members sponsor and own the principal risks

Group Risk Committee

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

Sectors

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

Functions

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

Our risk assurance

First line of defence – management

We have written policies covering a range of matters to mitigate risk, such as health and safety, information security, contracting requirements and accounting policies. We underpin these policies with a comprehensive scheme of delegated authorities, which the Board annually reviews and approves. Twice a year, the sectors complete a letter of representation to provide confirmation of compliance with the Group's policies.

Management reports up from our business units through the sectors to the Board on operational and financial performance.

Second line of defence – internal assurance

The Board and the Group Executive Committee review the Group's financial and operational performance on a regular basis through the monthly reporting packs, which include monthly management accounts, and can compare that performance against the Group's budget, which the Board approves on an annual basis.

Group reviews the sector letters of representation to identify any control weaknesses.

Group functions and specific committees monitor certain risks, such as health and safety, finance, tax and treasury.

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

Third line of defence – independent assurance

The internal audit, which reports to the Audit Committee, provides assurance of the effectiveness of the Group's control environment.

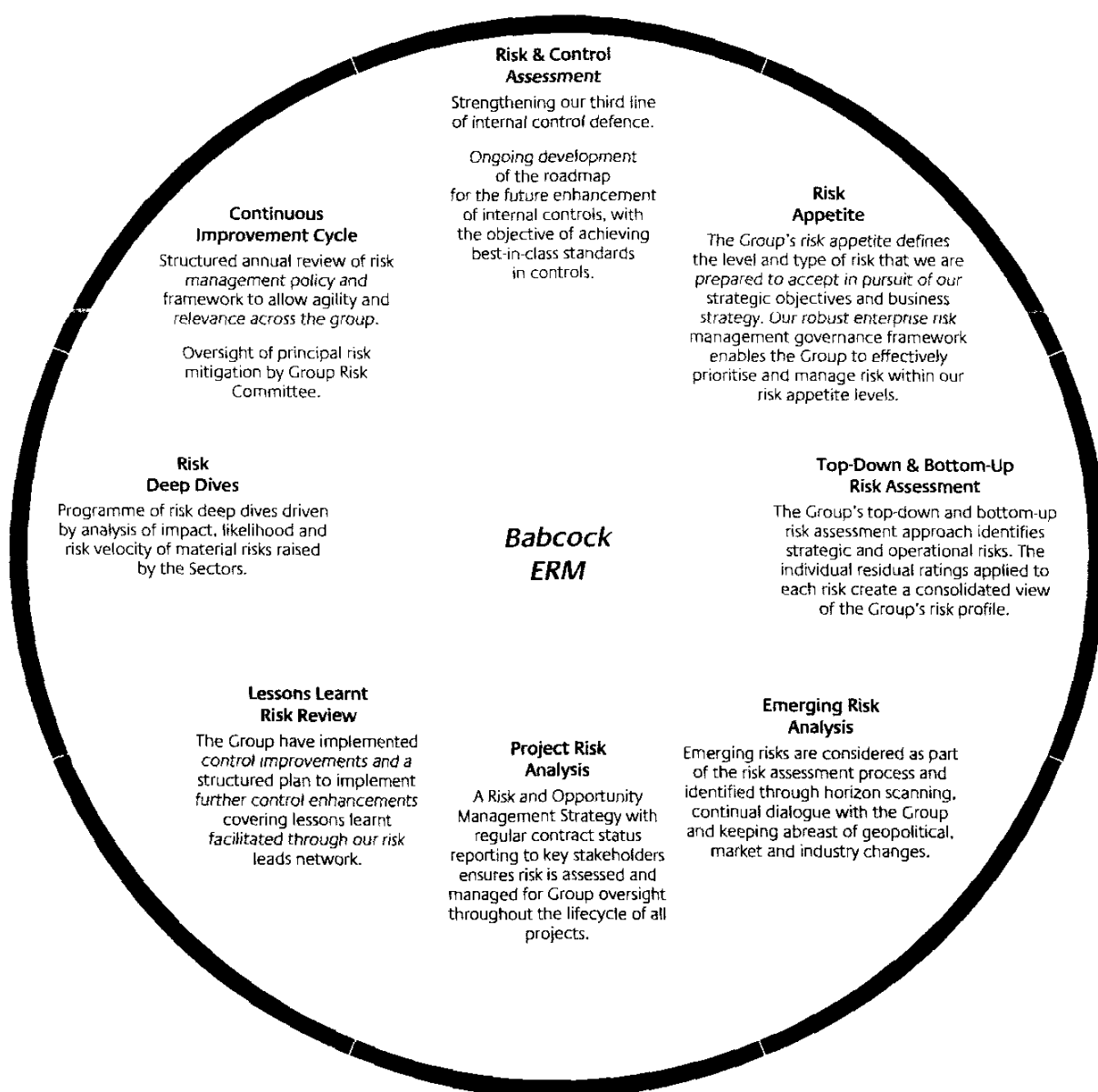
The Audit Committee agrees both the external and internal audit plans on an annual basis.

A number of external regulators and other bodies, such as national civil aviation authorities, the UK Office of Nuclear Regulation and the International Office for Standardisation, regularly inspect parts of the Group.

All employees have access to a whistleblowing line to allow them to report any concerns that they may have. The Board receives all the reports to the line along with an explanation of how the Group is investigating them and the outcome of the investigation.

Babcock (ERM) Enterprise Risk Management

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



Our principal and emerging risks

The risk management framework is described above. Using this framework, the Board has identified on pages 93 to 103 the risks that it currently believes to be of greatest significance to the Group as they have the potential to undermine our ability to achieve our strategic goals and have a detrimental effect on our financial performance.

As part of the Group's ongoing risk analysis, four emerging risks have been identified.

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

Inflation – Continuing risk

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

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

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

Principal risks and management controls (continued)

Changes to the Principal Risks and Uncertainties

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

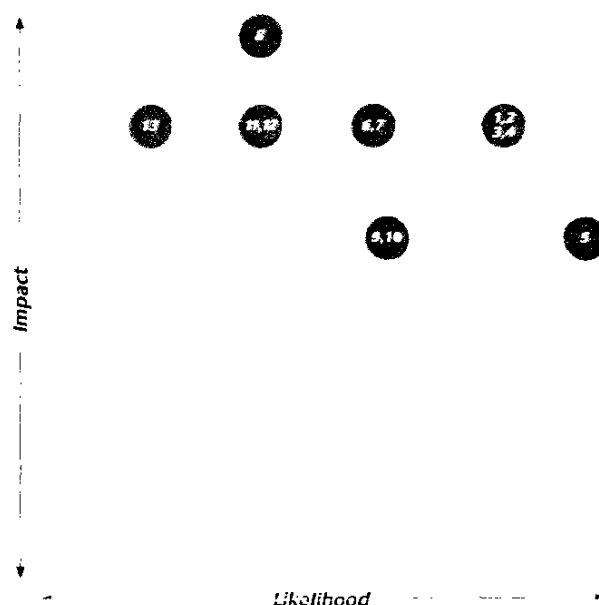
New Principal Risk	Reason for change
Climate & Sustainability	Climate and sustainability risks could cause a material impact on the Group's business, and to the delivery of its strategy or financial results.
Supply Chain Management	Heightened macroeconomic influences and increasing potential for disruption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

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

Babcock operates in a complex global environment and is exposed to a wide range of risks that may undermine our ability to execute our strategy.

Our risk management is an evolving and dynamic process; therefore, the Group might identify new risks or better understand the significance of existing risks or identify a change in a risk. This means that the risks identified on pages 93 to 103 are not and cannot be an exhaustive list of all principal risks that could affect the Group. The principal risks are not listed in any order of priority.

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



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

Key

↑ Escalated ↓ De-escalated ↔ No movement N New

Principal risks, their impact and mitigation

Contract and project performance

Likelihood **4** Impact **4** 

We execute large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices.

Risk Appetite: **Medium**

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

Potential impact

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

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

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

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

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

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

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

Mitigation

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

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

Existing and new markets

Likelihood **4** ↔ Impact **4** ↔

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

Risk Appetite: **Medium**

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

Potential impact

Major customers, particularly those with government backing, have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As governments own or fund many of our major customers, political and public spending decisions may have a significant impact on our contracts and pipeline. For example, the UK Government's national security and international policy objectives control the budget of the MOD.

Whilst changes in customer policy or budgets can potentially offer more opportunities, they can also present risks in terms of spending which may include:

- Reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities.
- In the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour.
- Favouring the retention of, or return to, in-house service provision, either generally or in the sectors in which we operate.
- Favouring small or medium-sized suppliers or adopting a more transactional rather than a cooperative, partnering approach to customer/supplier relationships.
- Favouring overseas suppliers potentially subject to lower production costs and state subsidies.
- Imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with, or that might involve significant extra costs, thereby affecting the profitability of doing business with them.

All defence contracts of this nature have regulations covering contract terms and pricing, in the UK a number of our contracts with the MOD are subject to the Single Source Contract Regulations (SSCR), which the Single Source Regulations Office (SSRO) administers. The SSRO sets the baseline profit rate for single source contracts let by the MOD on an annual basis. These regulations and their implementation are subject to review by the UK Government, which could lead to lower returns for industry.

We may face challenges in securing contracts in new markets for a number of reasons. These reasons may include a failure to anticipate future market requirements, failure to align approaches with customer expectations and a preference for, or state funding of, domestic suppliers. The delivery of contracts may be further challenged by commercial, legal and licensing issues which have the potential to impact operations, recruiting, etc.

Factors which may affect existing and new markets equally, some of which have been evident in recent years, include:

- Unforeseen regional or global economic developments.
- International conflict and subsequent impacts on global economy, trade and military requirements.
- Changes in government.

Mitigation

Our focus on the aerospace, defence and security markets, together with our geographical spread, provides a degree of portfolio diversification. We are in ongoing dialogue with our key customers in order to understand their requirements, objectives and constraints, so that we can remain as aligned with them as possible. We monitor expenditure changes in our markets in order to allow us to make the appropriate adjustments. In the UK we maintain a public listing, as we believe it is an important factor in winning contracts and retaining our business position, particularly with government customers.

We have a clear business strategy to target a large bid pipeline, both in the UK and internationally. We bid for contracts we consider have an alignment with the Group strategy and where we believe we stand a realistic chance of success due to, for example, customer understanding, domain knowledge or technical expertise, both in the UK and overseas. As appropriate, we aim to invest in innovation and people to prepare for new ways of working or delivering our services.

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

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

IT and security

Likelihood **4** ↔ Impact **4** ↔

A key factor for our customers is our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information.

Risk Appetite: **Low**

IT and Cyber Security are fundamental components to Babcock's operations, we continually review the emergence of cyber threats, in an effort to eradicate and mitigate the risk as far as possible.

Potential impact

We hold data that is confidential and needs protection, in an environment of increasing cyber threat. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security breaches or cyber-attacks being successful in their attempts to penetrate our network security and misappropriate confidential information or otherwise cause harm to the Group, for example through denial of service. The Group may be seen as a target for attack by 'state actors' from overseas countries because of the nature of the Group's activities for its government customers. In addition, failure to invest in our IT infrastructure, for example in legacy systems, may create a weakness that may lead to a breach. The risk of loss of information or data by other means (such as physical loss) is also a risk that we cannot entirely eliminate. A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations. Significant data breaches or losses could lead to litigation and fines for breach of applicable regulations such as data protection laws. This could have an adverse effect on the Group's operations and its ability to win future contracts, which may affect our overall financial condition.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally. We seek to assure our data security through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. We have formal security and information-assurance governance structures in place to oversee and manage cyber security and similar risks. We conduct comprehensive internal and external testing of potential vulnerabilities. To maintain organisational awareness around cyber security, we provide cyber security education to our staff. The Group maintains business continuity plans that cover a range of scenarios (including loss of access to IT). We regularly test the plans that relate to IT.

Pensions

Likelihood **4**  Impact **4** 

The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members.

Risk Appetite: **Low**

Babcock utilise engagement with the Pensions schemes trustees and a balanced pension management approach that looks to mitigate and reduce the risks associated with pensions over the journey to settling the pension obligations.

Potential impact

Member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time have to meet the cost of the defined benefit obligations.

Various assumptions underpin the level of our contributions. These assumptions are subject to change, such as life expectancy of members, gilt yields, investment returns, inflation, and regulatory changes. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes' assets below the calculated cost of the pension obligations. For example, pension liabilities can increase due to rising life expectancy, higher-than-expected inflation rates in the future and lower interest rates.

If the pension trustees believe that the assets in the pension schemes are insufficient to meet pension liabilities or if our balance sheet strength does not meet the pension trustees' expectations, they may require us to make increased contributions and/or lump sum cash payments into the schemes or provide additional security from the Group. The toughening stance of the UK Pensions Regulator may influence our pension trustees' perspectives. Increased contributions or lump sum cash payments may reduce the cash available to meet our other obligations or business needs and may restrict our future growth.

Accounting standard rules governing the measurement of pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macroeconomic circumstances beyond the control of the Company. Companies, including Babcock, do not calculate actuarial valuations used for funding on the same basis as IFRS accounting standards. This means the future cash contributions are difficult to derive from the Group's IFRS balance sheet.

When accounting for our defined benefit schemes, we have to use corporate bond-related discount rates to value the pension liabilities. Variations in bond yields and inflationary expectations can materially affect the pensions charge in our income statement from year to year as well as the value of the net difference between the pension assets and liabilities shown on our balance sheet.

There is a risk that future accounting, regulatory and legislative changes may also adversely impact pension valuations, both accounting and funding, and, hence, costs and cash for the Group.

Mitigation

Group senior management undertakes continuous strategic monitoring and evaluation of the assets and liabilities of the pension scheme. Management aims to increase its engagement with the scheme trustee chairs and with the UK Pensions Regulator.

The pension scheme mitigates the risk of liability increases by having investment strategies that hedge against interest rate and inflation risk and using longevity swaps to limit exposure to increasing life expectancy. Trustees use professional advisors to assist in the hedging of risks.

Supply chain management

Likelihood **5** ↔ Impact **3** ↔

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

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

Risk Appetite: **Low**

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

Potential impact

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

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

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

Mitigation

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

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

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

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

Operational resilience

Likelihood **3** ↔ Impact **4** ↔

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

Risk Appetite: **Low**

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

Potential impact

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

Mitigation

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

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

Financial resilience

Likelihood **3** ↔ Impact **4** ↔

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks).

Risk Appetite: **Low**

Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and actively manages this risk via its capital allocation policy, substantial committed debt facilities and maintaining an investment grade credit rating allowing access to debt capital markets. However, this risk cannot be entirely eliminated and will always require management.

Potential impact

A lack of financial resilience may hinder us in raising debt funding to invest in existing or future business. The weakness also may cause our existing banks to increase the cost of our funding. If our debt is denominated in a currency other than Sterling, movements in exchange rates may make that debt more costly when we repay it.

Customers and/or suppliers may question our long-term sustainability if we have a weak balance sheet. This may tighten the terms of business on which they are prepared to contract with us or, in the extreme, cause them to not award work to Babcock due to their perception of risk.

Credit rating agencies may downgrade our rating, which could increase our cost of borrowing.

The lack of financial resilience may trigger certain pension scheme financial thresholds, requiring us to allocate further resource to the schemes.

We could face capital allocation constraints and consequently have reduced capital to invest in the business to meet all our obligations or to pay a dividend.

In addition, if companies working in the defence or nuclear sectors were deemed to be not suitable for investment by certain investment funds (eg due to extremely strict ESG policies) the cost and/or availability of capital to the Group could be adversely affected.

Mitigation

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

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

We are proactive in our dealings with credit rating agencies and lenders. The Board reviews the financial position of the Group on a monthly basis against the Board-approved three-year plan.

The Group has a very proactive ESG agenda and regularly communicates Group activities to assist in more informed investment decisions by providers of capital.

Health and safety

Likelihood **2** ↔ Impact **5** ↔

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

Risk Appetite: **Low**

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

Potential impact

Many parts of our business involve employees and contractors working in potentially hazardous environments, including work with hazardous materials, high energy systems and in challenging locations. Furthermore, many of the activities that we undertake are in high hazard industries with inherent risk of harm, such as aerial emergency services and heavy industrial production including shipbuilding. The risks associated with our activities and working environments can cause harm to our people and those affected by our operations; we work to minimise the risk exposure to as low as reasonably practicable. Similarly, the end user of our products and services could be harmed when using our products so we introduce mitigations in design, manufacture, and maintenance to ensure our products are both fit for purpose and safe.

We have moral, regulatory and legal obligations to prevent harm, and there could be significant impacts if we fail to reach the standards and mandated requirements to adequately mitigate against health and safety risks. Accidents and debilitating health conditions can have major, long-term impacts on the lives of those directly affected and on their families, friends, colleagues and community. We may face criminal and civil prosecution, which could result in substantial penalties and fines (some of which are uninsurable); and there may also be serious damage to our reputation with both the public and with our customers (whether justifiable or not). We could be prevented from operating due to employees being unavailable for work, investigations being conducted, or if regulatory approval and certification is withdrawn; potentially leading to contractual penalties due to loss of productivity or inability to deliver the contract, which could lead to a loss of business or future opportunities.

These impacts could occur if we cause or contribute to an incident due to a failing on our part, or it is found that we have failed to meet the required standards in place to mitigate these risks. These could be caused by failing to prevent critical equipment failure; inadequate information, poor training and supervision; or the inadequate management of change and learning from previous accidents.

Mitigation

Harm to individuals may arise from failure of processes, tools or people and many situations have elements of all of these, so our mitigations strive to work across these areas to reduce the probability of occurrence and the severity of the impact. Health and safety is our priority with a low tolerance for risk of harm. It has oversight by the Babcock Board and Executive Committee through monthly monitoring of leading and lagging performance indicators. The function is centrally led, with teams in each sector and country working under the direction of the Group Director and the Corporate Safety Leadership Team to support operations to implement improvements in safety performance. Induction and task specific training builds competency of personnel, whilst our communications and safety behaviours programmes are developing an engaged safety culture of openness and fairness. Our global management system enables reporting and investigation of all events and near misses to identify and address causes and share lessons, whilst the development of standardised processes and ways of working provide consistency and quality across the Group. These mitigations are integral to our management systems, which are delivered and certified to international standards, and assured through a programme of internal and external assurance activities. These mitigations enable everyone to go Home Safe Every Day.

Climate and sustainability

Likelihood **3** ↔ Impact **3** ↔

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

Risk Appetite: **Low**

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

Potential impact

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

Additionally, if we were to cause contamination or pollution due to failings in respect of air emissions, wastewater discharges, or the use, handling and storage of hazardous materials and waste, this could result in environmental damage and have contractual consequences. Within each of our international entities, Babcock is regulated by, and adheres to, increasing levels of national and international climate-related legislation, as well as strict disclosure requirements pertaining to key sustainability themes such as environmental protection, employee safety, community engagement, commercial integrity, and responsible procurement.

Our Executive Risk Committee and Management teams recognise the possibility of supply chain disruption and facilities disturbance due to climate-change under certain scenarios. As global demand of energy and fuel services changes into 2030 and 2040, it is clear that there may be costs associated with mitigating transition risks, in order to remain competitive within current markets. If global GHG emissions, temperature, and consumption of natural resources are not stabilised, this could impact delivery of our strategy in the longer term.

Mitigation

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

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

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

Plan Zero 40 is our chief mitigation mechanism to combat transition risk and will be scaled across the organisation, along with physical inspections across all critical Babcock sites by the end of 2024. We recognise the technological improvements required to transition towards a Net Zero economy for our products and services. Our workforce is protected by the required insurance and standards, and it will continue to be fundamental for us to provide a safe environment for all Babcock employees and future generations.

Technological disruption

Likelihood **3** ↔ Impact **3** ↔

We have identified three main attributes to potential technological disruption that potentially affects Babcock. The digital change agenda both within our customers and internal to Babcock, our approach to data management and finally the disruption of new technology offerings.

Risk Appetite: Low

Given the materially adverse nature of digital and data risks, Babcock look to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set at low. Exploiting new technology in an appropriate manner can open new markets. However, Babcock does survey the market for new technology to develop into new opportunities. These are assessed for benefit individually and if deemed of interest, integrated into our research and development programme and managed with project management.

Potential impact

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

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

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

Mitigation

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

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

Talent management, retention and upskilling

Likelihood **2** ↔ Impact **4** ↔

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

Risk Appetite: Medium

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

Potential impact

Our business delivery and future growth depend on our ability to recruit, develop and retain experienced, highly skilled employees (including suitably qualified and experienced engineers, technicians, and staff from other specialist skill groups). This is compounded by ongoing change in the skills and experience required, as technologies and capabilities develop. Competition for the people we need is high and is likely to remain so for the future. This may be exacerbated by nationality and regulatory restrictions, which may prevent us from accessing talent from the EU or worldwide. This poses risks in both recruiting and retaining such staff. If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation and the risk of contract claims. The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions including inflation. This could affect our contract profitability.

Mitigation

We have a People Strategy, which will be delivered through our People Programme, led by the Group's Chief Human Resources Officer. This Programme is informed by workforce planning and includes the upskilling of our workforce to meet future requirements; enhancing our ability to attract talent; engagement and reward strategies to improve retention; and building better career development opportunities for our employees.

Regulatory and compliance

Likelihood **2** Impact **4** 

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

Risk Appetite: **Low**

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

Potential impact

The laws and regulations that we are subject to include anti-bribery laws, import and export controls, tax, procurement rules, human rights laws and data protection regulations. Failure to maintain compliance with applicable requirements could result in fines and criminal prosecution; the removal of a licence to operate; reputational damage; cost of rectification; debarment from bidding; loss of access to markets; and the loss of substantial business streams (and possible damages claims) and opportunities for future business. If an applicable law or regulation changes, it may cause us substantial expenditure in order to comply, which may not be recoverable (either fully or at all) under customer contracts. Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all. For example, our Aviation business is subject to a high degree of regulation relating to aircraft airworthiness and certification, as well as regulations relating to ownership and control. Given the nature of our customers and the markets in which we operate, as well as the services that we provide, we believe that our reputation, not only in terms of delivery but also in terms of behaviour, is a fundamental business asset. Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally.

Mitigation

We maintain internal policies and procedures in order to ensure the Group complies with all applicable laws and regulations. We also have suitably qualified and experienced employees and expert external advisors to assist on regulatory compliance. Our management systems comprise of competent personnel with clear accountabilities for operational regulatory compliance.

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our Code of Conduct, together with our Ethics policy, sets out the clear expectations that we have of our employees. We seek to reinforce these values with all employees through a number of different processes, for example our training. We encourage all our employees to use our whistleblowing reporting lines if they see evidence of behaviour which is not in keeping with our values. The Board monitors and reviews all reports and their investigations.

Acquisitions and disposals

Likelihood **1** Impact **4** 

We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming and expensive. If we believe that a business is not 'core', we may decide to sell that business.

Risk Appetite: **Medium**

Babcock will continue to review potential opportunities within the market in a considered and measured way, M&A activity continues to be inherently high risk, future M&A activity will be undertaken only where it is possible to reduce inherent risk to its lowest level balanced against potential rewards and opportunity

Potential impact

If we acquire companies, we may not realise the financial benefits of the acquisition as expected, due to poor integration or to acquisition business cases relying on market conditions or other business assumptions that subsequently do not materialise, challenging the logic of the acquisition decision. Those companies that we consider to be non-core, and therefore disposal candidates, may become distracted or demotivated or lose key employees, which may lead to poor performance whilst also undermining their value to their customers and a potential buyer.

Mitigation

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

Going concern and viability statement

Overview

The Directors have undertaken reviews of the business financial forecasts, in order to assess whether the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting.

The Directors have also looked further out to consider the viability of the business to test whether they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due.

For assessing going concern, the Board considered the 12 month period from the date of signing the Group's financial statements for the year ended 31 March 2023. For viability, the Board looked at a five-year view as this is the period over which the Group prepares its strategic plan forecasts.

The use of a five-year period provides a planning tool against which long term decisions can be made concerning strategic priorities, addressing the Group's stated net zero target and climate-related risks and opportunities, funding requirements (including commitments to Group pension schemes), returns made to shareholders, capital expenditure and resource planning.

The annually prepared budgets and forecasts are compiled using a bottom-up process, aggregating those from the individual business units into sector level budgets and forecasts. Those sector submissions and the consolidated Group budget and forecasts are then reviewed by the Board and used to monitor business performance.

The Board considered the budgets alongside the Group's available finances, strategy, business model, market outlook and principal risks. The process for identifying and managing the principal risks of the Group is set out in the Principal risks and management controls section on page 87. The Board also considered the mitigation measures being put in place and potential for further mitigation.

The Board considers that the long-term prospects of the Group underpin its conclusions on viability. As outlined in our strategy, business model and markets summaries on pages 6, 18 and 20 of this report, our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focussed on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY23 62% of Group sales were defence related and 38% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY23, 61% of sales were to defence and civil customers in the UK, and 39% were international;
- long-term visibility of sales and future sale prospects through an order backlog of £9.5 billion as at 31 March 2023, including incumbent positions on major defence programmes; and
- market positions underpinned by a highly skilled workforce, intellectual property assets and proprietary know-how, which are safeguarded and developed for the future by customer and Group-funded investment.

Available financing

As at 31 March 2023, net debt excluding operating leases was £346.2 million and the Group therefore had liquidity headroom of £1.6 billion, including net cash of £0.5 billion and undrawn facilities of £1.2 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and supports the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting. All of the Group's facilities mature during the viability period, and therefore in assessing liquidity in future periods we have assumed that it will be possible to re-finance the Group's facilities at current market rates.

As of July 2023, the Group's committed facilities and bonds totalling £1.9 billion were as follows:

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

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) of 3.5x (ii) and EBITDA to net interest (interest cover) of 4.0x. These are measured twice per year – on 30 September and 31 March.

The RCF lenders are fully committed to advance funds under the RCF to the Group, provided that the Group has satisfied the usual ongoing undertakings, and the creditworthiness of the Group's relationship banks is closely monitored. Based on their credit ratings we have no credit concerns with our relationship banks. Given the importance of the RCFs to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates.

Base case scenario

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

It also assumes that the impact of current inflationary pressures can be managed within contract estimates assumed in our planning. The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also maintains pension deficit contributions in excess of income statement charges of around £63 million relating to FY24 and around £63 million relating to FY25.

Reverse stress testing of the base case

To assess the level of headroom within the available facilities, a reverse stress test was performed to see what level of performance deterioration against the base case budgets and forecasts (in both EBITDA and net debt) was required to challenge covenant levels.

Of the remaining measurement points within the available facility period, the lowest required reduction in forecast EBITDA to hit the gearing covenant level was £115 million and the lowest net debt increase was 67%. The lowest required reduction in forecast EBITDA to hit the interest cover covenant was £174 million. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

Severe but plausible downside scenarios

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget and forecasts for the duration of the assessment period. These sensitivities include – separately – a reduction in bid pipeline closure (business winning), a deterioration in large programme performance across the Group (including further inflation cost increases, or related failures in supplier resilience, as per our principal risks), a deterioration in the Group's working capital position and a regulator imposed cessation in flying two of the largest aircraft fleets in the Group. All of these separate scenarios showed compliance with the financial covenants throughout the period.

As with any company or group, it would be possible, however unlikely, to model individual risks or combinations of risks that would threaten the financial viability of the Group. The Board has not sought to model events where it considers the likelihood of such events not to be plausible. In preparing a combined severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.90 profit and cash flow risks identified.

A simple aggregation of all of these risks is not considered plausible as the Group operates businesses and contracts which run largely independently of each other, albeit with a relatively small number of customers within each geography.

The majority of these identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). A small number are deemed 'non independent' eg inflation, FX etc. The Board decided to include in its combined SBP downside all the 'non independent' risks without reduction, but reduced the aggregation of the 'sector independent' risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period.

If such a severe downturn were to occur in the Group's performance, the Board would take mitigation measures to protect the Group in the short term. Such profit and cash mitigation measures that are deemed entirely within the control of the Group and identified as part of the sector budgeting exercise have been included in the SBP scenario (eg cancelling pay rises and bonus awards, curtailing uncommitted capital expenditure and operational spend including R&D and other investment).

Despite the severity of the above combined SBP scenario, the Group maintained a sufficient amount of headroom against the financial covenants within its borrowing facilities, and sufficient liquidity when compared against existing facilities.

Going concern assessment and viability conclusion

Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements.

As such, these financial statements have been prepared on the going concern basis. The Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

In concluding on the financial viability of the Group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2028.

Chair's introduction



Dear fellow Shareholder

This year has been our second year of transformation. The Board's governance focus has again been to oversee the implementation of the suite of changes and improvements initiated in response to the weaknesses identified in FY21 and to assure ourselves that the resulting control and oversight framework is robust. Key aspects covered in the year have been:

Strengthened Group-wide capabilities and processes

We have continued with the roll-out of our new Operating Model introduced in FY21, strengthening a number of key Group-wide functions and establishing common Group-wide processes. These underpin the management of some of the Group's key risks, for example, project and contract performance, and talent. During the year the Board has had presentations from the heads of procurement, project management, people, risk, treasury, and insurance and has reviewed the progress and status in enhancing our capability and performance in these areas.

Controls enhancement programme

The Board has received regular updates from the Audit Committee on the ongoing programme of controls enhancement. This follows on from the work last year to strengthen financial controls, in particular in Head Office, Aviation and Land sectors. This year, we have defined a new ambition for our control approach which is designed to meet the anticipated requirements of the revision of the UK's corporate reporting and audit regime. We have had the programme benchmarked for adequacy and effectiveness. Full implementation will be a multi-year programme but in FY23 we set out a workplan based on clear prioritisation and this has been delivered. Full details are available in the Audit Committee report on pages 125 and 127.

The Board considered the conclusion of the Financial Reporting Council's review of PwC's audit of Babcock's financial statements for FY17 and FY18, which it published on 8 March 2023.

The Audit Committee reviewed the Council's decision together with a detailed assessment of the findings to assure the Board that all the findings were addressed through a combination of the Contract Profitability and Balance Sheet review, our control enhancement programme, or in some instances the disposal of businesses as part of our portfolio rationalisation programme.

Board membership and effectiveness

Further progress has been made to strengthen the Board. This year we have welcomed Jane Moriarty who brings financial and accounting skills, an area identified as requiring enhancement, as well as extensive experience of diverse businesses from her restructuring work at KPMG. Since her executive career, she has held a number of Non-Executive roles including at NG Bailey Group Limited, an engineering and services business, and at Mitchells & Butler plc where she is the Senior Independent Director. Jane has joined both the Audit and Remuneration Committees, as well as the Nominations Committee.

Following the year end, we have concluded a search for a Board member with extensive Defence sector experience which was an area raised with us in some conversations with shareholders. We were pleased to welcome Sir Kevin Smith as a Non-Executive Director on 1 June. Sir Kevin spent over 20 years at BAe and was then the CEO of GKN for eight years. Since his executive career, Sir Kevin spent several years working with Unitas Capital, a private equity firm based in Hong Kong, and has been a Non-Executive Director at Rolls Royce prior to stepping down in May 2023. Sir Kevin joins the Audit Committee as well as the Nominations Committee.

Having conducted an external Board review process in both FY21 and FY22, this year we elected for an internal review which Carl-Peter Forster led in his role as Senior Independent Director. The review confirmed that all directors find the Board climate to be open and inclusive. Areas for ongoing attention were for the Board to continue our work on overseeing the control improvement programme, to continue to build out our strategy framework as we look beyond the focus on transformation, and to continue to develop our forward-looking agenda. For more information, please see page 120.

People and Culture

A key aspect of the overall transformation of Babcock is the shift to becoming a more people-focused organisation. During the year the Board has had a number of sessions with the Chief HR Officer and members of her team to review progress on the implementation of the first-ever Group-wide People Strategy, which was built around our Purpose and Principles, as well as Inclusion and Diversity. One of the aims of our Purpose and Principles is to reinforce a one company culture. During the year, a key step towards this was the launch of the Babcock Role Framework which maps each role within Babcock in one of five career pathways. We now have a common language across the organisation that will help all our employees to navigate opportunities at Babcock. This framework will not only improve our people processes, but it will also promote equality of opportunity.

Engagement

With the easing of COVID-19 restrictions, over the last year the Board has been able to re-start its visits to Babcock sites. In July, the Board visited the Land site at Bovington to see the improvements in our DSG programme (our contract to support the British Army's armoured fleet). As well as reviews of the DSG programme and developments at the Bovington site, the Board spent several hours out in the workplace in small groups, hearing about people's work, their views on progress at the site and at Babcock, and their thoughts on obstacles and areas for improvement.

Lord Parker continues to visit sites and engage with staff in his role as Director for employee engagement. In the year, he has visited Devonport, Bovington and RAF Valley. His reports following these visits give the Board insights into the impact of the decisions being made and how our colleagues receive and interpret them.

Additional visits have been made by Board members during the year and this is being encouraged to enable first-hand experience of the progress being made against the Group's key transformation priorities.

We also had the benefit of our Global People Survey. The very rich insights from the Survey gave the Board a clear picture of those areas we are doing well in (like health & safety) and those areas that we could improve (such as scepticism that Babcock would act as a result of the survey, and reward & recognition). The Board discussion about the Survey findings emphasised the criticality of visible action being taken, both at Group and local level. The Company's action plan, which was based on the 1800 improvement actions logged under the Survey, was reviewed. Some of the actions were small and local such as various improvements in employee facilities while others were more Group-wide such as implementing our global volunteering policy, which gives employees the opportunity to take one working day paid leave a year to do volunteering work with their chosen charity. We are pleased that we have already completed 300 actions. The Board will receive updates on progress on a regular basis.

To ensure we understand the views of you, our shareholders, we interact in a number of ways. Our Executive Directors have regular meetings with shareholders around the announcement of our full year and our half results. As your Chair, I always welcome opportunities to hear the views of shareholders directly and this year I held a series of meetings with some of our largest holders during the year. On behalf of the Remuneration Committee, Carl-Peter engaged with shareholders owning over 60% of the Company to hear their views in respect of our new remuneration policy. For more information, please see pages 131 to 132.

ESG

Through our engagements with stakeholders, we understand the importance they attach to ESG, diversity and the cost-of-living crisis and have responded in a number of ways.

Considering the cost-of-living crisis, the Board welcomed the Company's UK-wide pay settlement for FY23 that sought to prioritise those most impacted by the crisis, awarding a standard annual salary increase to all UK employees except for the highest earners. We complemented the pay settlement by launching the new Babcock Employee Assistance Programme that provides free confidential practical advice for all our UK employees to help them manage life's complexities. We are proud of the contribution Babcock makes through employment opportunities, training, or supply chain expenditure to the communities in which we work. To highlight that contribution, in the year, we commissioned a report by an independent advisory firm to analyse our impact on the UK economy. For more information, please see pages 78 and 79.

The Board has long held the view that to attract and retain the best talent we must be able to nurture staff with much broader diversity of backgrounds than our historic workforce. As I mentioned above, we believe that the new Babcock Role Framework will support our progress. Furthermore, the Group has now established a Global Head of Inclusion and Diversity, reporting directly to the Chief HR Officer, to champion Babcock's approach. She attended the Board to present plans for creating an inclusive work environment and driving results. Babcock's response is based on three pillars – insight & data, policy & programmes, and education & awareness. These pillars will enable us to develop our strategy, measure our progress, and embed our approach in our one company culture. For more information, please see page 75.

Finally in respect of the Environment, following the adoption last year of Plan Zero 40, our commitment to get to Net Zero carbon emission across our estate, assets and operations by 2040, we have been maturing our plans to achieve this. The Board has had two updates on the progress made and was pleased that we are on track for submission of science-based targets during FY24. For more information, please see page 64.

Priorities for FY24

For FY24, the Board and its Committees will continue to support the turnaround through its execution phase. We will do this by:

- Providing assurance on the control enhancement programme
- Overseeing the development of our ESG initiatives to make our business more sustainable and more diverse

I hope my summary above has given you a sense of the Board's activities during FY23 and our ambitions for the future. I look forward to meeting you at our AGM on 28 September 2023.

Ruth Cairnie
Chair

Board of Directors



1. Ruth Cairnie

Chair

Appointed: April 2019

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

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

2. David Lockwood OBE

Chief Executive Officer

Appointed: September 2020

Skills and experience: David brings wide ranging knowledge of the defence and aviation markets, as well as a wealth of experience in both technology and innovation. David was CEO of Cobham plc (from 2016 to March 2020) and prior to that he was CEO of Land 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: None

3. David Mellors

Chief Financial Officer

Appointed: November 2020

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

Current external appointments: None

4. Carl-Peter Forster

Senior Independent Director

Appointed: June 2020

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

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

5. John Ramsay

Independent Non-Executive Director

Appointed: January 2022

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

Current external appointments: John is a member of the Supervisory Board at Koninklijke DSM N.V. and is a Non-Executive Director of Croda International PLC and RHI Magnesita N.V. He is Audit Committee Chair at each of these companies.

6. Lucy Dimes

Independent Non-Executive Director

Appointed: April 2018

Skills and experience: Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships, having been the Chief Strategy and Transformation Officer of Virgin Money UK Plc, the CEO of UBM EMEA and Chief Executive Officer, UK & Ireland, of Fujitsu. She has also held senior roles at Equinix Group, Alcatel-Lucent (now Nokia) and BT. Lucy was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

Current external appointments: Lucy is the Chair of idmart plc.



Appointment key

- E** Executive Committee
- A** Audit Committee
- R** Remuneration Committee
- N** Nominations Committee
- Board Committee Chair

7. The Right Honourable The Lord Parker of Minsmere, GCVO, KCB

Independent Non-Executive Director

Appointed: November 2020

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

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

8. Jane Moriarty

Independent Non-Executive Director

Appointed: December 2022

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

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

9. Sir Kevin Smith

Independent Non-Executive Director

Appointed: June 2023

Skills and experience: Sir Kevin spent almost 20 years at BAE Systems plc predominantly in its Military Aircraft Division and BAe Defence before becoming Group Managing Director with responsibilities for new business and international strategy. Following this Sir Kevin joined the Board of GKN PLC, the FTSE listed global engineering and manufacturing company, initially leading the Aerospace and Defence businesses, and then serving 9 years as Group Chief Executive. He went on to spend 4 years in Hong Kong as a Partner at Unitas Capital and his non-executive career includes 8 years at Rolls Royce where he served as Senior Independent Director.

Current external appointments: None

Statement of compliance

The Board confirms that for the year ended 31 March 2023, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied and all provisions complied with, except provision 24, as, following the retirement of Russ Houlden in July 2022, the Audit Committee only had two members until the appointment of Jane Moriarty in December 2022. As the Audit Committee had completed the work connected to the FY22 audit and knew that a search was well advanced to appoint Jane Moriarty, it was satisfied that it could continue its oversight role and provide appropriate challenge to management with just two members for an interim period of four months, during which time there was only two meetings of the Committee. With the appointment of Jane Moriarty, the non-compliance with provision 24 was resolved, and the membership was increased to four in June 2023 with the appointment of Sir Kevin Smith.

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

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

110–115	Board leadership and Company Purpose
116–117	Division of responsibilities
118–123	Composition, succession and evaluation
124–130	Audit, risk and internal control
131–152	Remuneration

Board leadership and company purpose

Board leadership

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

The Board

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

The Board has adopted a schedule of matters reserved for its, or its Committees', specific approval (see page 117). 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 124 to 130.

Remuneration Committee

Determines the Remuneration policy for the Executive Directors and is responsible for oversight of the remuneration policies and practices relating to the wider workforce.

See pages 131 to 152.

Nominations Committee

Reviews the composition of the Board, considers succession planning at both Board and senior management level and leads the process of appointments to the Board.

See pages 122 to 123.

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 Nuclear, the Chief Executive Marine, the Chief Executive Land, the Chief Executive Aviation, the Chief Executive Africa, the Chief Executive Australasia, the Chief Executive Canada, the Chief HR Officer, the Chief Technology Officer, the Chief of Staff and the Group Company Secretary and General Counsel.

Principal Management Committees

Corporate ESG Committee

Responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the wider sustainability agenda. The Committee is chaired by the Chief Corporate Affairs Officer and members include the Chief Human Resources Officer and the Group Company Secretary and General Counsel. Reporting to the Committee are the Inclusion and Diversity Steering Group and the Carbon, TCFD and Communities and Sponsorship working groups.

See page 67.

Corporate Safety Leadership Team

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

See page 100.

Group Information Security Committee

Provides governance, direction and assurance that the Babcock security posture is appropriate and that Babcock's employees, customers, other stakeholders and reputation are protected. Members include the Group SIRO, CTO, CIO and CISO.

See page 85.

Group Risk Committee

Provides leadership and oversight of the Group's risk management framework acting as an interface between the Audit Committee and the business, keeping the Principal Risks and Uncertainties and their mitigations and control under continual challenge and review. The Committee is chaired by the Chief Corporate Affairs Officer and the membership comprises the Group Director of Internal Audit, Risk Assurance and Insurance and members of the Group Executive Committee.

See page 89.

Company purpose

The Board sets the Company's Purpose and its alignment to strategy, assessing the long-term sustainable future of the Group and its impact on key stakeholders while keeping a watchful eye on the culture of the Group to ensure that everybody understands their role in promoting the success of the Company as they deliver against the business model. Our Principles of be curious, think outcomes, be kind, collaborate, be courageous, and own & deliver underpin our Purpose and drive the transformation of our culture.

Effective decision-making and oversight

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

All scheduled meetings consider

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

Regularly the Board considers

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

How the Board monitors culture

The Board believes that the right culture is essential to support the delivery of strategy and seeks to monitor the culture throughout the Group.

Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our employees through living our Principles which are: be curious; be kind; be courageous; think outcomes; collaborate and own & deliver.

Listening to our people

Our designated Non-Executive Director for employee engagement visits sites, talks to employees and reports back to the Board. Questions and feedback are received from employees to the CEO's dedicated email 'Ask David' as well as from employee forums and surveys. This year saw our first Group-wide employee engagement survey in over a decade. The Board reviewed the results of the survey and an action plan for responding to those results.

► See page 78

Ethics and whistleblowing

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

Other cultural indicators

The Board regularly receives health and safety metrics and thematic reviews through its regular 'People' reviews.

► Further information on the Purpose and Principles and cultural change overseen by the Board during the year can be found on page 5 and throughout the Strategic report.

Setting and overseeing strategy

During FY23 the Board held its dedicated strategy review meeting in July 2022. The Board held the meeting off-site and combined it with a visit to our Land operations at Bovington. At the meeting, the Board assessed the Company's current position against the strategic plan announced in July 2021 and began to define its ten-year strategic direction. In addition to its dedicated review, the Board has regular updates throughout the year, as the Board believes that strategy is a dynamic process which benefits from regular Board engagement supported by dedicated deep-dive review sessions.

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

Board leadership and company purpose continued

Factoring our stakeholders into our decision-making

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

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

This section, through to page 115, forms part of the s172(1) statement which can be found in the Strategic report on page 57.



Further information on how the Company engages with its stakeholders can be found on pages 56 and 57.

How the Board engages

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement ¹
Customers	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Order intake by sector Safety balanced scorecard including leadership scores Major operational programmes RAG status
Investors	<ul style="list-style-type: none"> Reports from Investor Relations Treasury reports Investor meetings/roadshow AGM 	The Board engaged directly with its investors, principally through the Executive Directors, David Lockwood and David Mellors. The Committee Chairs are available to meet shareholders when required. During FY23, the Chair of the Remuneration Committee consulted with shareholders regarding the refreshing of our Remuneration policy. Our AGM gives the Board an annual opportunity to meet with private investors and for them to ask questions direct to the Board.	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Bottom-up reports from Lord Parker, the Director designated for workforce engagement Global People Survey, our first uniform survey in over a decade Top-down reports from the CHRO Principal trade union meeting with the CEO and the CHRO Whistleblowing reports 	Lord Parker, the Director responsible for workforce engagement, visited our operations at Bovington, where we support the British Army's armoured fleet, RAF Valley, where we support the RAF's flight training, and Devonport, where we support the Royal Navy's submarine and surface fleet during the year, with over 100 employees attending 6 engagement sessions. After his visits, Lord Parker gave an overview of his findings to the Board. Other members of the Board meet with employees during their visits to our sites. Additionally, the CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email address. Members of the senior leadership team regularly present to the Board.	<ul style="list-style-type: none"> Participation rate and engagement score in Global People Survey Safety balanced score together with monthly overview of significant safety events and total recordable injury rate Ethics training compliance rate Gender pay-gap Subject matter of whistle-blowing reports

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement
Regulators	<ul style="list-style-type: none"> Information on the relationships with regulators is included in reports to the Board where appropriate 	The Board relies on dedicated functions at a Group, sector or business unit level and does not have direct contact with regulators unless appropriate. Any material issues are brought to the Board's attention through the monthly operational reports, as appropriate.	<ul style="list-style-type: none"> Specific reports in Executive Directors' report (if any)
Suppliers	<ul style="list-style-type: none"> Briefings from Group Head of Procurement on an annual basis Supply chain risk considered in reports on major tenders Approval of the Modern Slavery Transparency Statement 	Principal engagement is undertaken by operational management and the Group procurement function. The Chief Procurement Officer reports annually to the Board to give it oversight of the function and its operation.	<ul style="list-style-type: none"> Subject matter of whistleblowing reports Modern slavery review
Communities	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Safety balanced scorecard including total recordable injury rate Diversity performance against target Performance against carbon emissions target

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

Board leadership and company purpose continued

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

When making decisions to balance different stakeholder interests, the Board reviews what the Board believes most matters to each stakeholder in the context of the long-term interests of the Company. In all its decisions, the Board also keeps in mind the Company's Purpose and Principles to ensure that all decisions are aligned with them. Principal decisions where the Board considered different stakeholder interests include: decisions to divest certain businesses as part of the Group's portfolio rationalisation programme; the FY23 UK pay review; the development of our ESG strategy; and the exploration of growth opportunities. A fuller description of the Board discussions around those decisions is set out below.

Matters considered	Discussion and outcome	Stakeholders most affected	More information
1 Stabilise	The Board believes that shareholders and employees support the turnaround plan first set out in our FY21 Annual Report. A key part of that plan was the portfolio rationalisation programme the purpose of which was to reduce the Group's complexity, increase its focus and increase the effective use of the Group's capital for the long-term benefit of shareholders and other stakeholders. The Board received regular updates on the programme and has approved each of the disposals along the way. In its discussions, the Board considered that for employees staying with the Group and for shareholders it was important that the programme strengthened the Group's balance sheet and gave the Group a stable platform for future growth. However, the Board recognised that for those working in the businesses to be divested the process can be unsettling. The Board considered each divestment separately and concluded that in the long run it would be better for those employees to work in a business which fits better with its owner's strategy. On 1 March 2023, we were pleased to announce the conclusion of the portfolio alignment programme with the completion of the sale of certain of our aerial emergency businesses. Through the portfolio alignment programme, the Board has significantly strengthened the Group's balance sheet and focused the Group on its core markets. The refocused Babcock is better able to align behind its Purpose and Principles with the aim of unlocking its full potential for the benefit of shareholders and employees.	<ul style="list-style-type: none"> ▶ Shareholders ▶ Employees 	Page 13
2 Enhancing resilience	This year has seen increasing geopolitical tensions, the return of high inflation and a 'cost-of-living' crisis. Through its engagement with stakeholders, the Board understood that enhancing the Group's resilience in uncertain times was important to our stakeholders, although they were impacted in different ways. In its UK pay review, the Board considered the impact of the 'cost-of-living' crisis. The Board noted that the crisis impacted different levels of employees in different ways. The Board also considered the competition for talent, which is a principal risk for the Group. Having considered the Group's employees, the Board then considered the impact on shareholders, who had not received a dividend in FY21 or in FY22. Taking the interests of its stakeholders into account, the Board balanced them and decided to offer all UK employees a standard pay increase except for its higher paid employees. The Board did this as it wanted to prioritise the lower paid employees who were most impacted by the crisis. As regards shareholders, the Board believed that not to offer a pay increase would risk seeing talent leave the Group, which it could not replace with a consequent loss of knowledge and effectiveness, which would not be in the Group's or shareholders' interests.	<ul style="list-style-type: none"> ▶ Employees ▶ Customers ▶ Shareholders 	Page 107
3 Driving operational excellence	Our employees, customers and shareholders are clear that they want to work in, deal with or own a business that works and delivers effectively and efficiently. In response, over the year, the Board has put in place a number of initiatives to drive operational excellence to improve Babcock effectiveness and efficiency. For example, the Board considered the introduction of a new risk management framework. The new framework has required material investment through the recruitment of specialist Enterprise Risk Management professionals at a Director and Head of Department level. In a turnaround, the Board has to carefully consider the prioritisation of its investment opportunities. If it chose to invest in the new risk management framework, the Company may not be able to invest in another opportunity. In approving the new framework, the Board balanced the cost of investment to the Group, shareholders, and employees against the improvements that the Board expected to see arising from the new framework. The Board believed that the Group and employees would benefit from the new framework as it would give them better information to deliver better risk-based decision-making. For shareholders, the new framework would improve the Group's operational effectiveness and better protect the Group's value. Having considered the interests of its stakeholders, the Board approved the new risk management framework.	<ul style="list-style-type: none"> ▶ Employees ▶ Shareholders 	Pages 87 to 90

Matters considered	Discussion and outcome	Stakeholders most affected	More information
4 Developing our ESG strategy	Through its engagement the Board understands the rising importance of ESG matters to its stakeholders. For example, customers are making ESG considerations part of their tenders; ESG has an increasing role in the allocation of capital by investors; and employees and communities want to understand their employer's policy on ESG. The Board considered all these issues in its review of the Company's ESG strategy. When the Board was considering the ESG targets, it weighed up the different priorities that each set of stakeholders might have to design targets that met the aspirations of customers, employees, shareholders, communities and suppliers, while at the same time being achievable and practical. Throughout the year the Board has overseen the implementation of this strategy with the aim of making the Company more attractive for new shareholders and new employees and for the benefit of all stakeholders.	<ul style="list-style-type: none"> ► Customers ► Shareholders ► Employees ► Communities ► Suppliers 	Page 6, page 14 and pages 58 to 86
5 Exploring growth opportunities	Being successful in securing growth opportunities is important for our investors, employees and customers because they want to see a strong company. Customers want affordability, availability and capability. Shareholders want a sustainable profitable business. Employees want a strong company with opportunities to develop their careers. The Company's bid for Future Aircrew Training programme of the Royal Canadian Air Force was one such growth opportunity that the Board considered in FY23. In its review, the Board considered the priorities of each stakeholder in turn. For shareholders, the bid was a significant growth opportunity that would enhance the Company's reputation in bidding for similar opportunities. For employees in Canada, the bid would consolidate the Company's position as a defence company with significant capability. For customers, the Board considered the Group's capabilities, in particular the Group's existing programmes for delivering flight training programmes to the RAF and the French Air Force. However, as well as balancing these priorities, the Board had to satisfy itself that the Company was bidding at an appropriate price in light of the risk transfer inherent in the bid for the protection of all its stakeholders. After the Board's review, the Company submitted its bid to the Canadian Department of Defence and is awaiting its decision.	<ul style="list-style-type: none"> ► Customers ► Shareholders ► Employees 	Page 16

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. It carries out an annual strategy review, which assesses the long-term sustainable future of the Group and its impact on key stakeholders. As part of those discussions, it takes into account the matters the Directors must consider 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.
- Standing agenda items and papers are presented at each Board meeting: for example, operational 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. The Board also receives detailed presentations from the sector CEOs delivering updates on key activities which feeds into the decision-making process.
- There are regular reports from the Audit Committee Chair and the Remuneration Committee Chair on items within their remit.
- When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for example, employee and executive pay; dividends; and portfolio alignment.

Members of the Board regularly engage with our investors and employees and the Board uses the stakeholder engagement summarised on pages 56 and 57 and on page 112 and 113 to inform its decision-making process.

Division of responsibilities

Defining Board responsibilities

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

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

Non-Executive

Chair

- 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 and, if and when appropriate, serves as an intermediary for the other Directors;
- Available to shareholders if they have any concerns which require resolution;
- Supports the Chair with the annual Board evaluation and leads the annual evaluation of the Chair's performance; and
- Serves as an intermediary to other Directors when necessary.

Independent Non-Executive Directors

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

Designated Non-Executive Director for employee engagement

- Gauges the views and feedback of the workforce and identifies any areas of concern;
- Communicates the views of the workforce to the Board;
- Ensures the views of the workforce are considered in Board decision-making; and
- Ensures the Board takes appropriate steps to evaluate the impact of any proposals that influence the experiences of the workforce and considers what steps should be taken to mitigate any adverse impact.

Executive

Chief Executive Officer

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

Chief Financial Officer

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

Articles of Association

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

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

Summary of key matters reserved for the Board

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

Meetings and attendance

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

Conflicts of interest and independence

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

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

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

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

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

Time commitment

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

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

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of meetings held	8	3	7	8
Current Directors¹				
Ruth Cairnie	8/8	3/3	–	–
Carl Peter Forster	8/8	3/3	–	8/8
John Ramsay ²	7/8	3/3	7/7	–
Lucy Dimes ³	8/8	3/3	6/7	5/5
Lord Parker ⁴	7/8	3/3	–	–
Jane Moriarty ⁵	4/4	3/3	2/2	3/3
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Former Directors				
Kjersti Wiklund ⁶	3/3	–	3/3	3/3
Russ Houlden ⁶	2/3	–	3/3	2/2

1. Sir Kevin Smith is not included in the table since he was appointed since the year end.
2. John Ramsay, Lucy Dimes, Lord Parker and Russ Houlden were each absent from one board or committee meeting due to prior engagements.
3. Lucy Dimes was appointed to the Remuneration Committee in September 2022.
4. Jane Moriarty was appointed to the Board in December 2022.
5. Kjersti Wiklund retired from the Board after the AGM in September 2022.
6. Russ Houlden retired from the Board in July 2022.

Composition, succession and evaluation

Composition

The composition of the Board is kept under constant review by the Nominations Committee to ensure a balance of the skills, experience and knowledge to lead the Group. At the date of this Report the Board comprises the Chair, who was independent on appointment, six Independent Non-Executive Directors and two Executive Directors. All continuing Directors are required to offer themselves for re-election by shareholders each year at the Annual General Meeting. Biographical details can be found on pages 108 and 109 and there is more information on appointments to the Board in the Nominations Committee report on pages 122 and 123.

Board diversity policy

It is the Board's policy that it is in the best interest of the Group and all its stakeholders for the Group to be led and peopled by individuals from a range of skills, experiences, backgrounds and perspectives. This links directly to our strategy as the Group wants the best talents to deliver its Purpose and its Principles. For the Board, this means that it is our policy to have women make up at least 40% of the Board by 2025 in line with the FTSE Women Leaders Review. In addition, we aim to have at least one Director from a minority ethnic background by 2024 in line with the Parker Review. In respect of the new Listing Rule 14.3, as at 31 March 2023, we met the target of having a woman in a senior board position with Ruth as our Chair. However, we have not met the targets of one board member from a minority ethnic background or 40% of the Board being women. As at 31 March 2023, with the appointment of Jane Moriarty, 37.5% of the Board were women, although this percentage reduced on the appointment of Sir Kevin Smith to 33.3%. The reason for not meeting all the targets is that the Board is still developing and strengthening, while it works towards meeting its policy, which means that progress is not even. The Nomination Committee is aware of the challenge that it has to meet its policy and is actively undertaking searches to ensure that the Board meets its policy in full. For more information on the Group's diversity policy and its objectives, please see pages 75 to 77.

Board and executive management ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, S.D. or Chair)	Number in Executive Committee	Percentage of Executive Committee
White British or other White (including minority white groups)	8	100%	4	14	100%
Mixed/Multiple ethnic groups	—	—	—	—	—
Asian/Asian British	—	—	—	—	—
Black/African/Caribbean/Black British	—	—	—	—	—
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, S.D. or Chair)	Number in Executive Committee	Percentage of Executive Committee
Men	5	62.5%	3	12	86%
Women	3	37.5%	1	2	14%
Not specified/prefer not to say	—	—	—	—	—

The tables and charts on this page show the position at 31 March 2023, before the appointment of Sir Kevin Smith on 1 June 2023. Last year this data was presented at the date of publication of the Annual Report but, for consistency of presentation going forward, the reference date will be 31 March. 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.

Board information

Independence



1 Chair
2 Executive Directors
5 Independent Non-Executive Directors

Gender



62.5% Men
37.5% Women

Ethnicity



100% White British or other White (including minority-white groups)

Nationality



6 UK
2 Non-UK

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 every three-year term, each Non-Executive Director's tenure is reviewed before the term is renewed. The term can be renewed by mutual agreement up to a maximum total tenure of nine years.

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

Director training

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

The Company arranges for new Non-Executive Directors to receive detailed business briefings on the Group's operations and to make induction visits to the Group's principal sites. Training for new Directors, when appropriate, is arranged with external providers.

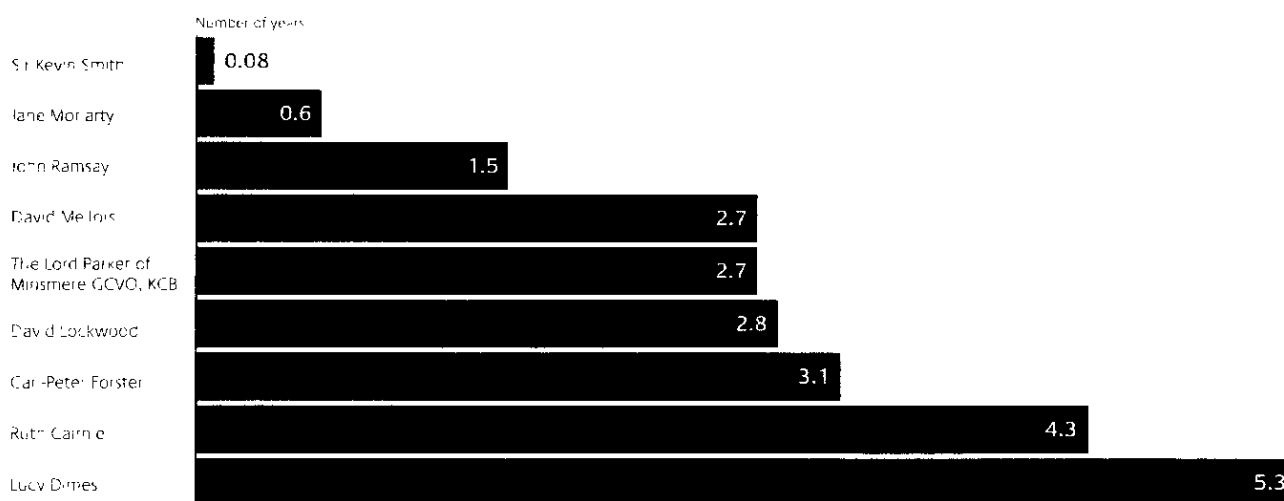
Non-Executive Directors may at any time make visits to Group businesses or operational sites and are encouraged to do so at least once per year. Visits are coordinated by the Group Company Secretary's office. Presentations on the Group's businesses and specialist functions are made regularly to the Board.

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

Board tenure¹



1. At 30 June 2023.

Composition, succession and evaluation continued

Evaluation

2022/23 Board performance review

Each year we conduct an evaluation to assess the skills, experience, independence and knowledge of the Board 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. Following an external evaluation last year, this year the review was conducted by Carl-Peter Forster, the Senior Independent Director.

Progress made on actions identified in the FY22 review

Recommendations for FY23	Update	Further information
Recruit new Non-Executive Directors to strengthen the Board further.	In December 2022, the Nominations Committee was delighted to announce the appointment of Jane Moriarty to the Board. Jane strengthens the finance capability of the Board by bringing over 30 years of finance experience to the Board after an executive career with KPMG. Jane's appointment was followed with the appointment of Sir Kevin Smith. The Nominations Committee had identified the benefit of appointing a Non-Executive Director with a deep knowledge of the Aerospace & Defence Sector. Sir Kevin brings that knowledge after an executive career with BAe Systems and GKN, as well as being the Senior Independent Director of Rolls Royce.	See pages 106 and 122 to 123
With the lifting of the COVID-19 restrictions, continue to enhance the opportunities for Board members to spend more time with each other and the business, in order to strengthen Group dynamics and cohesion.	All the Non-Executive Directors attended the Board's site visit to Bovington, where they could see the improvements in the delivery of our contract to support the British Army's armoured fleet. In addition, the Chair visited operations in France, Rosyth and Devonport. Carl-Peter visited Devonport, while Lord Parker visited Devonport and RAF Valley. Lucy visited Devonport and the Group's IT hub in Portsmouth. John visited Rosyth, Faslane, Staverton and Devonport. Jane has started her induction with a visit to Devonport.	See page 107
Develop further the Board's oversight of Babcock's culture.	As reported, the Board oversees Babcock's culture through a number of channels, including reports from the Chief HR Officer, reports from Lord Parker in his role as Director designated for employee engagement, and reports from the Babcock whistleblowing line. In FY23, the Board's ability to oversee Babcock's culture was further enhanced by Babcock's first global employee survey in over ten years. The Chief HR Officer presented the results of the survey to the Board, including a description of the Group's strengths and its weaknesses. The Board reviewed the Group's response plan to the survey.	See page 78

Areas of assessment and findings for the FY23 Board evaluation

Recommendations for FY24	Commentary and actions
Strategy development	Continue to develop the Company's approach to strategy and to build out its strategy framework.
Control environment	Although the Group has improved its control environment, there remains still more to do. The Board, through the Audit Committee, has to continue its oversight role of the control enhancement programme to ensure progress and to ensure that progress is embedded in the Group's processes.
Forward looking agenda	The Group should continue to develop its agenda to ensure the right division of time between governance, operations, risk, culture and strategy.



Composition, succession and evaluation continued

Nominations Committee report

Ruth Cairnie
Chair of the Nominations
Committee



Key facts

The Committee

Ruth Cairnie chairs the Committee.

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

For biographies of the members, please see pages 108 and 109.

For attendance, please see page 117.

Highlights

- Appointment of new Non-Executive Directors

Key responsibilities

- Board and Committee composition
- Succession planning
- Talent pipeline and diversity policy
- Board appointment process

Dear fellow Shareholder

This report sets out the work of the Nominations Committee over the year. The Committee is responsible, on behalf of the Board, for ensuring the Board's and Committees' structures and membership provide the skills, experience, diversity and knowledge required to support delivery of the strategy, aligned to our Purpose and our Principles. It also considers the future development of the Board, reviews succession planning for the Group Executive Committee and reviews progress across the Group on Inclusion and Diversity and on Culture.

Composition

The Committee has developed a skills matrix which maps the skills needed to fulfil the Board's role both currently and looking ahead to implementation of the strategy. The skills matrix is kept under review and is used to identify any gaps that need to be addressed. Where this involves the potential appointment of a new Director, the Committee will appoint an external search firm with a clear specification of objective criteria based on the skills matrix, and with instruction to seek both female and male candidates, from as wide a range as possible of diverse ethnic and social backgrounds. This reflects the Board's firm belief in the value of diverse inputs.

In FY23, with the retirement of Russ Houlden in July 2022, the Committee recognised the need to enhance the Board's financial expertise, in particular to support John Ramsay and the Audit Committee with the oversight of the Company's control enhancement programme. The Committee appointed the external search firm, MWM, to identify candidates who would meet this criterion while also contributing more broadly to the Board's work. MWM's services have been used previously by the Committee, but it has no other connections with the Company or any of its directors. After a thorough process, in December 2022, we were delighted to welcome Jane Moriarty to the Board, who brings financial expertise from her long executive career at KPMG, extensive experience of business issues from her restructuring work and diverse non-executive experience in recent years.

As we move beyond the second year of Babcock's turnaround, looking ahead we have identified operational and strategic experience in the Defence sector as an area to strengthen on the Board, as we increase our focus on the sector and anticipate the navigation of future strategic opportunities and challenges. Again using MWM, we were pleased to announce on 24 May 2023 that Sir Kevin Smith would be joining the Board at the beginning of June. Sir Kevin has an in-depth knowledge of Defence having spent most of his career working in the sector, first at BAE Systems for over 20 years and then at GKN, where he was the CEO for eight years. He is also an experienced Non-Executive Director having served on the Board of Rolls Royce.

In terms of overall diversity, the Committee recognises the benefit of experience from outside the UK as we consider international opportunities for growth. The Board currently has UK nationals who have spent a significant proportion of their careers working outside the UK, as well as two European nationals. The Committee is considering also appointing a candidate who would bring a non-European lens to its discussions.

Every year the Committee reviews the independence of each Director to ensure that any conflicts of interests are identified and dealt with in an appropriate manner. The Committee also considers other commitments of each Director to assure the Board that they have the appropriate time to commit to the Company. This is in addition to the assessment that the Committee carries out when the Board first appoints a Director, and the assessment it makes whenever there are changes to a Director's portfolio. This year, the Committee noted that John Ramsay has shown exceptional commitment in his role as Chair of the Audit Committee, organising additional Committee meetings and regular meetings outside the Committee with the external and internal audit teams, as well as with management, to lead the oversight of the Company's audit process. It also noted that Carl-Peter Forster had been appointed as the chair of Vesuvius plc but had stepped down from his roles at IMI plc; Carl-Peter has this year led the policy review for Remuneration in his role as chair of the Remuneration Committee and has spent time consulting with shareholders on it.

Talent, Leadership and Succession

The Committee keeps Babcock's leadership needs under review, providing assurance to the Board that Babcock has the skills and capabilities to progress its strategy and strategic actions now and in the future.

This year, the Committee reviewed the Company's plans to refresh its approach to senior leadership succession and talent management by establishing a common framework. The framework shows our employees, including our leadership teams, where they are and the possible pathways in front of them. This provides clarity on the differences in expectations as individuals move up through the levels.

Diversity, Inclusion and Culture

At Board level, as the Committee works on composition and develops the Board's membership over time, it is planning for the Board to meet the FTSE Women Leaders Review target for 40% women by 2025, and the Parker Review target of at least one minority ethnic director by 2024 and has searches ongoing to do so. However, as a relatively small board, the Board's diversity statistics can be susceptible to material movement on the basis of an individual appointment or retirement.

For example, on Jane's appointment, the Board was 37.5% female, but that percentage reduced on Sir Kevin's appointment. So, the journey to achieving the targets will not be even.

Looking at diversity across the organisation, the Committee recognises that the transparency and clarity introduced with the Babcock Role Framework will be very supportive, allowing employees a clear sight of the criteria for each role within the Group. It will also allow role models to become more visible. To support the Remuneration Committee in setting performance targets, the Committee has probed Management's targets on gender (30% of the senior leadership to be female by 2025 and 30% of employees to be female by 2030) and concluded that these represent sufficient ambition, taking into account the locations of the Group's principal sites and the sectors in which the Group operates.

The Committee also regularly reviews the broader approach to inclusion as an important element in creating a people-centred business which supports and empowers everyone to unlock their potential. Babcock's approach is based on three pillars: insight & data, to enable an evidence-led approach; policy & programmes, for the creation of a consistent approach and the enablement of social mobility and community engagement; and, education & awareness. The Committee receives regular updates from the Group Head of Diversity and Inclusion. This year the Committee considered the Group's plans for attracting female talent, including the transformation of its hiring processes. For more detail, please see page 76.

The focus on inclusion is an important factor in resetting Babcock's culture which is underpinned by our Purpose – creating a safe and secure world, together – and our Principles – be curious, think: outcomes, be kind, collaborate, be courageous, own & deliver. These are at the heart of everything that we do. The Committee uses a variety of information sources to assess for itself Babcock's culture and progress. There are regular reviews in the Board from the Chief HR Officer on the progress of the Group's many people initiatives. In addition, we have discussions with executives during Board/Committee presentations, discussions with employees during site visits, reports from Babcock's whistleblowing channels, and updates from Lord Parker in his capacity as Director designated for employee engagement. Significantly, this year for the first time, we had the results of Babcock's first global employee survey in over a decade.

Evaluation

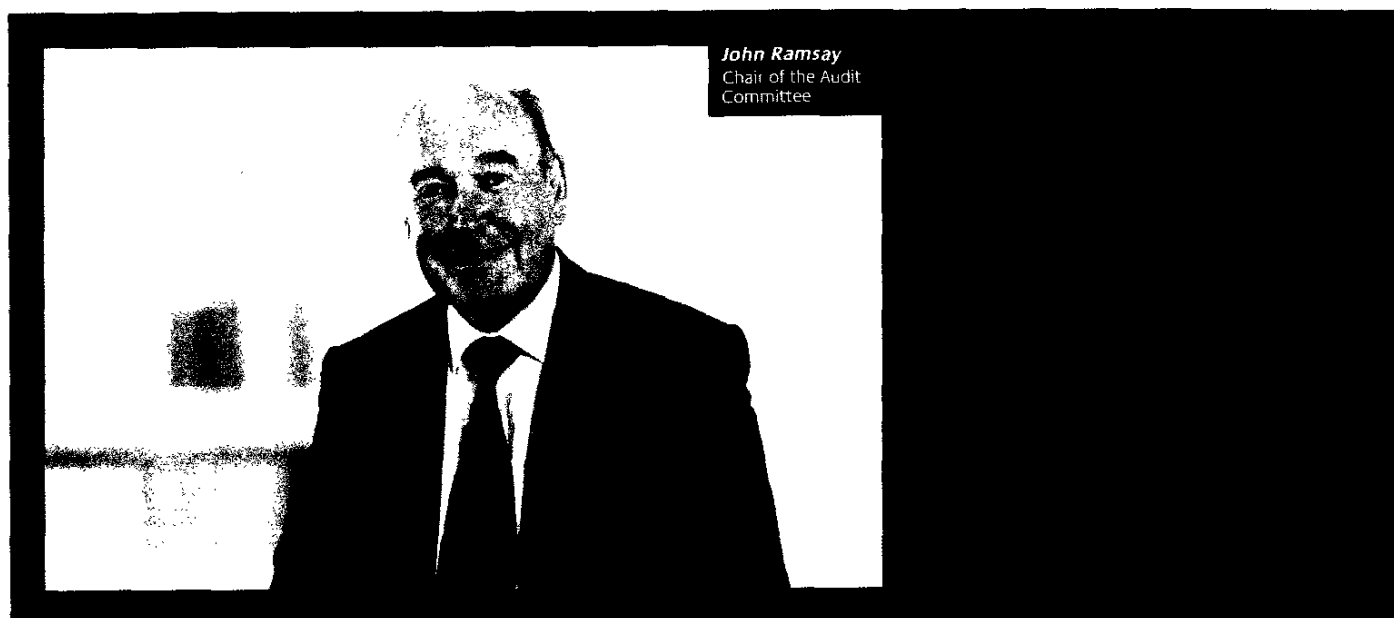
The Board reviews its effectiveness on an annual basis. For a full report on the Board annual evaluation, please see page 120. Based on the Committee's work over the past four years, the Board has been re-shaped and developed with new Executive Directors and new Non-Executive Directors. We have a breadth and depth of complementary skills and experiences around the table with diversity in terms of gender and background. As supported by this year's Board Evaluation, the Board functions well with good dynamics, setting the tone from the top by demonstrating trust, respect, and openness between all the Directors and alignment behind our Purpose.

I hope this report gives you an understanding of the work of the Committee over FY23. If you do have any questions, I would welcome hearing them at this year's AGM.

Ruth Cairnie
Chair

Audit, risk and internal control

Audit Committee report



John Ramsay
Chair of the Audit
Committee

Key facts

The Committee

John Ramsay chairs the Committee.

John is a Chartered Accountant, and formerly the Chief Financial Officer of Syngenta AG, as well as being an experienced Audit Committee chair (see page 108 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 FY23, the other members of the Committee were Lucy Dimes, Russ Houlden until his retirement in July 2022, and Kjersti Wiklund until her retirement in September 2022. In December 2022, Jane Moriarty joined the Board and the Committee. Jane is a qualified Finance professional with an in-depth experience of audit committees, both as an advisor and a member. In June 2023, Sir Kevin Smith joined the Board and the Committee. Sir Kevin brings his experience as a seasoned FTSE100 executive, having led GKN as CEO for eight years. All members of the Committee are independent Non-Executive Directors. Please see pages 108 and 109 for their biographies and page 117 for attendance.

During the year the Committee invited the Chair of the Board, other Non-Executive Directors, the CEO, the CFO, the Director of Group Finance, the Deloitte external audit team, the BDO internal audit team and key senior management to attend their meetings, as appropriate.

Typically, after Committee meetings, the Committee meets separately with the external audit lead partner from Deloitte and also frequently meets with the internal audit lead partner from BDO 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 the internal audit lead partner between meetings, often without the presence of management.

Highlights

- Oversight of the implementation of improvements to the control environment throughout the year
- Review of the key management judgements and estimates for the FY23 financial statements including the T31 provision
- For the first months of FY23, oversight of Deloitte's first audit of Babcock
- Supporting the establishment of an internal audit function and the on-going transition of internal audit from BDO

Key responsibilities

- Reviewing the scope and the results of the statutory audit and other financial statements
- Reporting to the Board on the effectiveness of the audit process and how the Company safeguards the independence and objectivity of the auditor
- Reviewing the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the Board on the significant issues considered by the Committee
- Reviewing the scope, remit, and effectiveness of the internal audit function
- Reviewing the effectiveness of the Group's internal control and risk management systems

Dear fellow Shareholder

This is now my second year as Chair of the Audit Committee. As I reported last year Russ Houlden and Kjersti Wiklund stood down from the Board and the Committee in July and September 2022 respectively. I thank them both for their support in seeing through the FY22 cycle. I welcome Jane Moriarty and Sir Kevin Smith as members of the Committee and look forward to getting the benefit of their valuable experience. This is also the second year of Babcock's turnaround strategy. As can be seen throughout the governance section of this Annual Report, the Board and its Committees have played their full part in supporting this turnaround. For the Audit Committee, the focus has been on the oversight of Babcock's improvement in financial reporting and controls.

FY22 Audit

The FY22 audit was the first year with Deloitte as the external auditor. They completed their first audit in July 2022. The Committee was pleased with the effectiveness of the audit and the rigour and challenge applied by management and Deloitte during the process. The FY22 audit did reveal weaknesses in Babcock's financial reporting that it is addressing in its control improvement plans. The Committee's decision to consider the FY22 as effective was supported by the fact that so far, no new Group issues have arisen out of the audits of the Group's subsidiary statutory accounts, which are conducted to a much lower level of materiality, to change any of the material judgements taken in the FY22 audit.

Blueprint of Control Improvements

Since the Contract Profitability and Balance Sheet Review in FY21, Babcock has embarked on a major programme to improve its operational and financial controls with the objective of being in line with best-in-class FTSE companies in controls including upgrades envisioned by the UK Government on Corporate Governance Reform. This is a multi-year endeavour which will continue into FY24 with the Company targeting to reach the highest standards in FY25.

During the year the Company produced a detailed and comprehensive plan called the 'Blueprint of Control Improvements' covering over 500 control improvement actions. The Committee oversaw this compilation by receiving regular updates and reports from management on its progress. The basis of the 'Blueprint of Control Improvements' was the combined learnings from the FY21 Contract Profitability and Balance Sheet Review and, the FY22 control insights report from Deloitte following the completion of their FY22 audit as well as recommendations arising from internal audits, all combining to form a comprehensive improvement plan for the whole Babcock Group. This includes for financial reporting a mapping of key reporting risks to 15 key controls which the Company has had independently reviewed and benchmarked for adequacy and effectiveness. The Company had implemented these controls by the close of FY23.

The scope of the programme covers not only financial controls but also commercial and operational controls and its objective is for Babcock to be managing risks and its control environment in line with best-in-class FTSE companies. Some notable achievements in improved controls include:

- Appointment of a new Group Director of Internal Audit, Risk Assurance & Insurance as Babcock starts to insource the Internal Audit function
- The establishment of a new Risk Committee, as a sub-committee of the Group Executive Committee to provide executive management leadership and oversight of the Group's management of risk
- Standardisation of commercial and operational reviews including financial and accounting impacts and a 12-monthly rolling forecast with profit and cash phasing for all major projects/contracts
- Completion of a global banking services transition to BNP, including virtual cross currency cash pool, zero based daily cash sweeps, a significant reduction in numbers of bank accounts and use of a new banking platform

The Committee tests and challenges the implementation and effectiveness of these controls by receiving regular reports from the management team on progress on key issues, including management judgements and the Blueprint of Controls Improvements. The Committee has further assurance through the internal and external audits.

During the year there has been several actions to improve overall finance capability in support of core finance areas and improvements in financial and operational controls. These actions include extended training sessions across the Group; establishment of a centralised Finance Business Services Team of 150 professionals to deliver standard processes and accounting controls for UK operations; upgrade in Treasury and Tax capability; and the strengthening of the general finance function through recruitment of additional experienced finance professionals.

The progress and further plans in financial and operation control improvements set out above support Babcock's commitment to deliver the business turnaround.

I would like to thank all those involved for their dedication and hard work in achieving the improvements that they have delivered over FY23. We understand that there is a lot more to do before the improvement plans are fully implemented but the Committee believes that the improvements made in FY23 are substantial and provide a solid base from which further improvements can be made.

Audit, risk and internal control continued

The improvement programme should provide confidence to stakeholders that Babcock will deliver a cost-effective service to customers and employees will be motivated to meet those standards.

Financial Reporting Council

As previously reported, the Financial Reporting Council has been reviewing the audits by PwC of Babcock's financial statements for FY17, FY18, FY19 and FY20. On 8 March 2023, the Council issued its Final Settlement Decision Notice in respect of PwC's FY17 and FY18 audits and imposed sanctions on PwC and two former audit partners. Babcock has reviewed the Council's Decision Notice and is confident that it has addressed the issues in the PwC audits found by the Council through a combination of the Contract Profitability and Balance Sheet review, the disposal of businesses through the portfolio rationalisation plan, and the Blueprint of Control Improvements. The Council continues to review PwC's audits of the Company's FY19 and FY20 financial statements. During the course of its review, the Council has asked the Company certain clarification questions, which it has answered. Other than that Babcock has had no other role in the review. For more detail see page 130.

Priorities for FY24

Looking to FY24, the Committee will continue to play its part in Babcock's turnaround by:

- Continuing its oversight of the implementation of Babcock's control improvements plan and capability upgrade through regular management reports to allow the Committee to oversee progress;
- Monitoring the planning and successful transition to the new insourced internal audit; which the Group Director of Internal Audit will report on both to the Committee as a regular attendee of its meetings and to the Chair of the Committee in their one-to-one meetings;
- Challenging management to achieve and maintain high standards of internal control, including the robust challenge of key judgements;
- Ensuring high quality external and internal audits to provide the necessary independent assurance of the Company's progress; and
- Overseeing an upgrade in process and detail in the Company's assessment of fraud risk.

Finally, I would like to thank my fellow Committee members for their support and work over the year. This year, like the last year, has been busy for the Committee with additional meetings and deeper dives on issues necessitating additional time commitment from Committee members. I have greatly appreciated the extra commitment that my fellow members have given, as it has allowed the Committee to provide the appropriate level of oversight and challenge on behalf of the Company's stakeholders.

As ever I am available to all shareholders to discuss any significant matter related to the Audit Committee's work. All the Committee will all be at the FY23 AGM and hope to meet as many of you as possible. We will be available to answer any questions you may have on this report or the Committee's activities.

John Ramsay
Committee Chair

Risk management and internal control systems

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

The Committee reviews internal financial controls: that is, the systems established to identify, assess, manage, and monitor financial risks. In FY23, the Committee reviewed the internal financial controls at each of meetings, bar one. The Group Executive Committee, chaired by the CEO, retains accountability for the management of operational risks, including related controls and mitigating actions. Sector CEOs and function directors are required to ensure that appropriate processes, including the maintenance of risk registers for both the sector itself and individual constituent lines of business, exist to identify and manage risks; and to regularly carry out formal risk assessments. Please see pages 87 to 103 for further information on the Group's principal risks, risk management process and internal control environment.

The centrepiece of the Group's system of controls is the Babcock Document of Control, which was introduced in FY21 and subsequently supplemented by the "Blueprint of Control Improvements" described above. The Document of Control is a comprehensive description of Babcock's key financial and non-financial controls, matched against risks, that the Group expects to be in operation across the Group. The Document splits the controls between mandatory (those the Group must have in operation or introduce without delay if not already in operation) and expected (those the Group must have a plan to implement). In FY23 there was no significant non-adherence.

The Document acts as a risk and control matrix. Each business currently reports adherence to the Document on a six monthly basis. Internal audit has a role in independently reviewing these reports. It is expected that the Document will form the basis of Babcock's response to any regulatory initiative flowing from the UK Government's stated aim to reform corporate governance.

Legacy control systems still exist from the Group's previous acquisition activity, and other key control processes, including IT, are not fully standardised and implemented across the Group. The implementation and operation of certain key controls is decentralised to business units. However, they operate under the framework of the Group's Document of Control and oversight of Sector and functional control.

As described in the Committee Chair's report above, the Group has embarked on a major programme to improve its control environment. The basis of this programme has been learnings and experiences, principally from the Contract Profitability and Balance Sheet review, as well as the insights from Deloitte's FY22 audit and recommendations from internal audits. This has been combined into one programme, the Babcock Blueprint of Control Improvement covering commercial and operational as well as financial controls. The Blueprint provides a mechanism for planning, prioritising, and tracking the implementation of all improvements, as well as a mechanism for engaging with all those involved in the programme. The Group reviews progress against the programme and tests to ensure the effectiveness of implementation. This includes for Financial Reporting a mapping of key reporting risks to 15 key controls which have been independently reviewed and benchmarked for adequacy and effectiveness. The Company has implemented these controls and reports on its progress to the Audit Committee.

The Committee, on behalf of the Board, reviews the effectiveness of the Company's risk management and internal control systems on an annual basis. The Committee conducts this review through the receipt of a report from the Company's finance team, including the Group Director of Internal Audit. The report describes the Group's risk management and internal control and demonstrates that the Company is providing the Board with the relevant information in a timely manner to fulfil its monitoring role. This year, after its review, the Committee was satisfied with the progress made by the Company to improve its risk management and internal control systems through the Blueprint. In particular, the Committee was satisfied that the Company has now effectively implemented the 15 key controls for Financial Reporting as required by the Blueprint.

External audit

FY22 was the first year of the external audit being conducted by Deloitte. Following the close of the FY22 audit, the Committee wanted to achieve a more timely audit in FY23. Consequently, it conducted, with management and Deloitte, a full review of the effectiveness of the audit process. This review, culminated in a 'lessons learnt' combined action plan. The essence of the action plan was a FY23 audit milestone execution plan, which set out 13 key steps to deliver the FY23 audit. A principal component of the milestone plan was to have for the first time a P10 (31 January) Hard Close of the Group accounts with the aim of undertaking the maximum amount of work possible prior to the year end on 31 March 2023. The action plan also included other elements aimed at delivering a more timely audit for FY23 such as 'lunch & learn' sessions between the Babcock finance team and Deloitte to discuss key topics such as audit evidence. The Committee believes that the Company would have been able to report its FY23 results by 30 June 2023 had it not been for the extended audit work on the T31 provision.

Deloitte and management reported on progress of the FY23 audit against the plan to the Committee. So as not to distract management and Deloitte from planning an advanced full year audit, the Committee did not commission Deloitte to provide a review opinion on the interim financial information. However, the Committee remains committed that Deloitte should conduct such a review in the future when further progress has been made on a sustainable advanced full year audit timetable.

Deloitte presented their audit plan to the Committee which set out the scope and objectives of the audit, together with an overview of their planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus together with proposed Audit Quality Indicators (AQI's). This was reviewed and approved by the Committee and included agreeing the scope (98% of revenue and 98% of profit before tax) and the level of materiality (£15.6 million).

The total fees paid to Deloitte in the year ended 31 March 2023 equalled £10.45 million. All of these fees were in respect of audit work, with no non-audit services performed by the external auditor during the year. An analysis of the fees paid to the external auditor during the year can be found in note 4 to the Group Financial Statements on page 200.

Audit, risk and internal control continued

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

The Independent auditor's report to the members of the Company can be found on pages 159 to 174.

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

Independence

The Committee is responsible for the development, implementation, and monitoring of the Group's policies on services from external auditors, which are designed to ensure a high quality and effective audit and to maintain the objectivity and independence of the external auditors. In addition to an independence review conducted by management, Deloitte has provided specific assurance of its independence, while the Committee has considered the arrangements and safeguards that Deloitte has in place to maintain its independence and objectivity. The external auditors follow regulatory requirements to maintain the objectivity of the audit process; these stipulate a five-year rotation policy in relation to the senior engagement auditor. Makhan Chahal is Deloitte's lead audit partner and is in his second year, having started in FY22. The Committee is satisfied that Deloitte remain independent and objective.

Audit Quality

The FRC's Audit Quality Review (AQR) team monitors the quality of audit work of certain UK audit firms through inspections of a sample of audits and related procedures at individual audit firms. Deloitte has provided the Committee with the findings from its latest firm-wide AQR report, the initiatives being taken in respect of the evolution of its firm-wide audit approach and methodology, and how those are transferred to the Babcock audit. In FY22, the Committee agreed a series of audit quality indicators (AQIs) with the external audit team, focused on phasing of audit hours, timeliness of deliverables and subsidiary audit progress. In FY23, the Committee reviewed the FY22 AQIs and agreed that they continued to be relevant for the FY23 audit with the addition of one indicator to measure adherence to milestones by both the Company and Deloitte. The Committee uses the AQIs to measure and monitor audit quality as they are key metrics relating to the audit. With the assistance of the AQIs the Committee can assess and challenge the execution and quality of the audit.

In addition to the AQIs, the Committee Chair and the CFO met with Deloitte during the year, to ensure priorities were adequately resourced by management and Deloitte and to execute the year-end audit timetable. During the year the Company Chair, the Committee Chair and the CFO met with senior representatives of Deloitte including the Lead Audit Partner to discuss the Company's plans and the progress of its business turnaround including commercial, operational, and financial control upgrades, appreciating that this will take a few years to complete.

The Committee reviewed the FRC's proposed 'Minimum Standard for Audit Committees' issued for consultation. The Committee considered that it was largely complying with the proposed standard but made some minor amendments to its Terms of Reference.

Internal audit and assurance

In FY23, the Group continued its policy of outsourcing its internal audit activity to BDO. As in previous years, BDO, after discussions with management, agreed an internal audit plan with the Committee. The plan covered lines of business and countries, with proposed effort directed towards financial and other risk themes. Over FY23, BDO has implemented the agreed plan and has reported back to the Committee. BDO summarises the findings of its internal audit reviews so that the Committee can focus its discussions on unsatisfactory findings and on the action plans in place to address them.

Particular areas of focus for internal audit during FY23 included continuation of financial control audits in line with the increased focus on control improvements, audits of key programmes such as T31 and Future Maritime Support Programme, and a number of risk-based reviews such as health & safety. In addition, internal audit has continued to maintain a programme of follow-up audits to assess the timely implementation of internal audit recommendations by the businesses and key matters from the internal audit reviews. By the end of FY23, internal audit had made 39 recommendations across the ten internal audits completed in FY23. Of those recommendations, the Company had implemented 12, a further 22 were not due for completion, and five were overdue. In respect of the overdue recommendations, one relating to delegated authority limits in New Zealand has been implemented, but internal audit is waiting for the support before closing the recommendation. The other four relate to the design and effectiveness of the governance environment in respect of the Company's Future Maritime Support Programme. Internal audit has received a progress update and agreed revised dates for their completion. The Committee was satisfied with the pace of implementation of the recommendations.

Through its review of the internal audit plan, its review of the reports of BDO, and its review of an external quality assessment of BDO's internal audit service delivery, the Committee was satisfied with the effectiveness of the internal audit. However, as reported last year, in FY22, the Committee decided to move from outsourcing the Group's internal audit activity to insourcing the internal audit activity. Early in FY23, the Company appointed a Group Director for Internal Audit, Risk Assurance, and Insurance, who has started to build her team with the appointment of a Head of Risk Assurance and Insurance and a Head of Internal Audit with an intention to appoint a further three senior Internal Auditors. The internal audit activities have now started to transition from BDO to the internal team, but it is expected that there will continue to be some co-sourcing where specialised expertise is required to conduct a particular audit. The Committee is monitoring this transition and receives regular updates from the Group Director on progress.

For FY24, the Committee will continue to monitor the transition of internal audit. It has approved an internal audit plan for FY24 prepared by the Group Director for Internal Audit, Risk Assurance, and Insurance. The plan includes the proposed audit approach, coverage, and allocation of resources. In approving the FY24 plan, the Committee considered a range of factors, including the principal risks of the Group and the resources available to the Group. The key points in the FY24 plan include:

- The establishment of the Internal Audit team
- Continued focus on internal financial controls assurance;
- A deep dive into the Group's French operations
- A review of the newly established Financial Business Services team
- A review of certain of the Group's key contracts.

Financial statements

One of the main roles of the Committee is to review the financial statements of the Company on behalf of the Board so that the Board can give its responsibility confirmation (please see page 158) that the Company's financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, as well as confirming that the annual report and financial statements, taken as a whole, are fair, balanced, and understandable.

The Committee reviews all significant judgements and estimates made by management in preparing the financial statements, which include the estimates of future performance inherent in the Going Concern and Viability statements (see the Going concern and Viability statement on pages 104 and 105). In FY22, the Committee reviewed the period covered by the Going concern and Viability statement and agreed to extend it to five years, being the period covered by the Group's business plan. As part of its review in FY23, the Committee considered again the period to be covered by the statement and agreed that the five-year period remained the most appropriate timespan for this Group given the business planning cycle, the long-term nature of many of the programmes and insight gained from the turnaround. In assessing going concern and viability, the Committee has considered cash flow projections and timings, which include assumptions, as far as they can be made, in respect of climate change, with related sensitivity analysis and stress-testing scenarios, borrowing facilities available to the Company and covenants.

Given that Goodwill impairments were required in FY22 the Committee paid particular attention in FY23 to management's impairment reviews and the Auditor's opinion thereon. The Committee reviewed the Company's goodwill assessment and considered the key assumptions, which were the number of cash generating units, the cash flow assumptions embedded in the Company's five-year plan, the cash flows in perpetuity, which use external estimates of GDP growth rates, the discount rates used and the approach to central contingencies and Corporate surpluses/deficits. The assessment also included sensitivity analyses on inflation and climate change. Following its review, the Committee was satisfied that no impairment of goodwill was required in FY23.

In FY22, the Company made its first Task Force on Climate-related Financial Disclosures following the introduction of the Listing Rule 9.8.6. During FY23, the Group has built on the work done in FY22 to be in a position to provide enhanced disclosure on environmental, social and governance (ESG) issues. Further detail on climate risk and opportunity scenario planning is set out on page 72.

The essence of Babcock's business involves commercial contracts frequently involving significant upfront investment and with many extending over multiple years. Consequently, management in preparing the financial statements has to make a number of key judgements and estimates that are specific to each contract. An important focus for the Audit Committee has been to review and challenge management on these key judgements and estimates, with reference to revenue recognition under IFRS15, which include:

- The Company's Type 31 Programme, where the Committee reviewed the process for the release of the announcement dated 20 April 2023, which disclosed that the Company had been unable to reach agreement with the MoD about the contractual position regarding additional costs resulting from certain macroeconomic changes that were not foreseen at contract inception.

The release included the announcement of a one-off provision of between £50 million and £100 million. The Committee carefully reviewed the Company's disclosure processes leading up to the announcement, including the support for the preliminary assessment of the provision. After its review, the Committee was satisfied with the robustness of the Company's approach. After the release, the Committee convened a dedicated meeting to consider the 14 key judgements that underpinned the revised estimate outcome at completion. The meeting was attended by the project team so that the Committee could challenge the process by which the project team had produced their revised estimate as well as the prudence of the judgements themselves. After its review, the Committee approved the Company's judgement, which also formed part of the audit by Deloitte.

- The Company's Future Maritime Support Programme, where the Committee considered the way in which the Company demonstrated the transformation savings achieved on the Programme and those planned to accrue. Under the programme, the Company has to deliver certain savings over the five-year lifetime of the programme. The realisation of these savings is a key estimate for the Company. The Committee considered the maturity of each category of saving – whether the customer had signed off on the saving, whether it was embedded in the Company's cost base, or whether the Company had taken the saving through its gated review process. After challenging the robustness of the Company's evidence, the Committee approved the Company's judgement.
- A fixed-price programme within the Nuclear sector, which is close to completion, where the Committee tested the management judgements on outstanding work and therefore costs to complete. In particular, the Committee challenged the Company's position on whether it had a right to apply for a final price adjustment under the Single Source Contract Regulations. After its review, the Committee accepted the Company's position.
- The Company's Defence Support Group contract, where the Committee reviewed the accounting for the work that the Company expected to contract in year ten of the programme as well as the accounting for exit costs. Having considered IFRS 15 carefully, the Committee was satisfied that the Company was adopting the appropriate accounting.
- Inflation and its impact on the Group's revenue and cost for each of its contracts was a key accounting judgement for the Company, as the Company accounts for these contracts over time under an Estimate at Completion model with the Company recognising profits based on the final expected contract outcome margin. Changes in future inflation assumptions therefore impact profits in FY23. The key inflation assumption for the Company's contracts relates to the wages of its employees. The Committee considered the Company's assumption for its FY24 wage negotiations and tested the support for that assumption. The Committee also considered inflation in other costs such as materials and sub-contractors. The Committee tested the guidance given by the Company to its businesses, noting that there was little commonality across the Group's contracts. After its reviews, the Committee was satisfied with the Company's accounting approach to inflation.

Audit, risk and internal control continued

- Sale of certain of the Company's Aerial Emergency Services business. On 28 February 2023, the Company completed the sale of certain of its Aerial Emergency Services business. There were four key accounting considerations for the Committee to consider as result of the completion of the sale – the classification of the discontinued operation, the point at which the Company had passed control over the business to the buyer, the need to impair any assets or to recognise any liabilities arising from the sale, and the classification of costs relating to the disposal. The Committee tested the accounting approach taken by the Company in respect of each of these considerations and was satisfied that they were appropriate.

Following its review, the Committee was of the opinion that the FY23 Annual Report and Accounts was representative of the year and presented a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy and recommended that the Board make its responsibility statements as set out on page 158.

As previously reported, the Financial Reporting Council was reviewing the audits by PwC of Babcock's financial statements for FY2017, FY2018, FY2019 and FY2020. On 8 March 2023, the Council issued its Final Settlement Decision Notice in respect of PwC's FY17 and FY18 audits and imposed sanctions on PwC and two former audit partners. The Company has reviewed the Council's Decision Notice and is confident that it has addressed the failings in the PwC audits found by the Council through a combination of the Contract Profitability and Balance Sheet review (the CPBS review), the disposal of businesses through the portfolio rationalisation plan, and the Blueprint of Control Improvements. The breaches in the PwC audits identified by the Council included:

- Issues relating to the Company's EC225 helicopters: The Company did own eight EC225s and held operating leases for a further five. The Company now has only two EC225s which are undergoing maintenance prior to sale or return to their lessor.
- MSDF contract: The MSDF contract was a long-term contract with the MoD for the repair, maintenance and support of vessels and enabling services at naval bases. The contract has been replaced with a new contract with the MoD, the Future Maritime Support Programme (FMSP). FMSP does also include agreed savings targets, which Deloitte review as part of their audit.
- Compliance with accounting standards in relation to the assessment of goodwill impairment: The Company had included its Africa business within the Land sector for the purpose of its goodwill impairment testing. Following the CPBS review, the Company has corrected this aggregation.
- Vanguard contract: The Vanguard contract was a long-term contract for the refuelling and re-fit of HMS Vanguard. The Council identified that management made two key accounting judgements in respect of the contract. As part of the CPBS review, the Company has reassessed its revenue recognition assumptions.

- Contract A: Contract A is a ten-year contract with a foreign government agency for the supply of specialist training facilities as well as the supply of personnel, support services and infrastructure work. The Council identified breaches in respect of revenue recognition and supply chain financing. As part of the CPBS review, the Company has reassessed its revenue recognition assumptions and reclassified outstanding balances under the supply chain financing as bank and other borrowings.
- Holdfast contract: Holdfast was a joint venture in which the Company had a 74% interest. The Council identified a number of breaches in the audit work of FY18. The Company has since disposed of its interest in the joint venture.
- Phoenix II contract: The Company manages a fleet of leased vehicles for the MoD under this contract. The Company recorded the revenue and costs of the contract as a principal rather than as an agent, including for the 'pass-through' arrangement (the selecting and paying of certain suppliers and recharging the revenue to the MoD at nil margin). The Company has reassessed this judgement as part of the CPBS review so that the Company recognises the 'pass-through' revenue as an agent.
- DSC contract: Under the DSC contract, the Company provides military vehicle fleet management services to the British Army. Under the contract, the Company received revenue for the provision of spares and repairs, which it billed to the MoD at nil margin. The Company judged that it was receiving this revenue as a principal and not an agent. As part of the CPBS review, the Company reassessed this judgement and judged that it was receiving the revenue as agent.
- RD57: The MoD and the Company agreed to settle a number of issues in respect of Rosyth Royal Dockyard in the RD57 settlement agreement. The agreement was a unique occurrence relating to the issues that were being settled and will not repeat.

The Council continues to review PwC's audits of the Company's FY19 and FY20 financial statements. During the course of its review, the Council has asked the Company certain clarification questions, which it has answered. Other than that Babcock has had no other role in the review.

Code of Business Conduct violations and fraud

The Babcock Code of Business Conduct, which incorporates the Group's whistleblowing policy, contains arrangements for an independent external service provider to receive, in confidence, reports on suspected violations of the Code for reporting to the Board and the Committee as appropriate. Please see page 83 for further details. The Board regularly received reports on matters relating to the Code.

Remuneration

Remuneration Committee report



Carl-Peter Forster
Chair of the Remuneration
Committee

Key facts

The Committee

Carl-Peter Forster has chaired the Committee since September 2022 and has been a member of the Committee since joining the Board in June 2020. The other Committee members are currently John Ramsay, Lucy Dimes, and Jane Moriarty. Please see pages 108 and 109 for biographies and page 117 for attendance.

Highlights

- Review of the Company's Remuneration policy for proposing to shareholders for their approval at the 2023 AGM
- Engagement with shareholders in respect of the Company's proposed Remuneration policy
- Review of FY23 remuneration outcomes
- Deciding on the FY24 implementation of the Remuneration policy

Key responsibilities

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

Dear fellow Shareholder

This is my first report to you as Chair of the Committee. Before starting my report, I would like to thank my fellow Committee members for their time and assistance over the year in review, which involved additional Committee meetings and papers as we reviewed the Company's proposed new Remuneration policy, including the outcome of our engagement with shareholders. I would also like to thank Kjersti Wiklund for all her work as Committee Chair before her retirement from the Board in September 2022.

Finally, I thought it would be useful to set the context in which the Committee made its decisions. This is the second full year of our turnaround. During the year, we, as a company, have taken a number of steps to address our historic underperformance. We have significantly strengthened our balance sheet through our portfolio realignment programme and are now a stronger, more resilient, and more disciplined company. This year we have delivered double-digit organic revenue growth, underlying margin expansion and a significantly better than expected cash performance in an uncertain environment (please see pages 12 to 17 for more detail). The Committee has taken this context into account in deciding the FY23 remuneration outcomes.

New Remuneration policy

A key focus for the Committee over the last year was the review of the Company's Remuneration policy, as our current policy expires this year. We will put the new policy to shareholders for approval at the 2023 AGM. In conducting its review, the Committee kept in mind its key responsibility to maintain a strong link between strategy, stakeholder experience and Executive Director reward. The Committee considered different structures, but concluded that broadly the current policy, which 99.5% of shareholders approved at the 2020 AGM, remains credible and effective, with only modest changes proposed, as discussed below.

Before finalising its proposals, the Committee was keen to engage with shareholders to understand their views. The Committee consulted our largest shareholders, capturing over 60% of the issued share capital, including meeting with a number of them. In general, shareholders supported the proposed policy and offered suggestions around the weighting of incentive measures which the Committee accepted and has adopted. Having received and incorporated the feedback from this exercise, we trust that we are now proposing a policy that broadly all our shareholders will support, as they did in 2020.

Changes in the new Remuneration policy

The Committee looked in detail at the design of the Company's Performance Share Plan (PSP). In particular, it evaluated whether the existing PSP struck the right balance between motivational effectiveness and market competitiveness (by being based on three-year performance) and reinforced success over the longer-term horizons of the Company's business cycle and contracts, as well as the ongoing business turnaround. The Committee considered a number of alternative approaches to the current three-year PSP to help address these specific challenges, including:

- extending the PSP performance horizon, eg, to four or five years. However, the Committee concluded that, given the ongoing business reset, it was preferable to continue with the current three-year long-term incentive period to ensure executives are focused on performance over this next critical stage of our turnaround; and
- replacing the PSP with a Restricted Stock Plan, where shares awarded to the executives vest over time subject to continued employment only (ie without performance conditions). While this structure is considered potentially helpful in alleviating the challenges of target setting and would align existing arrangements in Babcock for employees below Board level, which reflects incentive practices seen elsewhere in the market, the Committee concluded that it was important to retain a strong focus on performance-related long-term remuneration at executive levels, and that the PSP remained the best vehicle to achieve this.

The Committee therefore decided to retain the existing PSP but revise the measure scorecard; the Committee discussed with the management team a range of possible PSP measures which would align more closely with the drivers of the Company's long-term success and strategy, and concluded that TSR (used previously in the PSP) should be replaced by two new key financial metrics. This new set of metrics, the Committee believes, will ensure the PSP is more effective in reflecting the quality of decision-making over the PSP performance horizon. The new proposed metrics for the 2023 PSP grant are:

- Free cash flow (weighted 30%); retaining this KPI in the PSP scorecard aligns with our current focus on improving the quality of our cash flow and balance sheet strength;
- Underlying operating margin (weighted 30%); this is a key strategic driver for the Company and a KPI that underpins shareholder value creation over the longer-term;
- Organic revenue growth (weighted 25%); to incentivise delivery of a primary KPI for the Group and a key pillar of our strategy. This element will also be subject to a discretionary underpin if operating margin performance is below threshold; and
- ESG (weighted 15%); the Committee is mindful of the increasingly strong investor sentiment in this area and, in particular, the desire to see quantitative environmental targets included in the long-term incentive.

The Committee has selected two key metrics, reduction in carbon emissions and senior management diversity, in line with the Company's ESG strategy. The Committee believes that these four measures together capture the key drivers of the Company's long-term strategy and enable the Committee to set challenging, but meaningful, three-year targets against which to measure success. In proposing this scorecard, the Committee also considered whether to retain a weighting on relative TSR for the 2023 PSP awards. However, it concluded that, when measured over a three-year period, TSR is likely currently to be less directly related to Babcock's underlying performance and therefore risks outcomes being driven primarily by external factors beyond management's control. In addition, the Committee believed it was a challenge to define a benchmark for the Company that was both robust and sufficiently relevant to ensure the relative TSR measure would be credible. Therefore, the Committee proposes dropping relative TSR for the FY24 cycle, and keeping under review its use in the scorecard attaching to future cycles during the life of the proposed Policy.

As discussed above, the Committee considered carefully how the Company's remuneration arrangements could incentivise the delivery of its strategy over its long-term business cycle generally, and through the business reset specifically. The Committee believes that the balance of pay elements should reflect this focus, with a significant portion of the Executive Directors' pay being delivered in shares vesting subject to multi-year performance to create alignment with the Company's performance over this period and, by extension, the experience of our stakeholders.

As part of this review, the Committee therefore also considered whether the existing incentive opportunities remain appropriate in the specific business context for Babcock, and whether they deliver a competitive, performance-orientated package reflective of the calibre, experience and sustained strong performance of our Executive Directors. The Committee concluded that the annual bonus opportunity was set at an appropriate level, but that the PSP limit in the Policy should be increased from 200% to 250% of salary. The Committee is proposing to increase the CEO's PSP opportunity in line with this change. In determining to do so, the Committee considered the complexity and critical nature of the business reset required to establish a platform for future success and shareholder value creation, and the value attributed to the specific skillset, expertise, sector knowledge and deep customer relationships of our high-performing CEO. The Committee resolved to upweight the emphasis in the CEO's package on long-term performance to reflect these considerations and further strengthen the alignment of incentive outcomes with shareholders' longer-term interests through the delivery of the business reset. The Committee is mindful of the external optics of quantum increases, but is satisfied that this is proportionate to the calibre of our CEO (the total remuneration opportunity would be positioned between median and upper quartile for companies of comparable scale and sector peers); does not risk rewarding poor performance (targets are set to be stretching, and the vesting level at threshold – of 16.7% – is below market norms); and will appropriately reinforce a scorecard of measures that are consistent with the Company's strategy and values. We calculate that the impact of making this change on the CEO's overall remuneration level, considering the achievability of the performance conditions, is c.8%. The CFO's PSP award opportunity will remain at 200% of salary for the time being. Full vesting of the PSP award opportunity will continue to be subject to the achievement of stretching targets, ensuring that the additional opportunity vests only for delivering exceptional performance for stakeholders.

Having set out the changes, I hope to receive your support on our new policy at the 2023 AGM. If you would like to talk to me about the new policy, I will be at the AGM and would be more than happy to take any questions.

Remuneration in FY23

This annual report together with the FY23 financial statements sets out the business context in which the Committee took its decisions over FY23. The Committee believes that the remuneration outcomes, which I summarise below, reflect the Company's performance and the broader context, including shareholders' experience and interests.

In summary, the Committee approved the following outcomes:

- **Salary:** As we disclosed in our FY22 report, the Company decided to focus its FY23 pay settlement on those employees most impacted by the 'cost-of-living' crisis by awarding a standardised annual salary increase to all UK employees except the highest earners. In line with this decision, the Committee decided not to increase the Executive Directors' salaries for FY23.
- **FY23 annual bonus:** We followed the same structure for the FY23 annual bonus for Executive Directors as we did for FY22. It was based 80% on underlying financial performance measures, split equally between underlying operating cash flow (OCF) and underlying profit before tax (PBT). In line with past practice, we maintained the percentage allocated to non-financial measures at 20%. As in FY22, 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. Even though the Company's cash flow performance was strong in FY23, with the OCF component of the bonus being earned in full, the PBT performance threshold was missed and no bonus was earned for this component. The Committee also considered the excellent progress against the FY23 strategic priorities, as detailed on pages 13 and 14, and was pleased to award an overall annual bonus for FY23 of 59% of maximum for David Lockwood and 58% of maximum for David Mellors. Please see pages 144 and 145 for more detail.
- **2020 PSP awards:** The Committee made its 2020 PSP grant in December 2020, delayed due to the impact of COVID-19. Vesting of the awards (the opportunities under which were scaled back by 10% – to 180% of salary – to reflect the Company's share price performance prior to grant) is linked 50% to cumulative underlying free cash flow (FCF) over three years ending FY23 and 50% on relative Total Shareholder Return (TSR) over three years ending 30 November 2023. As set out on page 146 (and in line with best practice guidance from investors and their representatives), the Committee subsequently further scaled back the award opportunities by a further 10% of salary at the time of finalising the FCF targets, to recognise the decision to delay doing so pending the conclusion by the Company of the Contract Profitability and Balance Sheet review in 2021. The Committee recognises that 2020 was an uncertain period for the business, and considers the reductions to the 2020 PSP award quantum to be appropriate in the circumstances. The FCF component has vested at 100%, following exceptionally strong underlying cash generation; the relative TSR component was tracking at zero vesting at the end of FY23 – we will report on its final vesting in the FY24 report and confirm overall vesting of the 2020 PSP award next year.
- **2022 PSP awards:** We granted the 2022 PSP award in August 2022. Vesting is based on relative TSR and cumulative FCF, both equally weighted, consistent with the 2021 PSP awards.

The performance period for the award is the three financial years starting with FY23; as we consider the targets for cumulative free cash flow to be commercially sensitive, we have delayed disclosing the range, but we will disclose this no later than the FY25 annual report, being the relevant annual report for disclosing the vesting outcome for the 2022 PSP award. For further detail, please see pages 143 and 151 to 152.

Remuneration for FY24

When considering the implementation of our Remuneration policy for FY24, we have borne in mind the need to continue to support the turnaround of the Group by ensuring that we incentivise the Executive Directors to deliver the Board's strategic actions, whilst continuing to align the implementation of the policy with shareholder interests. We have done this as follows:

- **Salary:** Our normal practice is to align our review of the Executive Director salaries with the Company's review of the wider workforce. This year, the Committee will wait to see the outcome of the Company's review before deciding whether any increase is appropriate for the Executive Directors. The Committee is well aware of shareholders' views during this time of inflation and will bear those views in mind in its discussions.
- **FY24 annual bonus:** The structure of the Executive Director annual bonus for FY24 is consistent with that for FY23, with measures based on underlying OCF, underlying PBT and non-financial objectives. The maximum award opportunity is 150% of salary and the Executive Directors will defer 40% of any earned bonus into the Company's shares for three years. We have set the measures and targets, which we will disclose in full in our report next year. Please see page 147 for more detail.
- **2023 PSP awards:** We will grant awards under the PSP to the Executive Directors in 2023 covering the three-year period FY24–FY26. As described above, we have decided to refine the measures so that they align more closely with the drivers of the Company's long-term performance and strategy. The measures are free cash flow (as used for the 2022 PSP award), underlying operating margin (an important indicator of operating efficiency), organic revenue growth (an indicator of business growth) and ESG (reflecting shareholder sentiment that companies need to play their part in improving the UK's performance in this area). We have set the targets for each measure to ensure that they are appropriately stretching. For more detail please see page 146.

Focus for FY24

We will continue to support the strategic aims of the Group through our work on the Committee and the implementation of our Remuneration policy. To do that, we will continue to engage with our key stakeholders, our shareholders and employees, to understand their views. We will use this engagement to design remuneration structures under our new Remuneration policy which reflect best practice and support the Group's strategic direction and incentivise employees to deliver value to shareholders.

I hope that I can count on your support for our new Remuneration policy. If you have any questions, I will be at the 2023 AGM and would be happy to discuss them with you.

Carl-Peter Forster
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over FY23 and the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 142 to 152.

FY23 remuneration outcomes

FY23 Annual bonus

The Committee based the FY23 bonus on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below. For a full description of the FY23 annual bonus, please see page 144.

Measures	Warranted payout (% of maximum bonus)				Performance targets
	D Lockwood		D Mellors		
Underlying Profit Before Tax (PBT)	40% Max	0% Outturn	40% Max	0% Outturn	Threshold Target Stretch £223.3m £235.0m £258.5m Outturn £128.9m
Underlying Operating Cash Flow (OCF)	40% Max	100% Outturn	40% Max	100% Outturn	Threshold Target Stretch £121.1m £127.5m £140.3m Outturn £307.0m
Non-financial	20% Max	95% Outturn	20% Max	90% Outturn	
Total	100% Max	59% Outturn	100% Max	58% Outturn	

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

2020 PSP

The Committee approved the 2020 PSP grant in December 2020, delayed due to COVID-19. Vesting is based 50% on three year underlying free cash flow (FCF) and 50% on three year relative Total Shareholder Return (TSR). The FCF performance period ended 31 March 2023, warranting 100% vesting. The TSR performance period ends November 2023, but as of 31 March 2023 vesting was zero.

	% weighting	Threshold performance (6.7% vesting)	Stretch performance (100% vesting)	Outturn	Vesting % of overall award
3-year FCF post exceptional items	50%	£140m	£210m	£253m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Below median TSR as of end FY23	0%
				Total expected vesting	50%

1. The Committee adjusted the FCF outturn to exclude the cash flow impact of certain items, and which was intended to ensure the focus was on driving core performance. For more information, please see page 146.

Implementation of the Remuneration policy in FY24

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

Element of remuneration	Base salary	Pension	Benefits
Implementation for FY24	David Lockwood: £816,000 David Mellors: £571,200 The Committee will review the base salary of the Executive Directors later in the year. In its review, it will carefully consider shareholder sentiment in respect of salary increases.	10% of salary	Unchanged from FY23

Element of remuneration	Annual bonus and Deferred Bonus Plan (DBP)	PSP
Implementation for FY24	The bonus structure is consistent with that used for FY23, with awards of up to 150% of salary based on the achievement of financial targets, underlying profit before tax (PBT) and underlying operating cash flow (OCF), (each a 40% weighting) and non-financial measures (20% weighting). The Committee has maintained its normal practice of paying 60% of any bonus earned in cash, with the remaining 40% deferred in shares for three years. For more detail, please see page 147.	PSP awards of 250% and 200% of salary for the CEO and CFO respectively, with vesting based on measures the Committee believes are most appropriate: ECF (weighted 30%), underlying operating margin (weighted 30%), organic revenue growth (weighted 25%), and subject to a discretionary operating margin underpin) and ESG (weighted 15%).

Alignment of the Remuneration policy

The Committee believes that the policy complies with the pillars set out in paragraph 40 of the 2018 Corporate Governance Code:

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

Compliance statement

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

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

Remuneration policy report

Shareholders approved our current Remuneration policy at our 2020 AGM. As the policy expires after three years, we will propose a new Remuneration policy to shareholders for their approval at the 2023 AGM. We set out below the new policy with any changes from the current policy in *italics*. We have explained any changes to the current policy in detail in the Committee Chair's opening letter on pages 131 to 133. If shareholders approve the new policy, the Committee intends to apply it for three years from the date of its approval. You can find the current policy at www.babcockinternational.com/who-we-are/leadership-and-governance.

Key principles of the Remuneration policy

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

Remuneration policy for Executive Directors

Base salary

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

Pension

Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Executive Directors receive pension benefits up to the value (10% of salary, as of FY24) equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market as may be in effect or amended from time to time.
Performance metrics	Not performance related.

Benefits

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

Annual bonus

Purpose and link to strategy

To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of the achievement of long-term strategy and longer-term risks to the Company.

The requirement to defer a substantial part of the bonus into Company shares strengthens the link to long term sustainable growth.

Operation

Performance targets are set at the start of the year and reflect the responsibilities of the Executive in relation to the delivery of our strategy.

At the end of the year, the Committee determines the extent to which the Group has achieved these targets. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, and changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. The Committee defers at least 40% of annual bonus payments for Executive Directors into Company shares for three years. Dividend equivalents accrued during the deferral period are payable in respect of deferred shares when (and to the extent) these vest.

Malus and clawback provisions apply to cash and deferred bonus awards until the third anniversary of the payment/vesting date: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or would have caused the Committee to exercise any discretion differently.

Opportunity

Maximum bonus opportunity is 150% of salary.

For achievement of threshold, the Executive Directors earn up to 15% of maximum bonus; for achievement of target, they earn up to 55% of maximum bonus.

Performance metrics

The Committee determines performance on an annual basis by reference to Group financial measures, eg underlying PBT¹, underlying OCF, as well as the achievement of non financial objectives.

The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting.

The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Performance Share Plan (PSP)

Purpose and link to strategy

To incentivise delivery of sustainable value creation over the longer term.

Long-term measures guard against the Company taking short term steps to maximise annual rewards at the expense of future performance.

Operation

The Committee has the ability to grant nil-cost options or conditional share awards under the PSP.

The Committee reviews award levels and performance conditions, on which vesting depends, from time to time to ensure they remain appropriate.

Participants will receive cash or shares equal to the value of any dividends that they would have received over the vesting period on awards that vest.

The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles.

An additional two-year holding period will apply to Executive Directors' vested PSP awards before the Company releases them.

Malus and clawback provisions apply to PSP awards until the third anniversary of the payment/vesting date: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.

Opportunity

Maximum annual PSP award opportunity is 250% of base pay.

16.7% of the maximum award opportunity will vest for threshold performance.

Performance metrics

Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period.

The Committee intends to base PSP awards made during the life of this policy on the achievement of stretching targets that align to key drivers of strategy (including, but not limited to, free cash flow, operating margin, organic revenue growth and ESG).

The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.

1. Under the 2020 remuneration policy the maximum was 200%.

All-employee plans – Babcock Employee Share Plan

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

Approach to recruitment remuneration

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

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

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

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

Payments from existing awards and commitments

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

Performance measure selection and approach to target setting

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

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

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

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

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

Executive Director and general employee remuneration

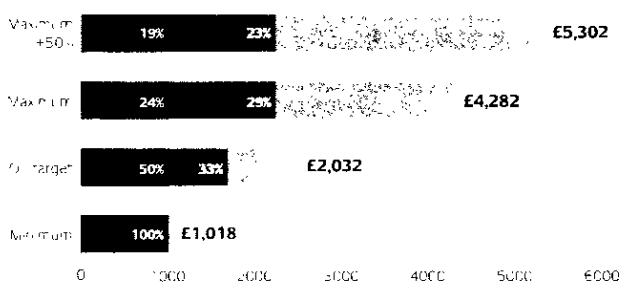
The policy with regard to the remuneration of senior executives below the Board is broadly consistent with that for the Executive Directors, in that it weights remuneration to variable components which are delivered through an annual bonus and equity-based incentives, albeit that restricted stock awards,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

Balance of remuneration for Executive Directors

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

Chief Executive

David Lockwood (£'000)



■ Fixed ■ Bonus ■ PSP

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

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

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

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

Shareholding guidelines for Executive Directors

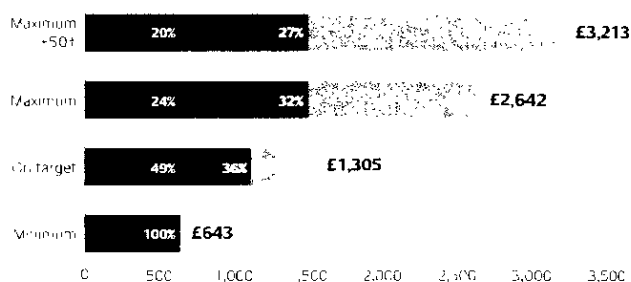
The Committee sets shareholding guidelines for the Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO).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

The shareholding requirements include a post-cessation extension such that departing Executive Directors will be required to hold vested Company shares, received through incentive plans granted from the 2020/21 financial year 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.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY24, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 April 2023. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

Chief Financial Officer

David Mellors (£'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

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

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

Governance statement: Remuneration (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 award in full on the change of control, with Committee discretion to treat otherwise.	Entitled to retain any award, which will generally vest at the normal vesting date, with Committee discretion to treat otherwise.	Outstanding awards are forfeited unless the Committee exercises its discretion to treat otherwise.
PSP	Awards generally vest immediately and, for performance-related awards, will be pro-rated for time and remain subject to performance conditions, with Committee discretion to treat otherwise.	Entitled to retain a time pro-rated proportion, which remains subject to performance conditions tested at the normal vesting date. In very exceptional circumstances, the Committee has discretion to allow immediate vesting, but time pro-rating will always apply.	Outstanding awards are forfeited unless the Committee exercises discretion to treat otherwise.

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

External appointments of Directors

The Directors may accept external appointments with the prior approval of the Chair, provided that such appointments do not prejudice the individual's ability to fulfil their duties for the Group. Any fees for outside appointments are retained by the Director. The Chair will approve such appointments, as the Board believes it is beneficial for Directors to gain experience of practice in other organisations. However, before approving any appointment, she must satisfy herself that there are no conflict issues with the Company (or they can be appropriately dealt with) and the Director will have sufficient time to devote to the Company. During the year, Carl-Peter Forster joined Vesuvius plc and Lucy Dimes joined Iomart plc. Since the year end, Ruth Cairnie has joined the BT Group plc but stepped down as Senior Independent Director and Remuneration Committee Chair for Associated British Foods plc.

Chair and Non-Executive Directors

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

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

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

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

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

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

Function	Description	Quantity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	<p>Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair). Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit Committee, Chair of the Remuneration Committee and Director designated for employee engagement.</p> <p>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).</p> <p>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.</p>	<p>Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review.</p> <p>Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees.</p> <p>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.</p>	None

Consideration of employee views

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

The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required. The Committee engages with employees through several routes: directly with employees through the global people survey and through the 'ask David' email; and indirectly through forums such as the employee representative forum, which is a forum where the CEO, the CFO and the Chief HR Officer meet with the Group's main trade union representatives to discuss matters of material interest to the Group, including the Group's remuneration policy. At the FY23 meetings, the Chief HR Officer explained the Company's approach to executive pay, including that of the Executive Directors, and the intent of the Company to focus on its lower paid employees by offering a standardised annual pay increase for all UK employees up to a given threshold. The Chief HR Officer explained that there would be no increase for those employees on fixed pay over the threshold, including the Executive Directors, who would still remain eligible for the bonus and the PSP. The trade union representatives welcomed the Company's early engagement and its proposed positioning for FY23. The Chief HR Officer reported the views of the trade union representatives to the Board and the Committee for them to consider as part of their discussions. The Committee takes any feedback it receives into account in its decision-making on executive remuneration.

Consideration of shareholder views

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

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Annual report on remuneration

The Committee

The Board appoints the members of the Committee on the recommendation of the Nominations Committee. In accordance with the UK Corporate Governance Code, only independent Non-Executive Directors are members of the Committee. In total there were 8 meetings in the year to 31 March 2023. The Chair and the CEO attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief HR Officer also attends meetings.

The terms of reference for the Committee are available for inspection on the Company's website. The Committee reviewed them during the year. Duties of the Committee include the review 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.

Advisers

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 £96,420 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 adviser 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 2023, including:

- renewing the Remuneration policy bearing in mind market trends and corporate governance best practice
- engaging with shareholders in respect of the Company's new Remuneration policy
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing share ownership guidelines for senior executives
- reviewing the Directors' Remuneration report
- reviewing the continued appointment of the Committee's independent advisers
- making share awards under the Company's share plans
- reviewing the performance measures and targets to be applied under the Company's PSP
- agreeing Executive Director salaries for the financial year
- considering performance targets and non-financial objectives for the FY24 annual bonus plan
- agreeing the level of vesting of PSP awards granted in 2019
- considering performance against the measures applied to, and level of payout of, the FY22 annual bonus
- agreeing the level of, and targets for, 2022 PSP awards.

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy at the 2020 AGM, and the advisory vote on the Annual report on remuneration, at the 2022 AGM:

Votes cast	2020 Remuneration policy		2022 Annual report on remuneration	
	Total number of votes	% of votes cast for or against	Total number of votes	% of votes cast for or against
For (including discretionary)	358,523,814	99.48%	320,983,657	94.45%
Against	1,866,823	0.52%	18,867,386	5.55%
Total votes cast (excluding withheld votes)	360,390,637	100%	339,851,043	100%
Votes withheld	16,471,678		28,309	
Total votes cast (including withheld votes)	376,862,315		339,879,352	

Single total figure of remuneration for Executive Directors for FY23 (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director.

	David Lockwood		David Mellors	
	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000
Fixed remuneration				
Salary	816	808	571	566
Benefits in kind and cash ¹	121	119	15	15
Pension ²	82	81	57	57
Annual variable remuneration				
Annual bonus (cash) ³	433	580	298	401
DBP (deferred annual bonus plan) ⁴	289	387	199	268
Long-term incentives				
PSP ⁵	631	n/a	442	n/a
Dividends ⁷	0	n/a	0	n/a
Total (of which)	2,372	1,975	1,582	1,307
Total fixed remuneration	1,019	1,008	643	638
Total variable remuneration ³⁺⁴⁺⁵⁺⁷	1,353	967	939	669

The figures have been calculated as follows:

- Salary: Base salary amount paid in the year. The Executive Directors did not receive a pay increase in FY23, but they did part way through FY22. The reason for the difference between the base salary between FY22 and FY23 is that the FY23 amount shows the FY22 increase for the full year, whereas the FY22 amount only shows the increase for part of the year.
- Benefits in kind and cash: The value of benefits and salary supplements (other than those in lieu of pension) including medical or cancer cover to which they are entitled incurred at the request of the Company, accommodation-related benefits, car and fuel benefits and costs in connection with accommodation. David Lockwood in FY23 received £99,495 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 for David Lockwood and David Mellors was 10% of base salary.
- Annual bonus (cash): This is the 60% of total annual bonus earned for performance during the year (see pages 144 and 145) that is not required to be mandatorily deferred into shares under the DBP (see page 137) and is paid in cash.
- DBP: This is the mandatorily deferred element of the annual bonus earned for performance during the year (40% of earned bonus), which will vest after three years.
- PSP: The 2020 award was granted in December 2020 at a grant price of 352p, with vesting based 50% on cumulative FCF to the end of FY22 and 50% on relative TSR over the 3 years to 30 November 2023. The value in the table reflects 100% vesting of the FCF component and an expectation of zero vesting of the TSR component, using a share price averaged over the last quarter of FY23 (of 309.12p); the vest-date value attributable to share price appreciation was zero as the share price at grant was higher, at 352p. The value recorded in the table will be updated in the FY24 report, to reflect any change in vesting of the TSR component and the actual share price at vest.
- Dividends: The total value of dividends accruing on long-term incentive awards (other than on mandatory deferral of bonus awards under the DBP) vesting on performance to 31 March 2023 (for FY23) and 31 March 2022 (for FY22), payable in cash on exercise of the award.

Neither of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2023. 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	FY23 £'000 pa	FY22 £'000
David Lockwood	4	4
David Mellors	3	3

Governance statement: Remuneration (continued)

FY23 annual bonus (audited)

The Committee based the FY23 annual bonus on a mix of financial and non-financial measures. The financial element, weighted 80%, was the underlying OCF and PBT performance (based on budgeted foreign exchange rates) of the Group against budget. The non-financial measures were principally the themes that the Committee considers to be of material importance to the continued success of the Company.

In determining the outturn in respect of the financial measures, the Committee considered whether it should adjust the actual outturns to account for the impact of the sale of certain of the Group's aerial emergency services businesses (the AES business), but concluded that no adjustment was necessary as it would have had no impact on the bonus outcome. The Committee also reviewed the Company's health & safety performance as it is an underpin for the annual bonus. The Committee considered the totality of the Group's health & safety environment over the year, including the improved reporting culture, the changes made over the year and the improved profile of the Group's Total Recordable Injury Rate and decided not to exercise its discretion.

The table below summarises performance against each financial measure, and the bonus outcome.

Bonus element	Threshold	Target	Maximum	Outturn		David Lockwood	David Mellors
Achieving budgeted underlying operating cash flow	£121.1m	£127.5m	£140.3m	£307.0m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Achieving budgeted underlying profit before tax	£223.3m	£235.0m	£258.5m	£128.9m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	0%	0%
Non-financial objectives ¹					Maximum potential (% of salary)	30%	30%
					Outturn (% of salary)	28.5%	27%
Total					Maximum potential (% of salary)	150%	150%
					Outturn (% of salary)	88.5%	87.0%

1. Threshold vesting is 18.8% of maximum for the PBT 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. Operating cash flow after capital expenditure and before pension payments in excess of the income statement charge.
3. Before amortisation of acquired intangibles, with the treatment of exceptional items at the discretion of the Committee.
4. Further details on the non-financial objectives set for FY23 are given below.

FY23 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, culture and ESG, as the Committee believed these themes align to the Company's turnaround.

Overall, the Committee assessed that strong progress has been made in FY23 on a very broad front, with clear signs of improvements in relationships with key stakeholders, strengthened international outlook for the Group, simplified and more consistent processes, stronger focus on people, and a marked positive shift in culture. Performance against the objectives (detailed below) was generally well above expectations, and while in some areas there remains much to be done, this reflects the starting point, scale and the complexity.

David Lockwood

Theme	Objective and assessment	Assessment
Strengthen position in the UK	Significant progress ahead of Board expectations, including: <ul style="list-style-type: none"> • Babcock taking leadership positions on Defence Supplier Forum and Shipbuilding Enterprise for Growth • Full mobilisation of Future Maritime Support Programme with structured process to deliver required savings 	Exceeded expectations
Grow international business and strengthen capability	<ul style="list-style-type: none"> • Strong progress in Defence Support Group – Year 8 closed with no red KPIs • Awarded multi-year programme to upgrade the Australian Defence Force's high frequency communications system, reinforcing Babcock's leading position in that region • Awarded first significant Land Sector contract in France • Established office to address AUKUS opportunity 	Exceeded expectations
Drive operational transformation	<ul style="list-style-type: none"> • Delivered targeted savings built into sector budgets • Successful execution of Phase 1 implementation of new Global Business Management System, providing a standardised approach across Babcock 	Exceeded expectations

People & culture: Strengthen Babcock's capability to secure the workforce and leadership it requires	<ul style="list-style-type: none"> Executed in full an agreed programme of activities, developing a Group-wide approach to People and Culture for the first time Launch of our Global People Survey (GPS), with participation rates outperforming market benchmarks Launch of Global Babcock Role framework Simplified key HR processes including: inclusion, agile working and family leave policies to embed cultural change 	Exceeded expectations
ESG: Strengthen Babcock's ESG credentials	<ul style="list-style-type: none"> Excellent progress made on further embedding Babcock's safety culture, with 81% of employees in the GPS perceiving Babcock to be committed to the health & safety of its people Plan Zero 40 steps successfully implemented, with ten pathfinder projects developed Diverse management representation continues to grow and our gender pay gap continued to improve in 2023, now 5.5% below the UK average 	Exceeded expectations

David Mellors

Theme	Objective and assessment	Assessment
Strategy: Improve Group financial base stability	<ul style="list-style-type: none"> Successfully launched a new model of monthly rolling forecasts Increased focus on cash delivery to move towards a smoother cash profile Introduction of Group Programme Watchlist with standard programme status review materials 	Exceeded expectations
Portfolio rationalisation	<ul style="list-style-type: none"> Delivered agreed objectives, including the completion of the sale of certain of the Group's serial emergency services businesses, realising total cash proceeds of c.£635 million, well exceeding our initial guide of at least £400 million 	Exceeded expectations
Drive operational transformation & performance	<ul style="list-style-type: none"> Delivered targeted savings built into sector budgets Successful execution of Phase 1 implementation of new Global Business Management System, providing a standardised approach across Babcock Internal audit processes overhauled 	Exceeded expectations
People & culture	<ul style="list-style-type: none"> Transformation of finance function by leading the deployment of a new shared-services business model with the establishment of the Finance Business Services team Simplified global banking services with the transition to a single provider Transformation of the procurement function by managing the standardisation of processes and policies and the launch of a procurement academy with over 800 employees on the programme 	Exceeded expectations Met expectations
ESG	<ul style="list-style-type: none"> Embedded new governance and internal controls framework across the Group, with the implementation of the Blueprint of Controls Reviewed the design of the internal audit function with the Audit Committee Chair, appointing a Group Director of Internal Audit and transitioning to in-sourcing internal audit 	Exceeded expectations

The FY23 bonus outcomes for each Executive Director are as follows (40% of which will be deferred under the DBP):

	Payment for financial targets (% salary)	Payment for non financial targets (% salary)	Total bonus (% salary)	Total bonus (£'000)
David Lockwood	60%	28.5%	88.5%	£722
David Mellors	60%	27.0%	87.0%	£497

Governance statement: Remuneration (continued)

Long-term incentive scheme (PSP) awards vesting during the year (audited)

The Executive Directors were granted PSP awards on 1st December 2020, delayed due to the impact of the COVID-19 pandemic. The values of the awards were scaled back by 10% from 200% of salary to 180% of salary, to reflect the share price decline in the period prior to the grant. In line with best practice guidance from investors and their representatives, the Committee subsequently further scaled back the award opportunities by a further 10% of salary at the time of finalising the underlying free cash flow (FCF) targets, to recognise the delay in finalising the target pending the conclusion by the Company of the contract profitability and balance sheet review in 2021. The Committee recognises that 2020 was an uncertain period for the business, and considers the reductions to the 2020 PSP award quantum to be appropriate in the circumstances. Vesting of the awards is based on cumulative underlying free cash flow (FCF) and relative Total Shareholder Return (TSR), with each measure having equal weighting. The performance period for these awards is the three financial years through to 31 March 2023 for cumulative FCF, and the three years starting on the date of grant (1 December 2020) for relative TSR. Through to the end of FY23 the vesting of the FCF component was 100%; as a result of strong underlying cash generation; the vesting of the relative TSR component will be confirmed in the FY24 report, but as of 31 March 2023 Babcock's performance was below Median TSR, suggesting a vesting of zero; therefore, the numbers in the table below are indicative. Awards will vest on 1st December 2023 and be subject to a two year holding period. The Committee will assess the vest-date value in December 2023 and determine then whether any additional downwards adjustment needs to be made to ensure the award does not benefit unduly from windfall gains.

	Weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Adjusted performance	Vesting (% of overall award)
3-year adjusted underlying FCF	50%	£140m	£210m	£253m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Below Median TSR (as of end FY23)	0% (indicative)

Awards vest on a straight-line sliding scale between threshold and stretch.

To ensure the Executive Directors were appropriately incentivised to deliver against the stated medium term objectives of the business reset, the Committee agreed at the time of setting the targets that it would be appropriate to measure underlying FCF on an adjusted basis, ie before certain items. Accordingly, the Committee set the targets to exclude the cash flow impact of the following items: voluntary excess pension deficit payments, the Italy fine, operating model restructuring costs, as well as cash flow lost as a result of executing the disposal programme.

This approach recognised the prevailing business context at the time, shortly after the Executive Directors were appointed, and was intended to ensure the focus was on driving core performance. In determining that this element of the 2020 PSP award should vest in full, the Committee adjusted the FCF performance by excluding the cash flow impact for excess pension contributions, the Italian fine, and restructuring costs, which increased FCF performance by £155 million for the excess pension contributions, £15 million for the Italian fine, and £40 million for restructuring costs. The Committee is pleased to note that not only was the Company able to increase the payments made over the period to address the pension deficit, but also that underlying FCF performance after taking into account these items was ahead of internal expectations.

Long-term incentive scheme (PSP) award granted during FY23 (audited)

The Committee granted PSP awards in the form of nil-cost options in August 2022 to the Executive Directors, consistent with the Remuneration policy.

Director	Number of shares	Face value	Face value (% of salary)	% of award receivable for threshold performance
David Lockwood	474,418	£1,632,000	200%	16.7%
David Mellors	332,093	£1,142,400	200%	16.7%

- Awards are in the form of nil-cost options.
- Based on three-day average share price (of 344p) at time of grant.
- Expressed as a percentage of salary at the date of the award (1 August 2022).

Vesting of the awards is based on FCF and relative TSR, equally weighted. The performance period for these awards is the three financial years 1 April 2022 through to 31 March 2025. Awards vest on a straight-line sliding scale between the stated threshold and stretch performance levels.

The relative TSR performance range is below:

	Weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa

Free cash flow (FCF) is defined as cash flows of the Company, including exceptional items (unless the Committee decides otherwise), but excluding disposals, on an IFRS 16 basis. Given the current position of the Company in its turnaround the Committee considers the performance range for the cumulative three-year FCF measure to be commercially sensitive but will disclose the range at the earliest opportunity when its commercial sensitivity is removed. The Committee may need to use its discretion to review the outcome of the awards in 2025 to take into account the level of uncertainty at the time of award. As always, final decisions would include a check to ensure alignment with the shareholder experience.

Deferred Bonus Plan awards made during FY23 (audited)

In 2022, the Committee approved the payment of annual bonuses to both Executive Directors under the FY22 annual bonus plan. For more detail, please see the single total figure table on page 143.

Single total figure of remuneration for Non-Executive Directors for FY23 (audited)

The table below sets out the total remuneration received by each Non-Executive Director:

	Base fee		Additional fee		Total ¹		Total fixed remuneration		Total variable remuneration	
	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000
Fixed remuneration										
Ruth Cairnie	336	336	–	–	336	336	336	336	–	–
Lucy Dimes	61	61	–	–	61	61	61	61	–	–
Kjersti Wiklund	28	61	4	15	32	76	32	76	–	–
Russ Houlden ²	20	61	–	14	20	75	20	75	–	–
Carl-Peter Forster ³	72	72	11	–	83	72	83	72	–	–
Lord Parker	61	61	6	–	67	61	67	61	–	–
John Ramsay ⁵	61	15	15	1	76	16	76	16	–	–
Jane Moriarty ⁶	20	n/a	–	–	20	n/a	20	n/a	–	–

1. Relating to role as Chair of the Audit Committee (John Ramsay), Remuneration Committee (Kjersti Wiklund until her retirement in September 2022 and now Carl-Peter Forster), and Director designated for employee engagement (Lord Parker).

2. Non-Executive Directors did not receive any taxable benefits in FY23 or FY22.

3. Kjersti Wiklund stepped down from the Board in September 2022 and Russ Houlden stepped down in July 2022.

4. Carl-Peter Forster is the Senior Independent Director and Chair of the Remuneration Committee.

5. John Ramsay joined the Board in January 2022.

6. Jane Moriarty joined the Board in December 2022.

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 purchases in the market by the trusts using funds advanced by the Company. The Company finalises the source selection on or before vesting, depending on the Board's view of the best interests of the Company at the time, within the limits of available headroom and dilution restrictions.

Executive Directors' remuneration for FY24

The Committee has set the remuneration for Executive Directors for FY24 in line with its new Remuneration policy.

Fixed pay

The Company has not completed its FY24 pay review for the general UK workforce. Therefore, the Committee has decided not to review the fixed pay of the Executive Directors until later in the year when the FY24 pay review is more advanced. In its review, the Committee will take account of shareholders' views on increases in executive pay and their alignment with the increases for the workforce. The Executive Directors will receive the same pension arrangements as in FY23 (ie at 10% of salary) and the same benefits as in FY23.

	1 April 2023	1 April 2022
David Lockwood	£816,000	£816,000
David Mellors	£571,200	£571,200

FY24 annual bonus

The structure of the Executive Director annual bonus for FY24 is consistent with that for FY23, with measures based on underlying OCF, underlying PBT and non-financial objectives. The Committee has agreed the targets but, due to their commercial sensitivity, it will only disclose them in next year's Annual report on remuneration.

40% of any earned bonus will be deferred into shares for three years, with the remaining 60% payable in cash (in line with our normal Remuneration policy).

Governance statement: Remuneration (continued)

2023 PSP awards

The Committee intends to grant awards under the PSP to the Executive Directors in 2023 covering the three-year period FY24–FY26, with the measures being underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%).

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	15.7%	23.6%
3-year weighted average underlying operating margin	30%	6.8%	8.0%
3-year cumulative underlying free cash flow	30%	£216m	£324m

1. FY24 and FY25 account for 25% each of the measure whereas FY26 accounts for 50%.

Awards vest on a straight-line sliding scale between threshold and stretch.

The targets for the ESG measures are:

- A reduction in the Company's carbon emissions in FY26 within a range of (6.7)% and (8.5)%. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). A reduction of (6.7)% will result in a 16.7% vesting of this portion of the ESG element, with a reduction of (8.5)% warranting full vesting.
- The achievement of senior management gender diversity range in FY26 of between a threshold of 28.5% and a maximum of 31.5%, being a -5% and +5% range around the Company's gender diversity target. This measure will have a 7.5% weighting, with a 16.7% vesting at threshold and full vesting at maximum. The definition of senior management is employees, excluding Executive Directors, who have responsibility for planning, directing or controlling activities of the Group or a strategically significant part of the Group (Sector/Functional leadership teams) and/or are directors of subsidiary business units (Business Unit leadership).

Payments for loss of office (audited)

No payments for loss of office were made during the year ended 31 March 2023.

Payments to past Directors (audited)

John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2019 DBP award (the value of which was disclosed in the 2019 Directors' Remuneration Report) vested on 13 June 2022.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. His 2019 DBP award (the value of which was disclosed in 2019 Directors' Remuneration Report) vested on 13 June 2022.

Non-Executive Directors' fees (including the Chair)

In line with the approach taken with the Executive Directors, the Committee will review the Chair's fee later in the year when the FY24 pay review for the general UK workforce is more advanced. The same approach will be taken for the review of the Non-Executive Director fees.

Annual rate fee	FY24 £	FY23 £	% change since last review (FY23)
Chair	336,000	336,000	0%
Senior Independent Director (inclusive of basic fee)	72,000	72,000	0%
Basic Non-Executive Director's fee (UK based Directors)	61,000	61,000	0%
Chair of Audit Committee	15,000	15,000	0%
Chair of Remuneration Committee	15,000	15,000	0%
Director designated for employee engagement	7,500	7,500	0%

2. The Company sets fees for non-UK-based Directors having regard to the extra time commitment involved in attending meetings.

3. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee and for acting as the Director designated for employee engagement. The Company does not pay additional fees for membership of Committees.

Percentage change in the remuneration of all Directors compared to the workforce

The table below shows the annual percentage changes in remuneration over the last three years for each individual who was a Director during the year ended 31 March 2023, compared to the average UK employee, as required under The Companies (Directors' Remuneration policy and Directors' remuneration report) Regulations 2019 (the 'Regulations'). The Committee will build up this analysis in subsequent years until it displays a five-year history.

The Regulations require this disclosure to provide a comparison of year-on-year changes in Directors' remuneration compared to all other employees of the parent company in the Group. However, the Company does not have any employees, meaning there would be no data to disclose for the broader employee population. The Committee has therefore elected to compare the change in Directors' remuneration with the change in remuneration for the average of the UK employee population, as a suitable comparator group for this purpose.

The Committee monitors this information to ensure that there is appropriate alignment over time in fixed pay between Executive Directors, Non-Executive Directors, and UK employees.

	Base salary ¹ fees			Taxable benefits			Single-year variable		
	FY22 to FY23 ¹	FY21 to FY22	FY20 to FY21	FY22 to FY23 ¹	FY21 to FY22	FY20 to FY21	FY22 to FY23 ¹	FY21 to FY22	FY20 to FY21
Executive Directors									
David Lockwood	1%	1%	n/a	1%	1%	n/a	(25)%	n/a	n/a
David Mellors	1%	1%	n/a	0%	1%	n/a	(26)%	n/a	n/a
Non-Executive Directors²									
Ruth Cairnie	0%	5%	26%	n/a	n/a	n/a	n/a	n/a	n/a
Lucy Dimes	0%	5%	5%	n/a	n/a	n/a	n/a	n/a	n/a
Kjersti Wiklund ³	(15)%	4%	18%	n/a	n/a	n/a	n/a	n/a	n/a
Russ Houlder ⁴	(18)%	10%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Carl Peter Forster	16%	11%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lord Parker	10%	5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
John Ramsay ⁵	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Jane Moriarty ⁶	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average for all UK employees ⁶	5.9%	2%	2%	0%	0%	0%	(30.57)%	n/a	(100)%

1. As this table is based on the single figure table, it has produced anomalous results. In respect of the Executive Directors, they did not receive a pay increase in FY23, but they did in July 2021 (part way through FY22). The single figure table shows a base salary actually paid during the year. FY23 was the first year to show the full increase granted in FY22. In respect of the Non-Executive Directors, there were changes to the Chairs of Committees and a fee to Lord Parker introduced for his additional work as Non-Executive Director designated for employee engagement. Together, these account for the percentage changes as there has been no change to their fee levels, other than the decision to pay a fee for the Director designated for employee engagement. Please see the 'Non-Executive Directors' fees' table on page 147. Explanations for the observed changes in earlier years relating to former directors are provided in the relevant Annual Report on Remuneration.

2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.

3. The percentage change in fees for former Directors reflects annualised values for FY22 remuneration to facilitate a comparison with FY23.

4. John Ramsay joined in January 2022. To facilitate a comparison with FY23, his FY22 fee (together with his fee for being the Chair of the Audit Committee) has been annualised. The increase shown above reflects his appointment in late FY22 to the role of Audit Committee chair.

5. Jane Moriarty joined during FY23 and hence no year-on-year comparison is available.

6. The single-year variable figure for our UK employees is provided in respect of our annual bonus plan, which has been estimated based on our expected bonus outcome for FY23 at the time of disclosure. This estimate is prior to any discretionary adjustments.

Relative importance of spend on pay

	FY23	FY22	% change
Distribution to shareholders	£0m	£0m	0%
Employee remuneration	£1,567m	£1,516m	3.4%

Distribution to shareholders includes all amounts distributed to shareholders.

CEO pay ratio

The table below provides disclosure of the ratio between the CEO's total remuneration and that of the lower quartile, median and upper quartile UK-based employees.

Figures for the CEO come from the Executive Directors' single figure table on page 143. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees on 31 March 2023 using the 'single figure' methodology, as at 31 March 2023, to provide a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the P25, P50 and P75 employees – Options A, B and C. From FY23, the Committee concluded to adopt Option B, in recognition of the significant workload placed on our colleagues of the previous methodology in adopting Option A. During FY23, the Committee evaluated Option B as an alternative methodology, concluding through back-testing the calculation for recent years that the resulting pay ratios were not unduly sensitive to the methodology adopted. The Company used the data collected for gender pay gap reporting purposes to identify the three employees representing P25, P50 and P75, calculating the total full-time equivalent remuneration for these three employees on a similar basis to that adopted for the CEO's single figure of total remuneration.

As with last year, the Company excluded bonus payments from the calculations, because it was not feasible to identify those payments for services delivered within the financial year, and because the Company does not know all bonus pay relating to FY23 at the time of publication. Analysis of past data indicates that the three employees would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

To validate that the figures presented are representative of the pay and benefits of the UK workforce, the Company considered the pay and benefits of a number of employees centred on each of the three employees. Whilst there can be variation in the pay mix for individuals throughout the organisation, the Committee believes that the information presented fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year and none received an exceptional incentive award, which would otherwise inflate their pay figures. The Company made no adjustments or assumptions to the total remuneration of these employees and calculated the total remuneration in accordance with the methodology used to calculate the single figure of the CEO.

The median CEO pay ratio in FY23 was 60:1, compared to 48:1 in FY22.

Governance statement: Remuneration (continued)

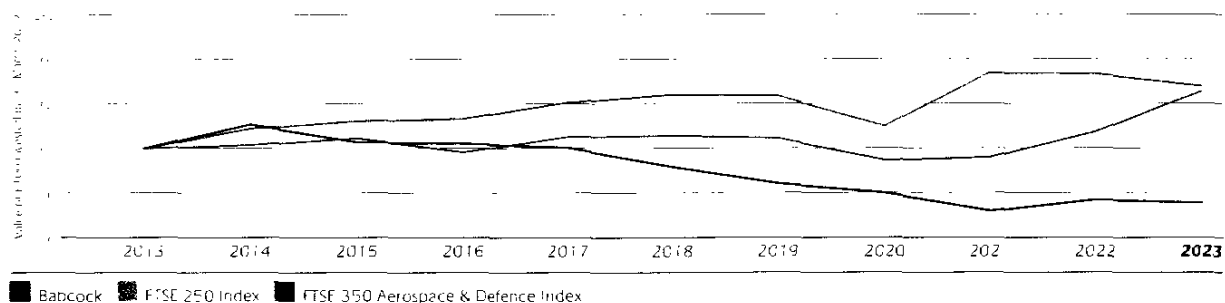
The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The increase within the FY23 ratios is primarily driven by the higher CEO's single total figure of remuneration for the latest financial year, a result of the inclusion in that of an expected 50% vesting level under the 2020 PSP (the first award made to the CEO since joining Babcock). 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 understand 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)
FY23	Option B	73:1	60:1	45:1
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)
FY23	Total remuneration (£'000)	£32.3	£39.3	£52.8
	Salary (£'000)	£30.9	£37.4	£48.9

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence indices, assuming an investor invested £100 on 31 March 2013. The Board considers that the FTSE 250 Index (excluding investment trusts) and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.



The table below details the historical CEO pay over a 10-year period.

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Peter Rogers¹										
Single figure (£'000)	3,809	4,448	2,491	1,091						
Bonus vesting (% max)	93%	78%	60%	66%						
DBMP matching shares vesting (% max)	n/a	88.4%	57.8%	17.0%						
PSP/CSOP vesting (% max)	94.7%	83.5%	37.3%	26.5%						
Archie Bethel^{2,3}										
Single figure (£'000)				1,012	2,079	1,969	1,385	334		
Bonus vesting (% max)				66%	61%	58%	14%	0%		
DBMP matching shares vesting (% max)				17.0%	20.0%	n/a	n/a	n/a		
PSP vesting (% max)				26.5%	23.9%	15.1%	0%	0%		
David Lockwood⁴										
Single figure (£'000)								547	1,975	2,372
Bonus vesting (% max)								0%	80%	59%
PSP vesting (% max)								n/a	n/a	50% ⁵

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.

5. Reflects 100% vesting of the FCF component and an expectation of zero vesting of the TSR component.

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 2023:

Director	At 31 March 2022	At 31 March 2023 ¹							
	Shares held	Shares held			Options held				
	Owned outright by Director or spouse	Owned outright by Director or spouse ²	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	5/holding req. (% salary)	Current shareholding (% of salary) ³	Req. met?
David Lockwood	186,924	186,924	–	–	1,335,413	281,373	300%	127%	Building
David Mellors	71,268	71,268	–	–	934,789	194,495	200%	94%	Building
Ruth Cairnie	120,000	120,000							
Lucy Dimes	5,000	5,000							
Kjersti Wiklund ⁴	2,100	2,100							
Russ Houlden	–	–							
Carl-Peter Forster	10,000	10,000							
Lord Parker	–	–							
John Ramsay	30,000	30,000							
Jane Moriarty	n/a	–							

1. At the date of stepping down from the Board, in the case of former Directors.

2. Beneficially held shares of Director and/or spouse.

3. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2023 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 2023 and a three month average share price over to 31 March 2023 of 309p and are calculated post tax.

4. Kjersti Wiklund retired from the Board in September 2022.

5. Russ Houlden retired from the Board in July 2022.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2023 and 20 July 2023.

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 2023 was 298.8p. The highest and lowest mid-market share prices in the year ended 31 March 2023 were 367.6p and 268.6p, respectively.

Director	Plan and year of award	Number of shares subject to award at 1 April 2022	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2023	Exercise price (pence)	Market value of each share at date of award (pence)	Exercisable from	Expiry date
David Lockwood	PSP 2020	408,545				408,545		352.47	Dec 2025	Dec 2026
	PSP 2021	452,450				452,450		353.63	Aug 2026	Aug 2027
	PSP 2022		474,418			474,418		344	Aug 2027	Aug 2028
	DBP 2022 ⁴ (1 year)		168,824			168,824		344	Aug 2023	Aug 2024
	DBP 2022 ⁴ (3 year)		112,549			112,549		344	Aug 2025	Aug 2026

Governance statement: Remuneration (continued)

Director	Plan and year of award	Number of shares subject to award at 1 April 2022	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2023	Exercise price (pence)	Market value of each share at date of award (pence)	Exercisable from	Expiry date
David Mellors	PSP 2020	285,981				285,981		352.47	Dec 2025	Dec 2026
	PSP 2021	316,715				316,715		353.63	Aug 2026	Aug 2027
	PSP 2022		332,093			332,093		344	Aug 2027	Aug 2028
	DBP 2022 ¹ (1 year)		116,697			116,697		344	Aug 2023	Aug 2024
	DBP 2022 ¹ (3 year)		77,798			77,798		344	Aug 2025	Aug 2026

1. PSP = 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 146.
2. The PSP awards are structured as non-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the 10th anniversary of the award.
4. The Company only requires the Executive Directors to defer 40% of any annual bonus awarded into shares, which vest after three years. The remaining 60% of any annual bonus is paid in cash. In FY22, David Lockwood and David Mellors agreed to defer the 60% usually paid in cash into shares for one year to align their interests with shareholders.

Summary of share-based awards and options vested during the year

No awards vested for the Executive Directors during the year to 31 March 2023.

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in FY23

None of the Executive Directors received a fee for any external appointment during the year.

The Board approved this Remuneration report on 20 July 2023.

Carl-Peter Forster

Committee Chair

Other statutory information

Directors' report and other disclosures

The Directors' report comprises this section, the Principal risks and management controls section in the Strategic report, as well as the rest of the Governance section, the Directors' Responsibility Statement on page 158 and those sections incorporated by reference below.

Disclosures required by LR 9.8.4 R and which form part of the Directors' report can be found as provided in the table below:

Listing rule	Topic	Location
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 24 on page 228

Other disclosure requirements set out in LR 9.8.4 R are not applicable to the Company.

Disclosures required pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by the Companies (Miscellaneous Reporting) Regulations 2018 can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 22, page 221
Greenhouse gas emissions	Page 63
Employee engagement	Pages 57, 78, 107 and 112
Fostering business relationships with suppliers, customers and others	Pages 56 to 57, 83 to 85 and throughout the Strategic report
Subsequent events	Note 33 on page 227
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 17 and 24 to 30

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

The Company did not pay an interim dividend this year (2022: nil) and, as part of our continued focus on building a strong balance sheet, has not recommended a final dividend (2022: nil). Given the stronger than expected cash performance and further de-gearing of the balance sheet, the Board expects to reinstate a dividend in FY24.

Major shareholdings

As at 31 March 2023, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Abrams Bison Investments, L.L.C.	29,311,332	5.80%
Silchester International Investors LLP	25,567,748	5.06%
Invesco Ltd	24,896,615	4.92%
Cobas Asset Management, SGIIC, S.A.	20,458,556	4.05%
Oaktree Capital Management (UK) LLP	15,330,960	3.03%

There have been no further notifications between 31 March 2023 and the date of this report.

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

Employment of disabled persons/equal opportunities

Equal opportunities are available for all employees at Babcock including those with disability. We recognise that disability covers a much broader range of both visible and non-visible conditions. To address this, during FY23, we undertook a full review of options available for personal data including language and definitions.

We define disability within the HR system 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.

Declarations have increased as a result, with more of our people completing options around health conditions and impairments and informing us that they have a physical and/or other disability. To support continued employment, training, career development and promotion of disabled employees we have:

- created and rolled out a dedicated Disability Action Plan; informed by data and insight and following the employee lifecycle from attraction to progression and retention, the action plan details support and provisions for disabled colleagues
- made progress towards achieving Disability Confident Employer Level 2 (UK Government Disability Confident scheme) as we continue to develop our processes, ensuring we are inclusive and providing support for our employees to enable them to stay in work
- launched a Group wide Disability Network Group

We are also working to review/refresh additional elements of the employee lifecycle, ensuring that disability is a clear consideration at different stages, including recruitment and onboarding.

For more information about the broadening of our inclusion strategy and our About Me data collection campaign, see page 77.

Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Political donations

No donations were made during the year for political purposes.

Authority to purchase own shares

At the Annual General Meeting in September 2022, members authorised the Company to make market purchases of up to 50,559,660 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting when a resolution will be put to renew it so as to allow purchases of up to a maximum of 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 26 September 2022 (the date the current authority was granted) to the date of this report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made during the year to 31 March 2023 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 24 on page 229.

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purposes of the Companies Act 2006 in respect of their Directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which could be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be very material. In addition, the National Security and Investment Act 2021 that came into force on 4 January 2022 provides the UK Government with new powers to scrutinise and potentially make void transactions on the grounds of national security. The legislation is part of a global trend towards introducing foreign investment laws which has seen a number of other countries introduce similar protections.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Borrowing facilities

The Group has a revolving credit facility of up to £300 million maturing in May 2024 and a £775 million revolving credit facility where £45 million matures in August 2025 and £730 million matures in August 2026, providing funds for general corporate and working capital purposes. In the event of a change of control, both facilities provide that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the facilities.

£1,800,000,000 Euro Medium-Term Note Programme

The Company has a Euro Medium-Term Note Programme under which it has issued three tranches: €550,000,000 1.75% Notes redeemed in 2022; €300,000,000 1.875% Notes due in 2026; and €550,000,000 1.375% Notes due in 2027.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment-grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

Share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 139 and 140.

Articles of Association of DRDL and RRDL

The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL) – both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so.

Surface Ship Support Alliance Agreement (SSSA) dated 23 September 2009 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited (as amended)

Any change of control of Devonport Royal Dockyard Limited must be approved in advance by the Secretary of State for Defence. Consent may be withheld to prevent an unsuitable third-party taking control. Breach may result in exclusion from the alliance.

Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Rosyth Royal Dockyard Limited (as amended)

The ToBA confirms Babcock as a key support partner of MOD in the maritime sector and covers the 15 year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a change in control of a relevant operating company or any holding company including the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners to become involved, or interested, in the work that is the subject of the ToBA. 'Change in control' occurs where a person or group of persons that controls the relevant company ceases to do so or if another person or group of persons acquires control.

Competitive Design Phase Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Rosyth Royal Dockyard Limited

The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Rosyth Royal Dockyard or any holding company will be contrary to the defence, national security or national interest of the UK.

Future Maritime Support Programme Lot 11 (Warehousing and Distribution at HMNB Clyde) dated 30 March 2021 between (1) The Secretary of State for Defence and (2) Babcock Marine (Clyde) Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of Babcock Marine (Clyde) Limited or any other company in the Group that it objects to and in respect of which its concerns have not been addressed.

Future Maritime Support Programme Lot 1 (Naval Bases) dated 28 July 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 2 (Ships Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 3 (Submarine Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 4 (Hard Facilities Management and Alongside Services at HMNB Clyde) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Share capital and rights attaching to the Company's shares

General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under s793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws) or by the nationality-related restrictions, more particularly described below.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and quoted on the London Stock Exchange.

Nationality-related restrictions on share ownership

Companies which provide aviation services in the EU must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other matters, requires those companies to be majority-owned and majority-controlled by EEA nationals (the licensed companies).

At the Company's Annual General Meeting in July 2014, shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove from the separate register particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such shareholder to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or exercise any other right attaching to the shares in question. Where the shares represent at least 0.25% of the aggregate nominal value of the Company's share capital, the Company may also (subject to certain exceptions) refuse to register the transfer of such shares. The Articles also require that a declaration (in a form prescribed by the Directors) relating to the nationality of the transferee is provided to the Directors upon the transfer of any shares in the Company, failing which the Directors may refuse to register such transfer (see further below).

Power to treat shares as 'Affected Shares'

The Articles empower the Directors, in certain circumstances, to treat shares as 'Affected Shares'. If the Directors determine that any shares are to be treated as Affected Shares, they may serve an 'Affected Share Notice' on the registered shareholder and any other person that appears to have an interest in those shares.

The recipients of an Affected Share Notice are entitled to make representations to the Directors with a view to demonstrating that such shares should not be treated as Affected Shares. The Directors may withdraw an Affected Share Notice if they resolve that the circumstances giving rise to the shares being treated as Affected Shares no longer exist.

Consequences of holding or having an interest in Affected Shares

A holder of Affected Shares is not entitled, in respect of those shares, to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings, and the rights attaching to such shares will vest in the Chair of the relevant meeting (who may exercise, or refrain from exercising, such rights at his/her sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held in trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares, the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

Right to refuse registration

The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that, following the restructuring of the Aviation sector, those companies in which the Company has an interest and which are required to comply with the Regulation, (being those companies operating aviation services in the EU) do meet the requirement of the Regulation, including those relating to nationality.

This belief is based on the Company's understanding of the application of the Regulation. There can, however, be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above.

Internal controls and risk management

There is a robust process in place to enable the Board to have assurance around the overall risk management including the determination of the nature and extent of the Group's principal risks. Management monitors the financial reporting process and the process for preparing the consolidated accounts through regular reporting and review. Management reviews data for consolidation into the Group's financial statements to ensure that it gives a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. Following the Committee's FY23 review, the Board is satisfied that the Company has successfully delivered its improvement plans for FY23, whilst recognising that there remains ongoing scope for further improvement in FY24, including lessons learnt from the FY23 closing.

For more detailed information on the improvements in internal controls please see the Audit Committee report on page 127. Further information on the principal internal controls and risk assurances in use in the Company can be found in the Strategic report on pages 87 to 92.

Auditor

Deloitte, appointed as Independent Auditor of the Company following a competitive tender process in 2021, is willing to continue in office. A resolution to re-appoint Deloitte as Independent Auditor will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with United Kingdom adopted international accounting standards. The Directors have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility statement

Each of the Directors, being each Director who is in office at the date the Directors' report is approved and whose names and functions are listed below, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Ruth Cairnie	Chair
Carl-Peter Forster	Non-Executive Director
John Ramsay	Non-Executive Director
Lucy Dimes	Non-Executive Director
Lord Parker	Non-Executive Director
Jane Moriarty	Non-Executive Director
Sir Kevin Smith	Non-Executive Director
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 158) for the year ending 31 March 2023 have been approved by the Board and signed on its behalf by:

Ruth Cairnie
Chair

David Lockwood
Chief Executive Officer

20 July 2023

Independent auditor's report to the members of Babcock International Group PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Babcock International Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company statements of changes in equity;
- the Group and Company statements of financial position;
- the Group cash flow statement; and
- the related Notes 1 to 34 of the Group financial statements and Notes 1 to 13 of the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and

Company for the year are disclosed in note 4 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Impact of control deficiencies (Group and Company);
- Revenue and margin recognition on key long-term contracts with significant management judgement (Group);
- Type 31 Programme Estimates (Group);
- Carrying value of goodwill within the Aviation Sector (Group); and
- Disposal of the European Aerial Emergency Services (AES) businesses (Group).

Within this report, key audit matters are identified as follows:

- ➊ Newly identified
- ➋ Increased level of risk
- ➌ Similar level of risk
- ➍ Decreased level of risk

Materiality

We have determined materiality to be £15.6m. See section 6.1 for further details on materiality.

Scoping

Our scope covered 31 components of the Group, all were subjected to a full-scope audit. The components contribute 98% of revenue and 98% of absolute profit before tax. See section 7 for further details on our scoping.

Significant changes in our approach

Our audit approach is consistent with the previous year with the exception of the following:

- Given an onerous contract provision of £55 million has been recorded in the current year in respect of the Type 31 frigate contract, we have identified a new key audit matter in respect of this provision.
- Given the disposal during the year of part of the Group's European Aerial Emergency Services (AES) businesses, we have identified a new key audit matter. We have also increased the scope of the Canadian component to full scope to ensure we obtained sufficient audit evidence to support our opinion.
- In the prior year, we identified a key audit matter over the carrying value of property, plant and equipment (PP&E) and Right of Use (RoU) assets in the Aviation sector. Given the impairments in the prior year and the disposal of the AES businesses during the current period, the judgement associated with these assets has now reduced.
- In the prior year, we identified a key audit matter over the carrying value of goodwill in the Land and Aviation sector. Given the level of headroom and sensitivity of key assumptions in the Land CGU, we do not consider there to be a key audit matter associated with these valuations. We continue to identify the carrying value of goodwill in the Aviation sector as a key audit matter.
- In the prior year, we identified a key audit matter over the hedge effectiveness on foreign currency forward exchange contracts. This was due to the complexity in designating cash flow hedge relationships, prior year restatements and control deficiencies identified. During the year, management have discontinued almost all cash flow hedges and therefore there is now a reduced risk associated with the application of hedge accounting. As a result, we have not identified this item as a key audit matter.
- In the prior year, we identified a key audit matter over the valuation of retirement benefits and obligations. This key audit matter primarily focussed on three prior year errors which were identified and recorded. No such instances have occurred during the current year and as such, this item has been removed as a key audit matter.
- In the prior year, we identified a key audit matter associated with the carrying value of investments in subsidiaries in the Company only financial statements. This was primarily due to the prior period error identified and the subsequent reversal. Given the level of headroom and sensitivity of key assumptions in the investment valuation, we do not consider this item to be a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Understanding the Group's processes and related controls over the assumptions in the going concern assessment;
- Assessing the Group's available committed borrowing facilities;
- Testing the accuracy of the Directors' models, including agreement to the most recent Board approved budgets and forecasts;
- Determining whether the forecasts used within assessing the going concern assumption were consistent, where relevant, with those used within Goodwill impairment modelling;
- Challenging the key assumptions of these forecasts by:
 - reading analyst reports, industry data and other external information and comparing these with the Directors' estimates;
 - comparing forecast revenue with the secured revenue under contract, contract churn rates, contract win rates and historical performance; and
 - comparing contract margin and overhead cost assumptions to historical performance and the current macroeconomic environment;
- Evaluating the historical accuracy of forecasts prepared by the Directors;
- Assessing the sensitivity of the headroom in the Directors' forecasts;
- Comparing the risks management has identified in its risk register to the going concern scenarios modelling to assess completeness and accuracy of the modelled scenarios;
- Evaluating the accuracy and completeness of the covenant compliance calculation within the model;
- Evaluating the downside sensitivities in the context of the FY23 financial position;
- Assessing whether the Directors have considered and reflected the impact of climate risks and opportunities in the Group's going concern assessment; and
- Assessing the disclosures relating to going concern in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impact of control deficiencies (Group and Company) ⬇

Refer to page 125 (Audit Committee report)

Key audit matter description	<p>In the prior year, we identified a large number of errors and significant control deficiencies in the internal control environment. These were reported to those charged with governance and included as a key audit matter in our FY22 audit opinion.</p>
	<p>As outlined in the Audit Committee report on page 125, the Group has initiated a roadmap for internal control enhancement over its operational and financial controls. During the year the Company designed and implemented the "Blueprint Fundamental Control (BFC) improvements" in relation to significant financial reporting risk areas and risks associated with the prior year financial close reporting process. These were pinpointed to include project bid, project management, pensions, taxation, consolidation reporting and Treasury controls. During the year-end close period, we obtained an understanding of controls we deemed to be relevant for our audit.</p> <p>We consider the level of risk associated with this key audit matter has reduced from the prior year due to the progress made by management during the current period through the BFC improvements but the risk remains high. Our expectation when planning our FY23 audit approach was that deficiencies would still remain in the control environment including in the IT environment and the BFCs would not be operating fully throughout the year. As a result, we did not plan to rely on controls and undertook a fully substantive approach. This was a contributing factor to the extended time and effort required to complete the audit.</p>
How the scope of our audit responded to the key audit matter	<p>Our procedures to respond to this key audit matter included:</p> <ul style="list-style-type: none"> • interacting with management and the Audit Committee to understand and challenge the actions they were taking as part of the internal controls enhancement programme to address the control deficiencies identified in the prior year; • performing walkthroughs on key accounting processes, with particular focus on long term contract accounting and the design of the Blueprint of Fundamental Control improvements; • obtaining an understanding of the general IT control environment; and • identifying relevant controls and evaluating those controls.
	<p>We considered the nature and extent of the findings in determining our assessment of the risk of material misstatement to the financial statements including as a result of fraudulent manipulation of the financial statements (including the risk of override of controls), as described elsewhere in this report.</p> <p>Given the large number of errors and significant control deficiencies identified in the prior year, together with the implementation of the Blueprint of Fundamental Controls improvements occurring towards the end of the FY23 financial year, we factored this within our audit plan accordingly. Additional procedures included:</p> <ul style="list-style-type: none"> • increasing the level of component oversight; • expanding the types of journal entries that we selected for testing due to failures within the IT environment, that meant we were not able to rely on these controls; • involving fraud specialists to respond to our presumed risk of fraud associated with the management override of controls; • using data analytics specialists to complement our substantive testing over key areas such as the consolidation and contracts; and • maintaining the seniority in our engagement and review teams.
Key observations	<p>Whilst the Group has made progress in responding to the control deficiencies identified, the internal controls enhancement programme is planned over a number of years and is not yet complete. A number of deficiencies and misstatements which are individually and collectively immaterial still remain present at year end.</p> <p>We consider that the design of BFCs are further advanced than sector level controls. We observed varied practice of implementation of contract review controls across sectors and the formal documentation of these controls, together with control enhancements occurring during the second half of the financial year such that we concluded the controls were not operating effectively throughout the year.</p> <p>We have identified some improvements in core ERP systems in the IT environment but continue to identify observations associated with privileged access controls and password controls.</p>

5.2. Revenue and margin recognition on key long-term contracts with significant management judgement (Group) ↔

Refer to page 129 (Audit Committee report), Group Income Statement, Note 1 (Basis of preparation and significant accounting policies), Note 16 (Trade and other receivables and contract assets) and Note 18 (Trade and other payables and contract liabilities).

Key audit matter description

The estimation of lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of Directors' judgement. Within the Group's contract portfolio there are a number of contracts which extend over a number of years, with values in excess of £1 billion, where there is a significant degree of judgement and which could lead to a material error within the financial statements. These judgements include estimating the amount of transformation cost savings on long term facilities management contracts; the impact of inflation on estimates of cost to complete; estimating the recovery of contractual entitlements from customers; estimating project completion dates on complex and technically challenging refit and maintenance projects; and schedule duration and contractual obligations on multiple ship deliveries which extend over a number of years.

Consequently, we consider that revenue and margin recognition within key contracts, and the associated accounting for contracts assets, liabilities and provisions, in accordance with IFRS 15: 'Revenue from Customers with Contracts' ("IFRS 15") and IAS 37: 'Provisions, contingent liabilities and contingent assets' ("IAS 37") represents a key audit matter. Key aspects of IFRS 15 we considered related to the recognition of variable consideration on contracts and, under IAS 37, the measurement of the provision for loss making contracts where there were cost increases and/or delays to the contract schedule.

Given the level of judgement involved in estimating costs to complete on these long-term contracts, particularly in a high inflationary environment; cost allocation between contracts; assessing the level of allowable and disallowable costs to recharge; the level of cumulative catch up adjustments (CCAs) recorded and the subsequent impact on revenue and margin recognition, we identified this as an area for potential management bias.

In order to identify the key contracts where there is a significant risk of material misstatement, we undertook a contract risk assessment process for each sector utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geopolitical conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended business review meetings and other key management meetings, read and understood underlying contract documentation and obtained support for key contract judgements.

In addition, we looked for contracts which may have higher levels of judgement associated with the risk of schedule delivery or technical complexity, and other indicators that could increase the risk of a material impact on the financial statements, including achieving forecast learner, efficiency and transformation savings and the impact of rising inflation. As a result of our risk assessment, we identified four contracts where we consider there to be the highest degree of judgement required in estimating the outturn margin position. These are: Type 31 Frigates; FMSP; Vanguard and DSC. In particular this year the T31 contract for the Design & Build of 5 Type 31 Frigates for the UK Royal Navy has been subject to a significant degree of change and cost increases. We have identified a separate key audit matter associated with the Type 31 Programme Estimates, see section 5.3 for further details.

5.2. Revenue and margin recognition on key long-term contracts with significant management judgement (Group) continued ➡

How the scope of our audit responded to the key audit matter

Our contract testing approach included:

Understanding relevant controls

- We obtained an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for.
- As part of this, we attended a sample of project contract status review meetings, quarterly business review meetings and Group level meetings to understand the various levels of challenge applied to the forecasts.
- As outlined in Key Audit Matter 5.1, we did not rely on any controls for the purposes of our substantive testing.

Challenging management's assumptions and estimates

Our work included:

- obtaining an understanding of the contract and its key terms;
- making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- assessing delivery progress and challenging key areas of estimation in overall contract revenue and cost;
- performing a risk assessment to identify contracts where cost shifting could impact on the margin recorded and performing testing on contracts with characteristics of audit interest;
- analysing historical contract performance and understanding the reason for in year movements or changes;
- performing site visits to inspect status of construction;
- testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract, the associated contingencies and exit liabilities;
- considering historical forecasting accuracy of costs, comparing to similar programmes, and challenging future cost expectations with reference to those data points;
- recomputing the CCAs recorded by management;
- obtaining evidence and assessing management's transformational savings assumptions;
- examining external correspondence to assess the timeframe and contractual performance for delivery of the product or service and any judgements made in respect of these;
- assessing the underlying inflation assumptions against competitors, the wider market and inflation rates;
- examining internal and external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and, for certain contracts, meeting with the customer directly;
- enquiring with in house and external legal counsel regarding contract related judgements and claims and contractual entitlement relating to applicable regulations;
- considering whether there were any indicators of management override of controls or bias in arriving at the reporting position; and
- assessing the appropriateness of disclosures in the financial statements.

Key observations

The results of our testing were satisfactory.

Through our testing of the contracts in relation to this key audit matter we consider the judgements made by the Group in recognising revenue and profit to be reasonable.

We identified misstatements which were individually and collectively immaterial which had a net impact of reducing revenue and remain uncorrected.

5.3. Type 31 Programme Estimates (Group) ⓘ

Refer to page 129 (Audit Committee report) and Note 1 (Basis of preparation and significant accounting policies)

Key audit matter description

The Type 31 contract is complex involving the construction of five ships over a multi-year build programme. The ability of the Group to determine future build cost and schedule duration estimates is critically dependant on the maturity of the ship design. Ship 1 is currently under construction. The Group is therefore required to make both operational and financial assumptions to estimate future costs over a number of years. The prediction of future events over extended periods contains inherent risk and the outcome is uncertain and involves a high degree of management estimation.

During the year significant increases in forecast costs on the Type 31 programme were identified, which were not foreseen at contract inception. A contract dispute resolution process has been commenced over responsibility for some elements of these incremental costs, but management have assessed the contract outcome on the basis that these are not recovered given the early stage of negotiations.

As a result, a £100m loss has been recorded in the year in relation to the contract, reflected through a £43m reversal of revenue, £2m asset impairment and the recognition of a £55m onerous contract provision.

There is a risk that the provision recognised in respect of this contract does not appropriately cover the unavoidable future losses against the contract as required under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") and the revenue and margin for this contract has been recognised in accordance with IFRS 15: 'Revenue from Customers with Contracts' ("IFRS 15").

We have identified a key audit matter in respect of the judgements applied in the assessment of unavoidable future cash flows used to determine the onerous contract provision. The key estimates relate to:

- the ability of the Group to estimate build costs over the schedule and estimate efficiencies arising from the 'learner' effect through work over multiple ships. The 'learner' effect assumes similar activities will naturally be performed more efficiently over time due to continuous repetition, rather than through separate process improvements;
- the ability of the Group to maintain or improve current operational performance through process efficiencies and improvements over the 5 ships;
- the assessment of inflation on the build cost; and
- the achievement of the build schedule to completion and final acceptance including compliance with contractual delivery dates and performance metrics.

Material adjustments would arise if management assumptions differ from the time and cost it takes to complete the contract, which extends over a number of years. With c£1bn of estimated costs to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 5-10%, the potential impact on the contract outcome could be £50-£100m.

5.3. Type 31 Programme Estimates (Group) continued ①

How the scope of our audit responded to the key audit matter

As a result of our observations regarding the financial review controls over T31 (see 'key observations' section below), we have modified the nature, timing and extent of our audit procedures and performed site visits to inspect work performed to date and held discussions with various operational team members to obtain a detailed understanding of the build schedule and planned build activities and processes.

We completed the following audit procedures:

- Read the contract to obtain an understanding of the key contractual terms;
- Obtained an understanding of relevant controls in place to review the financial performance of the T31 contract and forecast future revenue and costs and account for the onerous contract in the Group's financial statements;
- Tested the maturity of the design by considering the number of completed engineering drawings versus the plan, and validating a sample of design changes to engineering sign off in the year;

Specifically with regards to the testing of future build cost and schedule duration estimates we have:

- Evaluated the reasonableness of future cash flow forecasts with reference to current performance (both in year and post year end to date) trend analysis, historical forecasting accuracy, and forecast operational improvements in the contract;
- Challenged the forecast assumptions used by management with regards to future build costs by extrapolating current performance (adjusted for those costs not forecast to recur) to date and comparing against management's estimate;
- Tested a sample of non recurring costs by validating the nature of the costs incurred and obtaining supporting evidence for the individual items. In addition, a sample of forecast third party costs were agreed through to supplier contracts;
- Validated the 'learner' build cost efficiency saving back to independent third party industry reports;
- Challenged whether planned efficiency savings initiatives were within the Group's contractual ability to implement, its ability to reasonably assess their financial impact, and the forecast timing of their implementation;
- Challenged management's forecast inflation assumptions by benchmarking against external third party forecast data; and
- Challenged the forecast schedule assumptions with reference to current build progress versus forecast and the availability of skilled labour. Specifically, we have challenged management's assumptions for the average time and cost to manufacture and install categories of units and parts required to complete the ship. We have validated activities performed to date on a sample basis agreeing to time records and physical inspection of completed items on the ship. We have obtained explanations and supporting evidence for significant variances between current performance and forecast. We have also challenged the sufficiency of management's resourcing plans compared to the activities forecast to be performed and tested a sample of leavers/joiners post year end in order to determine whether the resourcing plan is being met.

In addition, we have:

- Evaluated management's forecast compliance with the contractual performance metrics by understanding the process for assessing compliance and the interdependencies between the metrics;
- Evaluated the approach adopted in management's model to determine compliance with the requirements of IAS 37. This included considering a range of possibilities and that management had taken its 'best estimate' in determining the provision amount;
- Tested the arithmetic accuracy of management's model;
- Evaluated, in accordance with IAS 8, whether the current year loss provision represents a change in estimate and is therefore recognised in the appropriate period;
- Evaluated the sensitivity analysis prepared by management and performing our own sensitivity calculations to assess the appropriateness of the provision recorded; and
- Assessed the appropriateness of the Group's disclosures in respect of onerous contracts and their compliance with the requirements of IAS 37 including sensitivities.

Key observations

Management's control over the review of the financial performance on the contract was enhanced in the second half of the financial year and therefore did not operate throughout the year. In response, we have spent additional time with operational management, and have performed detailed substantive testing in accordance with the procedures set out above.

Our procedures performed above identified a large number of critical judgements and estimates within management's estimation of the cost to complete, for example the ability of the Group to maintain or improve current operational performance levels and the completion of the build schedule to completion and final acceptance. As a result, we consider there is a large range of potential outcomes for the Type 31 programme, as discussed further within the "Key Sources of Estimation Uncertainty" section of Note 1.

However, whilst highlighting the large range of potential outcomes for the programme, based on the work performed as outlined above we are satisfied that the judgements and estimates made by the Directors in determining the onerous contract provision recognised on Type 31 are reasonable, and in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Given the uncertainties in forecasting future unavoidable cashflows, the disclosure sensitivities in Note 1 provide important information to assess the impact of a reasonably possible change in key assumptions.

5.4. Carrying value of Goodwill within the Aviation sector (Group) ↔

Refer to page 129 (Audit Committee report), Note 1 (Basis of preparation and significant accounting policies) and Note 10 (Goodwill)

Key audit matter description

The Group holds goodwill balances with a combined carrying value of £781.4m as at 31 March 2023 (2022: £783.4m).

The Directors perform an impairment review of the carrying value of each Cash Generating Unit ('CGU') on an annual basis in line with the requirements of IAS 36.

As described in Note 10 to the financial statements, goodwill is monitored at an operating segment level. The Directors have assessed that they do not consider there to be any reasonably possible changes in estimates that would result in impairment in goodwill across all CGUs.

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 1.9–2.1% (2022: 1.8–2.5%). 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 of opportunities prior to release of tenders. The process includes consideration of risks and opportunities at contract and business level, and considered matters such as supply chain disruption, inflation and climate change.

From our risk assessment procedures, we have identified a key audit matter in relation to the valuation of goodwill in the Aviation operating segment given the sensitivities of key assumptions and the historical inaccuracy of management's forecasts. This work focused on the key assumptions within the short-term growth forecasts such as future revenue growth and margin improvements.

How the scope of our audit responded to the key audit matter

We completed the following audit procedures:

- Obtained an understanding of the key controls in the impairment process, including the review controls performed at a sector level of the five year plan, the Group level review of the five-year plan, and the Directors' review of the goodwill model;
- Assessed the mechanical accuracy of the impairment models and the methodology applied for consistency with the requirements of IAS 36;
- Challenged the appropriateness of the Directors' assessment of CGU groups with reference to the requirements of IAS36 and the level at which operations are managed and goodwill is monitored for internal reporting purposes;
- Assessed the completeness and accuracy of the allocation of corporate overheads to CGUs;
- Evaluated and challenged underlying assumptions, including forecast revenue, contract turnover rates, margins, future capital expenditure and working capital adjustments with reference to recent and historical performance, external industry benchmarks, specific forecast events, and considering the impact of any climate related matters;
- Engaged our valuations specialists to assess the discount rate;
- Performed a 'stand back' assessment, including consideration of enterprise value compared to the Directors' value in use; and
- Assessed the appropriateness of the Group's disclosures in the financial statements.

Key observations

Consistent with prior year, our controls work highlighted that there was a lack of formalised documentation over model assumptions made with limited documented evidence of review.

We are satisfied that the judgements applied and disclosures within the financial statements are appropriate.

5.5. Disposal of the European Aerial Emergency Services (AES) businesses

Refer to page 130 (Audit Committee report), Note 28 Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

Key audit matter description	<p>As disclosed further in Note 28, the Group completed the disposal of part of its European AES business during the year. The disposal group was part of the Aviation operating segment and provided Aerial Emergency Services including medical, firefighting and search & rescue services to customers and communities, in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million and has recognised a loss on disposal of £73.5m. As part of this disposal, the Group disposed of £243.7m of net assets, incurred £18.1m of disposal costs and recycled £1.2m of cumulative currency translation loss.</p> <p>The key judgements related to this key audit matter lie in the valuation of retained assets and obligations such as warranties and determination of the amount of foreign exchange balances to recycle from reserves which are included in the calculation of the loss on disposal.</p>
How the scope of our audit responded to the key audit matter	<p>Our procedures on the disposal included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of relevant controls, including management review controls, over the valuation of assets and obligations and determination of the amount of foreign exchange balances to recycle from reserves; • Agreeing the terms / validity of the disposal to the sale and purchase agreement (SPA); • Assessing that the AES business had been deconsolidated from the date control passed by evaluating the relevant SPA; • Assessing the disposal against the criteria of IFRS 5 to evaluate whether it is appropriate to not be classified as a discontinued operation; • Agreeing the cash consideration to bank statements; • Performing substantive analytical procedures over the net assets of the disposal Group at the date of disposal and agreeing this to the net assets included in management's calculation; • Assessing and Recalculating the recycling of retranslation differences to the income statement that were recorded in reserves prior to disposal; • Testing the transaction and other disposal related costs by agreeing a sample to supporting invoices; • Challenging the assumptions over the valuation of retained assets and obligations, which included assessing the accuracy and completeness of these items and considering contradictory evidence such as legal and tax due diligence reports; • Recalculating the loss on disposal, and • Evaluating the relevant disclosures regarding the disposal of the AES business within Note 28.
Key observations	<p>We consider that the judgements taken by management and disclosures made within the financial statements in determining the total loss to be recognised are reasonable.</p>

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements															
Materiality	£15.6m (2022: £15.6m)	£61.7m (2022: £66.3m)															
Basis for determining materiality	<p>The materiality has been determined by considering a range of possible benchmarks used by investors and other readers of the financial statements. Due to the continuing transition of the Babcock business following the contract profitability and balance sheet (CPBS) review and new management, and the absence of normalised financial performance, a method consistent with that of the previous period has been applied.</p> <p>In particular, we considered: Revenue, Net Assets, Total assets, Profit before tax, Profit before tax excluding amortisation of acquired intangibles, business acquisition, merger and divestment related items, fair value movement on derivatives and related items as defined in Note 2 and cash generated from operations.</p> <p>Our materiality represents:</p> <table> <tr> <td></td><td>FY23</td><td>FY22</td></tr> <tr> <td>Revenue</td><td>0.4%</td><td>0.4%</td></tr> <tr> <td>Net assets</td><td>4.2%</td><td>2.2%</td></tr> <tr> <td>Total assets</td><td>0.5%</td><td>0.3%</td></tr> </table> <p>Profit before tax excluding amortisation of acquired intangibles, business acquisition, merger and divestment related items, fair value movement on derivatives and related items as defined in Note 2</p> <table> <tr> <td></td><td>12.1%</td><td>9.1%</td></tr> </table>		FY23	FY22	Revenue	0.4%	0.4%	Net assets	4.2%	2.2%	Total assets	0.5%	0.3%		12.1%	9.1%	<p>1% of total assets (2022: 1%). A lower materiality of £12.5m was used for the purposes of the Group audit was based on 80% of Group materiality (2022: 80%).</p> <p>The materiality determined for the standalone Company financial statements exceeds the Group materiality. This is due to the fact that the total asset balance of the Company financial statements exceeds the total asset balance of the Group.</p> <p>Where there were balances and transactions within the Company accounts that were within the scope of the audit of the Group financial statements, our procedures were undertaken using the lower materiality level applicable to the Group audit components. It was only for the purposes of testing balances not relevant to the Group audit, such as intercompany investment balances, that the higher level of materiality applied in practice.</p>
	FY23	FY22															
Revenue	0.4%	0.4%															
Net assets	4.2%	2.2%															
Total assets	0.5%	0.3%															
	12.1%	9.1%															
Rationale for the benchmark applied	<p>We assessed which line items are the most important to investors and analysts by reading analyst reports and Babcock's communications to shareholders, as well as the communications of peer companies.</p> <p>Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against companies across all sectors but has limitations particularly where profitability has significantly varied year on year as is the case for Babcock.</p> <p>Following this assessment, we determined using our professional judgement that the selected materiality was appropriate. We note this is consistent with the approach adopted in the prior year.</p>	<p>As the Company is non-trading and operates primarily as a holding Company, we believe the total asset position is the most appropriate benchmark to use.</p>															

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	60% (2022: 60%) of Group materiality	60% (2022: 60%) of Company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> • The deficiencies identified in the control environment; • The de-centralised nature of the Group and lack of common controls and processes; and • The nature, volume and size of identified corrected and uncorrected misstatements identified in the prior year 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of

£780,000 (2022: £780,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identify when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

We performed our scoping of the Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the audit risks. This exercise considered the relative size of each reporting unit's contribution to revenue, profit before tax and adjusted profit before tax, alongside further financial or contractual risks, which we considered to be present. Given the disposal of the European AES business, we have increased the scope of the Canadian component to full scope to ensure we obtained sufficient audit evidence to support our opinion. This resulted in 31 full scope components (2022: 29 components and 1 specified balances scope).

For all other reporting units not included in full scope, we performed centrally directed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the residual population.

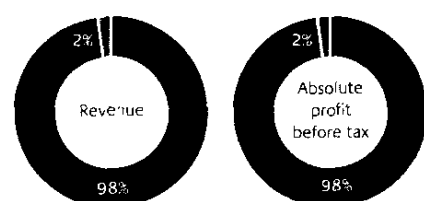
As each of the reporting units maintains separate financial records, we engaged component auditors from the Deloitte member firms in Australia, Canada, France and South Africa, to perform procedures under our direction and supervision. We have also involved component auditors from Spain, Italy, Norway and Sweden to perform work on the income statement for certain periods of Babcock ownership prior to disposal.

Excluding the Company, Component materiality ranged from £3.09m to £4.91m (2022: £3.09m to £4.91m)

Our audit approach ensured that we engaged local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach. We issued detailed instructions to the component auditors, including specific procedures to address Group level significant risks such as contracts testing and asset impairment procedures for some geographies and directed and supervised their work through a number of visits to the component auditor during the planning and performance stages of our audit alongside frequent remote communication and review of their work.

In addition to the work performed at a component level the Group audit team also performs audit procedures on the Company financial statements including but not limited to corporate activities such as treasury and pensions as well as on the consolidated financial statements themselves, including entity level controls, litigation provisions, the consolidation, financial statement disclosures and risk assessment work on components not included elsewhere in the scope of our audit. The Group audit team also co-ordinates certain procedures performed on key areas, such as PPE impairment, where audit work is performed by both the Group and component audit teams as well as analytical reviews on out-of-scope components.

The 31 full scope components contribute the proportions of Group totals shown below.



■ Full audit scope ■ Review at group level

7.2. Our consideration of the control environment

We have performed detailed walkthroughs of the processes associated with each of the Group's business cycles, identifying relevant controls and evaluating those controls. We also identified relevant IT applications, infrastructure and operating systems used in the operation of the Group's relevant controls, and performed testing of the general IT controls over those systems identified as key.

As a result of the deficiencies outlined in section 5.1 we did not rely on those controls in line with our planned approach.

7.3. Our consideration of climate-related risks

The Group has considered climate change risk as part of their risk assessment process when considering the principal risks and uncertainties facing the Group. This is set out in the strategic report on pages 63 to 73, and in Note 1 to the financial statements on page 182.

The areas of the financial statements that are notably impacted by climate-related considerations are associated with future forecasts in the medium to long term. These include considerations of the cash flows and growth rates used to determine the recoverable amount of goodwill. The Group also considered the potential impact on useful economic lives, disruption to key operating sites and supply chain.

We have performed the following procedures:

- assessed the key financial statement line items and estimates which are more likely to be materially impacted by climate change risks given the more notable impacts of climate change on the business are expected to arise in the medium to long term.
- challenged how the Directors considered climate change in their assessment of going concern based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- involved our Environmental Social and Governance (ESG) specialists in challenging the Group's climate principal risk assessments. ESG specialists were also involved in evaluating the ESG section of the annual report and assessing Task Force on Climate-related Financial disclosures (TCFD) on page 67 against the recommendations of the TCFD framework.
- assessed whether climate risk assumptions underpinning specific account balances were appropriately disclosed.
- read the climate risk disclosures included in the strategic report section of the annual report for consistency with the financial statements and our knowledge of the business environment.

7.4. Working with other auditors

Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as supervising the execution of their audit work.

We issued detailed instructions to the component auditors, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose. Additionally, all teams were involved in our global planning and fraud meeting, which was led by the Group audit team. Visits to meet with certain component teams in Australia, South Africa and France were conducted. Where we did not visit components in person, we maintained an ongoing dialogue virtually and reviewed files remotely.

The Company is located in the United Kingdom and the UK businesses were audited directly by the Group audit team.

We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been appropriate and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group financial statements as a whole.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment (in particular the ongoing deficiencies identified in the previous year, see 5.1 above) and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or
- error that was approved by the Board;
- results of our enquiries of the Directors, internal audit, internal and external legal counsel and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether management were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether management have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, fraud, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete on long-term contracts. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified 'Revenue and margin recognition on key long-term contracts with significant management judgement' and 'T3 1 programme Estimates' as a key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing against supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of the Directors, the Audit Committee, in-house legal counsel, and where needed, circularising external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 105;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 104;
- the Directors' statement on fair, balanced and understandable requirement set out on page 158;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 157;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 127; and
- the section describing the work of the Audit Committee set out on page 124.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders at its Annual General Meeting on 22 September 2021 to audit the financial statements for the year ending 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ended 31 March 2022 to 31 March 2023.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Makhan Chahal FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK
20 July 2023

Group income statement

For the year ended 31 March	Note	2023 £m	2022 £m
Revenue	2,3	4,438.6	4,101.8
Operating costs		(4,315.7)	(4,040.6)
Goodwill impairment	10	–	(7.2)
(loss)/profit resulting from acquisitions and disposals	28	(77.4)	172.8
Operating profit	2,3,4	45.5	226.8
Other income		–	6.2
Share of results of joint ventures and associates	2,3,14	9.3	20.1
Finance income	5	21.9	9.6
Finance costs	5	(70.5)	(80.4)
Profit before tax	2,4	6.2	182.3
Income tax expense	7	(39.5)	(14.4)
(Loss)/profit for the year		(33.3)	167.9
Attributable to:			
Owners of the parent		(35.0)	164.2
Non-controlling interest		1.7	3.7
(Loss)/earnings per share			
Basic	9	(6.9)p	32.5p
Diluted	9	(6.9)p	32.1p

1 The Group has re-presented the prior period income statement to combine Cost of revenue and Administration and distribution costs into Operating costs. Further information is included in note 1.

Group statement of comprehensive income

For the year ended 31 March	Note	2023 £m	2022 £m
(Loss)/profit for the year		(33.3)	167.9
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		(0.5)	0.2
Reclassification of cumulative currency translation reserve on disposal	28	(1.2)	(7.3)
Fair value adjustment of interest rate and foreign exchange hedges		9.4	(14.7)
Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges		(3.1)	(1.0)
Hedging (losses)/gains reclassified to profit or loss		(10.8)	17.1
Reclassification of cumulative hedge reserve on disposal of joint venture		–	20.8
Share of other comprehensive income of joint ventures and associates	14	4.7	30.2
Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates	14	(1.2)	(5.7)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	26	(402.4)	322.5
Tax on remeasurement of retirement benefit obligations	7	100.8	(64.2)
Other comprehensive (loss)/ income, net of tax		(304.3)	297.9
Total comprehensive (loss)/ income		(337.6)	465.8
Total comprehensive (loss)/ income attributable to:			
Owners of the parent		(337.3)	461.2
Non-controlling interest		(0.3)	4.6
Total comprehensive (loss)/ income		(337.6)	465.8

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	Provision reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2021		303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
Profit for the year		-	-	-	-	164.2	-	-	164.2	3.7	167.9
Other comprehensive income		-	-	-	-	258.3	46.7	(8.0)	297.0	0.9	297.9
Total comprehensive income		-	-	-	-	422.5	46.7	(8.0)	461.2	4.6	465.8
Dividends		-	-	-	-	-	-	-	-	(1.1)	(1.1)
Share-based payments	25	-	-	-	-	5.5	-	-	5.5	-	5.5
Tax on share-based payments		-	-	-	-	2.3	-	-	2.3	-	2.3
Net movement in equity		-	-	-	-	430.3	46.7	(8.0)	469.0	3.5	472.5
At 31 March 2022		303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5
At 1 April 2022		303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5
Loss for the year		-	-	-	-	(35.0)	-	-	(35.0)	1.7	(33.3)
Other comprehensive (loss)/income		-	-	-	-	(301.6)	(1.0)	0.3	(302.3)	(2.0)	(304.3)
Total comprehensive income		-	-	-	-	(336.6)	(1.0)	0.3	(337.3)	(0.3)	(337.6)
Dividends		-	-	-	-	-	-	-	-	(2.2)	(2.2)
Share-based payments	25	-	-	-	-	9.4	-	-	9.4	-	9.4
Tax on share-based payments		-	-	-	-	(0.2)	-	-	(0.2)	-	(0.2)
Net movement in equity		-	-	-	-	(327.4)	(1.0)	0.3	(328.1)	(2.5)	(330.6)
At 31 March 2023		303.4	873.0	768.8	30.6	(1,568.8)	3.0	(56.1)	353.9	17.0	370.9

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 2023 £m	31 March 2022 £m
Assets			
Non-current assets			
Goodwill	10	781.4	783.4
Other intangible assets	11	140.8	176.7
Property, plant and equipment	12	478.5	710.6
Right of use assets	13	159.1	334.3
Investment in joint ventures and associates	14	57.4	54.3
Loan to joint ventures and associates	14	9.5	12.1
Retirement benefits surpluses	26	94.8	300.9
Other financial assets		7.3	10.0
Lease receivables	13, 21	22.2	24.1
Derivatives	21	2.6	–
Deferred tax asset	7	112.2	47.4
Trade and other receivables	16	6.4	9.7
		1,872.2	2,463.5
Current assets			
Inventories	15	126.8	142.7
Trade and other receivables	16	506.9	488.8
Contract assets	16	322.5	299.3
Income tax recoverable		7.7	25.4
Lease receivables	13, 21	16.4	23.3
Other financial assets		1.4	–
Derivatives	21	4.3	11.4
Cash and cash equivalents	17, 27	451.7	1,146.3
		1,437.7	2,137.2
Total assets		3,309.9	4,600.7
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	24	303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		746.3	747.0
Retained earnings		(1,568.8)	(1,241.4)
		353.9	682.0
Non-controlling interest		17.0	19.5
Total equity		370.9	701.5
Non-current liabilities			
Bank and other borrowings	19	768.4	847.7
Lease liabilities	13, 19	178.9	329.3
Trade and other payables	18	0.9	1.0
Deferred tax liabilities	7	7.0	9.6
Derivatives	21	53.3	59.3
Retirement benefit deficits	26	156.2	109.3
Provisions for other liabilities	20	80.8	60.3
		1,245.5	1,416.5
Current liabilities			
Bank and other borrowings	19	19.6	863.4
Lease liabilities	13, 19	49.9	104.8
Trade and other payables	18	911.1	888.1
Contract liabilities	18	616.4	518.3
Income tax payable		15.8	17.7
Derivatives	21	12.8	34.8
Provisions for other liabilities	20	67.9	55.6
		1,693.5	2,482.7
Total liabilities		2,939.0	3,899.2
Total equity and liabilities		3,309.9	4,600.7

1. The 2022 Group Statement of Financial Position has been revised under IFRS 3 for new information obtained about facts and circumstances that existed at the acquisition date during the permitted measurement period – see Note 23 for more detail.

The notes on pages 179 to 244 are an integral part of the consolidated financial statements. The Group financial statements on pages 175 to 244 were approved by the Board of Directors on 20 July 2023 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	2023 £m	2022 £m
Cash flows from operating activities			
(Loss)/profit for the year		(33.3)	167.9
Share of results of joint ventures and associates	14	(9.3)	(20.1)
Income tax expense	7	39.5	14.4
Finance income	5	(21.9)	(9.6)
Finance costs	5	70.5	80.4
Depreciation and impairment of property, plant and equipment	12	77.0	117.5
Depreciation and impairment of right of use assets	13	91.3	123.1
Amortisation and impairment of intangible assets	11	37.1	94.7
Goodwill impairment		-	7.2
Equity share-based payments		9.4	5.5
Net derivative fair value and currency movement through profit or loss		(7.5)	(0.9)
Loss/(profit) on disposal of subsidiaries, businesses and joint ventures and associates	28	77.4	(172.8)
Profit on disposal of property, plant and equipment		(2.0)	(1.5)
Loss/(profit) on disposal of right of use assets		0.8	(3.2)
Loss on disposal of intangible assets		1.7	0.7
Cash generated from operations before movement in working capital and retirement benefit payments		330.7	403.3
(Increase)/decrease in inventories		(25.7)	10.6
(Increase) in receivables		(71.6)	(85.2)
(Increase) in contract assets		(54.2)	(26.5)
Increase/(decrease) in payables		131.4	(202.0)
Increase in contract liabilities		132.3	124.2
Increase/(decrease) in provisions		47.9	(30.9)
Retirement benefit contributions in excess of current period expense		(141.9)	(151.7)
Cash generated from operations		348.9	41.8
Income tax (paid)/received		(25.4)	10.0
Interest paid		(77.0)	(54.9)
Interest received		14.8	9.9
Net cash flows from operating activities		261.3	6.8
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	28	158.6	420.7
Acquisition of subsidiaries, net of cash acquired		-	(15.5)
Dividends received from joint ventures and associates	14	8.7	41.6
Proceeds on disposal of property, plant and equipment		38.5	68.0
Proceeds on disposal of intangible assets		0.4	-
Purchases of property, plant and equipment		(104.2)	(190.8)
Purchases of intangible assets		(20.9)	(12.4)
Investment in joint ventures	14	-	(2.6)
Loans repaid by joint ventures and associates	14	2.4	31.0
Increase in loans to joint ventures and associates		-	(1.4)
Net cash flows from investing activities		83.5	338.6
Cash flows from financing activities			
Lease payments	27	(108.5)	(113.0)
Cash inflow from settlement of derivatives		0.8	-
Bank loans repaid	27	(972.8)	(31.7)
Loans raised and facilities drawn down	27	416.6	23.1
Dividends paid to non-controlling interest		(2.2)	(1.1)
Net cash flows from financing activities		(666.1)	(122.7)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(321.3)	222.7
Cash, cash equivalents and bank overdrafts at beginning of year	27	756.5	530.9
Effects of exchange rate fluctuations	27	(5.7)	2.9
Cash, cash equivalents and bank overdrafts at end of year	27	429.5	756.5

Notes to the financial statements

1. Basis of preparation and significant accounting policies

Going concern

After making enquiries, the Directors, at the time of approving the financial statements, have a reasonable expectation that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. As such, the consolidated financial statements have been prepared on a going concern basis – further detail on the key factors impacting the going concern assessment are set out in the Directors' report on page 104. The Board considered the period from 21 July 2023 to 30 September 2024 in its assessment of going concern.

Basis of preparation

The financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standards, which has not differed from the previously EU-adopted International Financial Reporting Standards (IFRS), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in England, UK.

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the year beginning on 1 April 2022:

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2022 and did not have a material impact on the consolidated financial statements:

- The Group has adopted the amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract.
- The Group has adopted the amendments to IAS 16, 'Property, plant and equipment'. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifies the meaning of 'testing whether an asset is functioning properly'.
- The Group has adopted the amendments to IFRS 3, 'Business Combinations'. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- The Group has adopted the annual improvements to IFRS 2018 – 2020 cycle.

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 17, 'Insurance Contracts'. New standard effective from 1 January 2023.
- IAS 1, 'Presentation of Financial Statements'. Amendment effective from 1 January 2023.
- IFRS 3, 'Business Combinations'. Amendment effective from 1 January 2023.
- IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'. Amendment effective from 1 January 2023.
- IAS 12, 'Income Taxes'. Amendment effective from 1 January 2023.

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.

1. Basis of preparation and significant accounting policies (continued)

Basis of consolidation (continued)

(b) Joint ventures and associates

Associates are those entities over which the Group exercises its significant influence when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The carrying values of associates and joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired.

The Group's share of its joint ventures' and associates' post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses unless it has incurred obligations to do so.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint venture and associate. Loans to joint ventures are valued at amortised cost less provision for impairment.

Materiality

Various disclosures make reference to items considered as material or immaterial to the financial statements. The Group considers information to be material if omitting it or misstating it could influence decisions that users make on the basis of the financial information provided. Materiality is considered from both a quantitative and qualitative factor perspective. In addition to subsequent specific references to materiality, and in compliance with IFRS, certain disclosures have not been provided where the information resulting from that disclosure is not material.

Critical accounting estimates and judgements

In the course of preparation of the financial statements, judgements and estimates have been made in applying the Group's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Group's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below:

(a) Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Group's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

(i) Acting as principal or agent

A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Group is acting as principal or agent. This is based on an assessment as to whether the Group controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and operating costs.

(ii) Determining the Group's cash generating units

Management exercises judgement in determining the Group's cash generating units for the goodwill impairment assessment. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that Africa is a separate cash generating unit, whilst operations of the Group in other territories do not represent separate cash generating units. Over time management reviews the cash generating units to ensure they remain appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. If there was a change in this judgement this could result in a material adjustment to goodwill. Further detail is included in notes 3 and 10.

1. Basis of preparation and significant accounting policies (continued)

(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. In the most significant contract where there is no mechanism to recover an increase in costs due to inflation, revenue and profit in the year would be impacted by £3-4 million for each 1% change in personnel costs.

Type 31 Programme estimates

During the year significant increases in forecast costs on the Type 31 programme were identified, which were not foreseen at contract inception. A dispute resolution process has commenced with the customer over responsibility for these incremental costs. We have reassessed the contract outturn on the basis that none of these are recovered, given the uncertainty at the early stage of the process. This has resulted in the recording of a £100m loss in the year, representing a £43m reversal of revenue, £2m asset impairment and the recognition of a £55m onerous contract provision. Determining the contract outturn, and therefore revenue and onerous contract provision recognised, requires assumptions and complex judgements to be made about 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 key sources of estimates in assessing the outturn are:

- The results of the dispute resolution process, and any reimbursements agreed with the customer;
- The build costs over the production schedule and estimate of efficiencies arising from the 'learner' effect through performing work over multiple ships;
- The ability to maintain or improve operational performance through process efficiencies and improvements over the five ships;
- The impact of inflation on the build cost; and
- The achievement of the build schedule to completion and final acceptance.

These estimates are inter-related. 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. With c£1bn of estimated costs to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 5-10%, the potential impact on the contract outturn could be £50-£100m.

To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, design activities will be finalised and the construction of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over a further 4 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.

1. Basis of preparation and significant accounting policies (continued)

(ii) Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation, discount rate, actuarial and life expectancy assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation, discount rate and life expectancy estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 26.

(iii) 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 cash generating units, together with appropriate discounting of the cash flows. The assessment of the recoverable amount of goodwill in the Aviation CGU is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing. The assessment of the recoverable value of goodwill in other CGUs is not considered a critical accounting estimate as a result of the headroom within these CGUs. 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 outcome.

The impact of climate change, including the risks as outlined in the ICD disclosures on pages 67 to 73, have been considered in the determination of the cash flows and growth rates where applicable.

Further information on key assumptions and sensitivity analyses are included in note 10.

Significant accounting policies

The significant accounting policies adopted by the Group are set out below. They have been applied consistently throughout the year and the comparative year except as specified below.

(a) Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Group's activities. The Group recognises revenue in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, determination of contract price, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(i) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Group also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted. The integrated output nature of many of the services provided by the Group results in some contracts only having one performance obligation.

(ii) Determination of contract price

The contract price represents the amount of consideration which the Group expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (v) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. 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.

1. Basis of preparation and significant accounting policies (continued)

(a) Revenue (continued)

(ii) Determination of contract price (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 section (viii) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Group. As can be seen from note 3, sale of goods at a point in time represents approximately 8% of Group revenues (2022: 6%). 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).

1. Basis of preparation and significant accounting policies (continued)

(a) Revenue (continued)

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outcome 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 outcomes 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 (b) above, until the pricing is agreed. Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (ii).

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the Group. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Group's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(vi) Costs of obtaining a contract

Directly attributable costs to obtain a contract with a customer that the Group would not have incurred if the contract had not been won are recognised as an asset and amortised on a straight-line basis. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

1. Basis of preparation and significant accounting policies (continued)

(a) Revenue (continued)

(vii) Costs to fulfil a contract

Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset and amortised on a straight-line basis when they meet all of the following criteria:

- (i) the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
- (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

(viii) Contract assets and liabilities

Contract assets represent amounts for which the Group has a conditional right to consideration in exchange for goods or services that the Group has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

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 satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

(b) Underlying financial information and specific adjusting items

Definitions and a description of the use of the underlying performance measures can be found in note 2.

(c) Transactions with non-controlling interest

The Group's policy is to treat transactions with non-controlling interest as transactions with owners of the Company. These are therefore reflected as movements in reserves.

(d) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision for the contractual maintenance, overhaul and repair requirements of right of use aircraft and specific associated aircraft components arising from return condition obligations in aircraft lease contracts is recognised as the obligation to perform contractual maintenance arises with each hour flown. Where lease contracts contain contractual penalties in the event that the Group returns leased aircraft in a condition that does not meet the contractual return condition obligation, the associated provision is measured at the lower of the restoration cost and the detriment penalty in the lease. When maintenance of a leased aircraft component is performed, if the component's remaining flying hours are greater than the return condition outlined in the lease contract then a leasehold improvement asset is recognised in proportion to the excess flying hours above the contractual return condition. Maintenance provisions are not recognised in respect of aircraft components which are maintained under Power-by-the-hour maintenance arrangements, instead the associated payments to the maintenance provider are expensed as incurred. Any additional payments made to or received from maintenance providers at the conclusion of Power-by-the-hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

1. Basis of preparation and significant accounting policies (continued)

(e) Goodwill and intangible assets

(i) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and capitalised. Goodwill is monitored at operating segment level and goodwill is allocated to the operating segment expected to benefit from the business combination's synergies. The Group currently has five operating segments: Marine, Land, Aviation, Nuclear and Africa.

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 operating segments by reference to value-in-use calculations or fair value less cost to dispose in relation to certain businesses which the Group plans to dispose. Goodwill impairments are not subsequently reversed. See note 10 for further information on goodwill impairment reviews.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(ii) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk-adjusted value of future orders expected to arise from the relationships.

The carrying value of the contractual element is amortised on a straight line basis over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to 15 years.

The carrying value of the non-contractual element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders.

Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range between one year to twenty years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis over a period of up to five years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

(iv) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired. Configuration and customisation costs relating to Software-as-a-service agreements are expensed as incurred. Computer software is measured at cost less accumulated amortisation and is amortised on a straight-line basis over its expected useful life of between three and seven years.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective business unit.

1. Basis of preparation and significant accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items after the deduction of trade discounts and rebates.

Items of property, plant and equipment are depreciated over their estimated useful lives to any estimated residual value, using the following rates:

Freehold property	2.0% to 8.0%
Leasehold property	Lower of useful economic life or lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	2%

Major strategic aircraft spares are classified within property, plant and equipment. Aircraft assets, including spares, are disaggregated into separate components where the components have differing useful lives with the value of each 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.

(g) Impairment of non-current assets

Goodwill and indefinite life intangibles are reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Group performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

(h) 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.

1. Basis of preparation and significant accounting policies (continued)

(i) Leases

The Group as lessee

For all leases in which the Group is a lessee (other than those meeting the criteria detailed below), the Group recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Group's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer/lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed on a straight-line basis to the income statement as permitted by IFRS 16, 'Leases'.

The Group as lessor

As a lessor, the Group classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lessor arrangements in the Group meet the criteria for a finance lease.

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.

(j) Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

(k) Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. See note 30 for details of contingent liabilities.

(l) 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.

1. Basis of preparation and significant accounting policies (continued)

(m) Taxation

(i) Current income tax

Current 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.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Group uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Group's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

(n) 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.

1. Basis of preparation and significant accounting policies (continued)

(o) 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.

(p) Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

(q) Employee benefits

(i) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Group's pension schemes are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit or interest credit on the net pension surplus is included in the income statement as a finance cost or finance income, respectively. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the Group's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the reporting date.

(ii) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's Employee Stock Ownership Plan (ESOP) trusts are recognised as a deduction to equity. Dividends paid on these shares are accounted for as a deduction to equity.

(iii) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

(r) Financial instruments

(i) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, 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.

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised. Changes in the value of derivatives that are carried at fair value through profit or loss are recorded in the income statement.

1. Basis of preparation and significant accounting policies (continued)

(s) 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.

(t) 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.

(u) Supply chain financing

Suppliers can choose to access supplier financing arrangements provided by different third-party banks in different countries. Commercial requirements, including payment terms or the price paid for goods, do not depend on whether a supplier chooses to access such arrangements. Under the arrangements, suppliers may choose to access payment early rather than on our normal payment terms, at a funding cost to the supplier that is set by the factoring agent. Management reviews supplier financing arrangements to determine the appropriate presentation of balances outstanding as other payables or borrowings, dependent on the nature of each arrangement. Factors considered in determining the appropriate presentation include the commercial rationale for the arrangement, impact on the Group's working capital positions, credit enhancements or other benefits provided to the bank and recourse exposures.

(v) Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

(w) Accounting policy change – Presentation of operating profit

In the year ended 31 March 2023 the Group has re-presented the income statement to combine Cost of revenue and Administration and distribution costs into Operating costs. The comparative period operating costs of £4,040.6 million were presented as Cost of revenue of £3,756.5 million and Administration and distribution costs of £284.1 million in the prior period annual report and financial statements. This change to presenting the costs of the Group by nature is deemed to be more informative for the users of the annual report and financial statements as it allows greater comparability of year-on-year trends.

2. Adjustments between statutory and underlying financial information

Definition of underlying measures and specific adjusting items

The Group provides alternative performance measures, including underlying operating profit, to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's alternative performance measures are consistent with the year ended 31 March 2022.

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 items that otherwise add volatility to performance.

2. Adjustments between statutory and underlying information (continued)

Underlying operating profit (continued)

Underlying operating profit eliminates potential differences in performance caused by purchase price allocations on business combinations in prior periods (amortisation of acquired intangibles), business acquisition, merger and divestment related items, large, infrequent restructuring programmes and fair value movements on derivatives. Transactions such as these may happen regularly and could significantly impact the statutory result in any given year. Adjustments to underlying operating profit may include both income and expenditure items.

Specific adjusting items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being amounts related to corporate transactions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes;
- Fair value gain/(loss) on forward rate contracts that are open during the period; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. Exceptional items are set out in the Exceptional items section below.

Income statement including underlying results

	Note	Year ended 31 March 2023			Year ended 31 March 2022		
		Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	3	4,438.6	–	4,438.6	4,101.8	–	4,101.8
Operating profit/(loss)	3,4	177.9	(132.4)	45.5	237.7	(10.9)	226.8
Other income		–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	14	9.3	–	9.3	20.1	–	20.1
Net finance costs	5	(58.3)	9.7	(48.6)	(61.2)	(9.6)	(70.8)
Profit/(loss) before tax		128.9	(122.7)	6.2	202.8	(20.5)	182.3
Income tax (expense)/benefit	7	(37.7)	(1.8)	(39.5)	(43.9)	29.5	(14.4)
Profit/(loss) after tax for the year		91.2	(124.5)	(33.3)	158.9	9.0	167.9

Earnings per share including underlying measures

	Year ended 31 March 2023			Year ended 31 March 2022		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) after tax for the year	91.2	(124.5)	(33.3)	158.9	9.0	167.9
Amount attributable to owners of the parent	89.5	(124.5)	(35.0)	155.2	9.0	164.2
Amount attributable to non-controlling interests	1.7	–	1.7	3.7	–	3.7
Weighted average number of shares (m)	505.4		505.4	505.1		505.1
Effect of dilutive securities (m)	9.5		9.5	6.1		6.1
Diluted weighted average number of shares (m)	514.9		514.9	511.2		511.2
Basic EPS	17.7p		(6.9)p	30.7p		32.5p
Diluted EPS	17.4p		(6.9)p	30.4p		32.1p

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 2023 £m	Year ended 31 March 2022 £m
Amortisation of acquired intangibles	(15.8)	(21.4)
Business acquisition, merger and divestment related items	(117.7)	163.1
Fair value movement on derivatives and related items	1.1	-
Exceptional items	-	(118.8)
Restructuring	-	(33.8)
Adjusting items impacting operating profit/(loss)	(132.4)	(10.9)
Fair value movement on derivatives and related items	9.7	(9.6)
Adjusting items impacting loss before tax	(122.7)	(20.5)
Income tax benefit		
Amortisation of acquired intangibles	4.1	5.5
Business acquisition, merger and divestment related items	(2.1)	-
Restructuring	-	6.5
Fair value movement on derivatives and related items	(2.6)	2.5
Exceptional tax items and tax on exceptional items, including rate change impact	(1.2)	15.0
Income tax (expense)/benefit	(1.8)	29.5

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 loss relating to business acquisition, merger and divestment related items for the year ended 31 March 2023 was £117.7 million, consisting of a loss on the disposal of the Aerial Emergency Services business in Europe of £116.9 million, a loss on disposal of the Group's Civil Training business of £3.9 million and items relating to the disposal of the Oil & Gas business in Aviation of £3.1 million. Further detail is included in note 28.

The prior year included a total net gain of £163.1 million, consisting of a £172.8 million profit from acquisitions and disposals completed in the year offset by £9.7 million of costs incurred in relation to the Group's divestment programme for disposals that had not completed at 31 March 2022.

Restructuring

Major restructuring programmes are not anticipated to recur year-on-year and therefore are not considered to be indicative of underlying performance and hence removed from underlying operating profit.

In the prior period the Group incurred £36.8 million of restructuring costs in relation to the implementation of the new operating model announced and implemented during the year ended 31 March 2022. This was offset by the release of £3.0 million of restructuring provisions created in previous years that were classified as exceptional but are no longer needed.

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 (which is fixed to ensure ultimately profitable outcomes).

2. Adjustments between statutory and underlying information (continued)

Fair value movement on derivatives and related items (continued)

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

Tax comprises a charge of £1.2 million arising from the impact of the increase in the rate of corporation tax to 25% with effect from 1 April 2023.

In the prior year, tax included a £12.1 million credit in relation to exceptional items, and a credit of £2.9 million arising from the impact of the increase in the rate of corporation tax to 25%.

Exceptional items

Exceptional items are those items which are significant, non-recurring and outside the normal operating practice of the Group.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Operating costs		
Impairment of goodwill	-	(7.2)
Impairment of acquired intangibles	-	(57.6)
Impairment of property, plant and equipment and aircraft fleet rationalisation	-	(58.8)
Release of onerous contract provisions	-	1.8
Release of provisions relating to the Italy fine and related costs	-	3.6
Other	-	(0.6)
Exceptional items – Group	-	(118.8)
Exceptional tax items and tax on exceptional items	-	15.0
Exceptional items – net of tax	-	(103.8)

Explanation of exceptional items

Impairment of goodwill

The prior year impairment test resulted in a goodwill impairment of £7.2 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. The businesses to which this goodwill related were fully disposed in FY23 as detailed in note 28.

Impairment of acquired intangibles

In the prior year, an impairment of £57.6 million was recognised in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. The businesses to which this goodwill related were fully disposed in FY23 as detailed in note 28.

Impairment of property, plant and equipment

In the prior year, an impairment charge of £58.8 million was recognised on property, plant and equipment in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. The businesses to which this goodwill related were fully disposed in FY23 as detailed in note 28.

Onerous contracts

In the prior year, the Group released an onerous contract provision that was no longer required and was previously classified as exceptional, which totalled £1.8 million.

Italy fine

In the prior year, the Group received notice that the fine had been set at €18 million, which was subsequently paid by the Group. This resulted in the release of unused provision of £3.6 million.

3. Segmental information

The Group has four reportable segments, determined by reference to the goods and services they provide and the markets they serve.

Marine – through-life support of naval ships, equipment and marine infrastructure in the UK and internationally.

Nuclear – through-life support of submarines and complex engineering services in support of major decommissioning programmes and projects, training and operation support, new build programme management and design and installation in the UK.

Land – large-scale critical vehicle fleet management, equipment support and training for military and civil customers.

Aviation – critical engineering services to defence and civil customers worldwide, including pilot training, equipment support, airbase management and operation of aviation fleets delivering emergency services.

The Board, the chief operating decision maker as defined by IFRS 8, monitors the results of these reportable segments and makes decisions about the allocation of resources. The Group's business in Africa meets the definition of an operating segment, as defined by IFRS 8. In accordance with IFRS 8, the Africa operating segment is included in the Land reportable segment.

The table below presents the underlying results for each reportable segment in accordance with the definition of underlying operating profit, as set out in note 2, and reconciles the underlying operating profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,439.6	1,179.2	1,017.1	802.7	–	4,438.6
Underlying operating profit	12.7	63.5	85.9	15.8	–	177.9
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(9.7)	–	(1.1)	(5.0)	–	(15.8)
Business acquisition, merger and divestment related items	–	–	(4.0)	(113.7)	–	(117.7)
Fair value gain/(loss) on forward rate contracts to be settled in future periods	2.8	0.1	0.1	(1.9)	–	1.1
Operating profit/(loss)	5.8	63.6	80.9	(104.8)	–	45.5
Share of results of joint ventures and associates	(1.2)	1.1	0.4	9.0	–	9.3
IFRIC 12 investment income	–	–	0.7	–	–	0.7
Other net finance costs*	–	–	–	–	(49.3)	(49.3)
Profit/(loss) before tax	4.6	64.7	82.0	(95.8)	(49.3)	6.2

Year ended 31 March 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,259.3	1,009.7	1,015.5	817.3	–	4,101.8
Underlying operating profit	98.0	62.4	58.8	18.5	–	237.7
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(0.6)	–	(1.3)	(19.5)	–	(21.4)
Business acquisition, merger and divestment related items	221.3	–	(6.1)	(52.1)	–	163.1
Restructuring costs	(8.6)	(5.5)	(16.9)	(2.8)	–	(33.8)
Exceptional items	(0.4)	–	1.7	(120.1)	–	(118.8)
Operating profit/(loss)	309.7	56.9	36.2	(176.0)	–	226.8
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	3.5	0.4	2.5	13.7	–	20.1
IFRIC 12 investment income	–	–	0.8	–	–	0.8
Other net finance costs*	–	–	–	–	(71.6)	(71.6)
Profit/(loss) before tax	313.2	57.3	39.5	(156.1)	(71.6)	182.3

* Other net finance costs are not allocated to a specific sector.

Revenues of £2.2 billion (2022: £2.0 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

3. Segmental information (continued)

Segment assets and liabilities

The reportable segment assets and liabilities at 31 March 2023 and 31 March 2022 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2023 £m	2022 (restated) £m	2023 £m	2022 (restated) £m	2023 £m	2022 (restated) £m	2023 £m	2022 (restated) £m
Marine	793.2	775.8	762.4	604.2	25.2	41.8	5.6	6.4
Nuclear	636.8	561.1	284.8	271.6	37.8	56.9	3.1	3.4
Land	638.2	626.5	379.1	335.3	3.6	5.3	13.9	17.2
Aviation	447.5	997.8	200.0	321.5	44.7	90.3	80.9	82.3
Unallocated *	794.2	1,639.5	1,312.7	2,366.6	13.8	8.9	5.0	3.7
Group total	3,309.9	4,600.7	2,939.0	3,899.2	125.1	203.2	108.5	113.0

* All assets and liabilities are allocated to the appropriate reportable segments except for cash, cash equivalents, borrowings including lease liabilities, income and deferred tax balances and retirement benefit surpluses which are included in the unallocated segment.

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £38.9 million (2022: £68.0 million) are not included above, and are predominantly in the Aviation 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 2023 and 31 March 2022 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Marine	15.9	8.2	5.2	7.4	12.7	4.6
Nuclear	22.8	22.3	2.6	3.7	0.2	0.3
Land	4.4	4.4	10.8	12.5	2.3	2.6
Aviation	23.6	18.0	57.7	78.8	5.5	20.2
Unallocated	5.4	5.8	5.4	2.7	7.4	9.4
Group total	72.1	58.7	81.7	105.1	28.1	37.1

Segmental asset impairments

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2023 and 31 March 2022 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Marine	-	-	-	-	-	-
Nuclear	-	-	-	-	-	-
Land	-	-	0.9	-	0.9	-
Aviation	4.9	58.8	8.7	18.0	2.3	57.6
Unallocated	-	-	-	-	5.8	-
Group total	4.9	58.8	9.6	18.0	9.0	57.6

3. Segmental information (continued)

Geographic analysis of non-current assets

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2023 and 31 March 2022 is as follows:

	2023 £m	2022 (restated) £m
United Kingdom	1,415.7	1,260.3
Rest of Europe	48.7	548.0
Africa	32.7	69.7
North America	13.6	21.3
Australasia	126.3	189.8
Rest of World	3.4	2.0
Non-current segment assets	1,640.4	2,091.1
Retirement benefits	94.8	300.9
Lease receivables	22.2	24.1
Derivatives	2.6	-
Deferred tax asset	112.2	47.4
Total non-current assets	1,872.2	2,463.5

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the years ended 31 March 2023 and 31 March 2022 is as follows:

	Revenue 2023 £m	2022 £m
Geographic analysis		
United Kingdom	2,693.3	2,593.5
Rest of Europe	601.0	546.8
Africa	329.3	318.9
North America	188.1	172.9
Australasia	349.5	218.6
Rest of World	277.4	251.1
Group total	4,438.6	4,101.8

The analysis of revenue for the years ended 31 March 2023 and 31 March 2022 is as follows:

	2023 £m	2022 £m
Sale of goods – transferred at a point in time	352.5	257.5
Sale of goods – transferred over time	262.3	258.1
Sale of goods	614.8	515.6
Provision of services – transferred over time	3,822.1	3,580.8
Rental income	1.7	5.4
Revenue	4,438.6	4,101.8

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 2023 £m	Year ended 31 March 2022 £m
Raw materials, subcontracts and other bought-in items used	1,857.1	1,467.8
Change in inventories of finished goods and work-in-progress	(2.8)	17.8
Operating charges	682.6	682.4
Employee costs (note 6)	1,567.1	1,523.6
Depreciation of property, plant and equipment (note 12)	72.1	58.7
Depreciation of right-of-use assets (note 13)	81.7	105.1
Amortisation of intangible assets (note 11)		
• Acquired intangibles	15.8	21.4
• Other	12.3	15.7
Impairment of intangible assets (note 11)	9.0	57.6
Impairment of property, plant and equipment (note 12)	4.9	58.8
Impairment of right of use assets (note 13)	9.6	18.0
Impairment of goodwill	-	7.2
(Gain) on disposal of property, plant and equipment	(2.0)	(1.5)
Loss on disposal of intangible assets	1.7	0.7
Loss/(gain) on disposal of right of-use assets	0.8	(3.2)
Net foreign exchange loss	12.7	10.5
Loss/(gain) on disposal of subsidiaries and joint ventures	77.4	(172.8)
(Gain)/loss on derivative instruments at fair value through profit or loss	(6.9)	7.2
Total operating charges	4,393.1	3,875.0

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 2023 £m	Year ended 31 March 2022 £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	2.4	2.3
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	8.1	4.3
Audit related assurance fees	-	0.5
Fees for other services:		
Other non-audit services	-	-
Total fees paid to the Group's auditor and network firms	10.5	7.1

5. Net finance costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	29.6	57.3
Lease interest and foreign exchange movements on lease liabilities	21.7	17.4
Amortisation of issue costs of bank loan	3.3	2.0
Retirement benefit interest cost	–	3.7
Other	15.9	–
Total finance costs	70.5	80.4
Finance income		
Bank deposits, loans and leases	13.7	8.8
IFRIC 12 investment income	0.7	0.8
Retirement benefit interest income	7.5	–
Total finance income	21.9	9.6
Net finance costs	48.6	70.8

Net finance costs decreased to £48.6 million (2022: £70.8 million). The current year includes a one-off gain of £18 million relating to the valuation of interest rate swaps (within loans, overdrafts and associated interest rate hedges) and a £12 million cost relating to the factoring of receivables for the Mentor contract in France (within other finance costs).

6. Employee costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Wages and salaries	1,289.2	1,252.8
Social security costs	141.3	143.4
Share-based payments (note 25)	9.4	5.5
Pension costs – defined contribution plans (note 26)	94.6	83.4
Pension charges – defined benefit plans (note 26)	32.6	38.5
	1,567.1	1,523.6

The average monthly number of people employed by the Group was:

	2023 Number	2022 Number
Marine	6,270	6,872
Nuclear	6,421	7,422
Land	5,013	5,996
Aviation	8,172	8,045
Central functions	859	640
	26,735	28,975

The reduction in average monthly number of people employed by the Group year-on-year is primarily attributable to the disposal activity in the current and prior period as detailed in note 28.

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the operating segments. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Salaries	11.8	7.3
Share-based payments	4.6	1.9
	16.4	9.2

7. Taxation

Income tax expense

	Total	
	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Analysis of tax expense in the year		
Current tax		
• UK current year expense	0.6	1.9
• UK prior year (benefit)	-	(10.8)
• Overseas current year expense	24.5	19.3
• Overseas prior year expense	2.9	2.5
	28.0	12.9
Deferred tax		
• UK current year expense	11.1	17.5
• UK prior year (benefit)/expense	(3.3)	11.5
• Overseas current year expense/(benefit)	3.6	(25.3)
• Overseas prior year (benefit)/expense	(1.1)	0.7
• Impact of changes in tax rates	1.2	(2.9)
	11.5	1.5
Total income tax expense	39.5	14.4

The tax for the year is higher (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit before tax	6.2	182.3
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2022: 19%)	1.2	34.6
Effects of:		
Expenses not deductible for tax purposes	8.6	2.4
Non-deductible write-off of goodwill	-	1.4
Re-measurement of deferred tax in respect of statutory rate changes	1.2	(2.9)
Difference in respect of share of results of joint ventures and associates' results	(1.8)	(2.1)
Prior year adjustments	(1.5)	3.9
Differences in respect of foreign rates	5.8	(0.4)
Unrecognised deferred tax movements	9.0	25.0
Deferred tax not previously recognised/derecognised	-	(8.1)
Non-taxable profits on disposals and non-deductible losses on disposals	22.4	(37.8)
Other	(5.4)	(1.6)
Total income tax expense/(benefit)	39.5	14.4

Further information on exceptional items and tax on exceptional items is detailed in note 2.

During the prior year the Group concluded discussions with certain tax authorities regarding prior year tax positions, resulting in a tax credit of £12.6 million.

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 principal elements of the Group's uncertain tax positions relate to the pricing of intra-group transactions and the allocation of profits in overseas territories. 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 2023 the Group held uncertain tax provisions of £20.3 million (2022: £16.5 million).

During the period the Group made disposals that are expected to be exempt from UK tax due to qualification for the UK substantial shareholding exemption, and from overseas tax as a consequence of local reliefs.

The increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 was substantively enacted during the year ended 31 March 2022. The effect has been to increase the Group's net deferred tax asset by £23.1 million (2022: £1.4 million), comprising a charge to Income Statement of £1.1 million (2022: £2.9 million credit) and a credit to Other Comprehensive Income of £24.2 million (2022: £2.0 million charge). In the year ended 31 March 2022 there was also a credit to Equity of £0.5 million.

7. Taxation (continued)

Income tax expense (continued)

Recent developments in respect of the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which include the Pillar Two initiative introducing a global minimum rate of corporation tax, are applicable to the Group. Initial analysis indicates that UK legislation, announced on 23 March 2023, to implement this initiative will result in no material impact on the Group's tax charge. The Group continues to monitor this issue to quantify any impact and implement the increased tax reporting activities required to ensure compliance.

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:

	2023 £m	2022 £m
Deferred tax asset (restated – note 23)	112.2	47.4
Deferred tax liability	(7.0)	(9.6)
	105.2	37.8

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 2022 as previously stated	(32.7)	(48.0)	101.5	16.6	37.4
Prior period restatement (note 23)	-	-	0.4	-	0.4
At 1 April 2022 as restated	(32.7)	(48.0)	101.9	16.6	37.8
Income statement credit/(debit)	(6.1)	(28.5)	23.7	0.5	(10.4)
Tax credit/(debit) to other comprehensive income/equity	-	76.6	-	(3.3)	73.3
Transfer to income tax receivable	-	-	-	(5.2)	(5.2)
Disposal of subsidiary	(1.5)	-	(6.3)	(6.5)	(14.3)
Effect of changes in tax rates					
• Income statement	(1.5)	(9.0)	9.5	(0.1)	(1.1)
• Other comprehensive income/equity	-	24.2	-	-	24.2
Exchange differences	0.9	-	(0.8)	0.8	0.9
At 31 March 2023	(40.9)	15.3	128.0	2.8	105.2
At 1 April 2021	(17.0)	53.2	98.9	(13.1)	122.0
Income statement credit/(debit)	(8.4)	(28.3)	(15.7)	48.0	(4.4)
Tax credit/(debit) to other comprehensive income/equity	-	(61.2)	-	(0.2)	(61.4)
Transfer from income tax receivable	-	-	-	4.4	4.4
Acquisition of subsidiary (restated – note 23)	-	-	-	(18.6)	(18.6)
Disposal of subsidiary	(1.2)	-	-	(6.4)	(7.6)
Effect of changes in tax rates					
• Income statement	(6.6)	(8.7)	17.2	1.0	2.9
• Other comprehensive income/equity	-	(3.0)	-	1.5	(1.5)
Exchange differences	0.5	-	1.1	-	1.6
At 31 March 2022 as previously stated	(32.7)	(48.0)	101.5	16.6	37.4

The net deferred tax assets of £105.2 million (2022: £37.4 million) include deferred tax assets of £14.2 million (2022: £31.6 million) and deferred tax liabilities of £7.0 million (2022: £9.6 million) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered. The recognition of deferred tax assets in respect of losses can be subjective. The Group's approach to the recognition of deferred tax assets in respect of losses, including how the Group assesses future profitability for recognition purposes, is set out in note 1 to the Accounts.

7. Taxation (continued)

Deferred tax (continued)

Net deferred tax assets have been recognised in respect of operations in the following jurisdictions: United Kingdom (£97.9 million), Australia (£7.4 million) and New Zealand (£0.9 million). In the prior year net deferred tax assets were recognised in the following jurisdictions: United Kingdom (£15.4 million), Italy (£9.8 million), Australia (£8.9 million) and Spain (£3.5 million). The reductions in the deferred tax balances in Italy and Spain jurisdictions follows the exit from these geographies following the business disposals as detailed in note 28. The UK was in a net tax loss position for each of the years ended 31 March 2021, 31 March 2022 and 31 March 2023. The losses for the years ended 31 March 2021 and 2022 reflected the contract and profitability review carried out in 2021 and the restructuring of the business in 2022. The loss in the year ended 31 March 2023 was principally attributable to the provision in respect of the Type 31 contract. The Directors do not consider that the results for these periods are representative of future trading performance and are satisfied that these net deferred tax assets are recoverable based on future profit forecasts.

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures and joint operations where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches, associates and interests in joint ventures and joint operations is represented by their post acquisition retained earnings and amounted to £257 million (2022: £291 million).

At the statement of financial position date, deferred tax assets of £128.0 million (2022: £101.5 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) of £96.4 million (2022: £51.9 million). In addition to these amounts, UK capital losses of £92.0 million (2022: £92.0 million) are being carried forward, with no deferred tax asset having been recognised. Where a deferred tax asset has not been recognised in respect of losses, this is because management considers that those jurisdictions are not likely to generate sufficient taxable income of the appropriate type in the foreseeable future (see note 1). The amounts shown can be carried forward indefinitely.

8. Dividends

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Final dividend for the year ended 31 March 2022 of nil (2021: nil p) per 60p share	-	-
Interim dividend for the year ended 31 March 2023 of nil (2022: nil p) per 60p share	-	-
	-	-

9. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust. Where there is a loss arising the effect of potentially dilutive ordinary shares is anti-dilutive.

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

Number of shares

	2023 Number	2022 Number
Weighted average number of ordinary shares for the purpose of basic EPS	505,391,563	505,091,970
Effect of dilutive potential ordinary shares: share options	9,528,985	6,083,765
Weighted average number of ordinary shares for the purpose of diluted EPS	514,920,548	511,175,735

Earnings per share

	Year ended 31 March 2023			Year ended 31 March 2022		
	Loss 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
(Loss)/earnings for the year	(35.0)	(6.9)	(6.9)	164.2	32.5	32.1

10. Goodwill

	31 March 2023 £m	31 March 2022 (restated) £m
Cost		
At 1 April	2,312.7	2,487.3
On disposal of subsidiaries (note 28)	(488.0)	(197.9)
Additions (note 28) (revised – note 23)	–	22.3
Exchange adjustments	(1.4)	1.0
At 31 March (restated – note 23)	1,823.3	2,312.7
Accumulated impairment		
At 1 April	1,529.3	1,531.0
On disposal of subsidiaries (note 28)	(487.4)	(8.9)
Impairment	–	7.2
Exchange adjustments	–	–
At 31 March	1,041.9	1,529.3
Net book value at 31 March (revised – note 23)	781.4	783.4

Goodwill is allocated to the operating segments as set out in the table below:

	31 March 2023 £m	31 March 2022 (restated) £m
Marine	296.6	297.7
Nuclear	233.1	233.1
Land	218.0	218.6
Aviation	32.0	32.0
Africa	1.7	2.0
	781.4	783.4

During the year, goodwill was tested for impairment at 31 March 2023 in accordance with IAS 36. This impairment analysis is performed on an annual basis at operating segment level, as outlined in the Group's accounting policies. The Group monitors goodwill at operating segment level.

The goodwill allocated to the Africa operating segment 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 the Africa operating segment.

During the year the Group disposed of goodwill of £0.6 million through the disposal of part of the Aerial Emergency Services business in Aviation (£nil million) and the Civil Training business in Land (£0.6 million).

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 1.9 – 4.6% (2022: 1.8 – 2.5%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level, and considered matters such as inflation.

Furthermore, in preparing this assessment we have considered the potential impact of climate change. In particular, we have considered the impact of climate change on the useful economic lives of assets, disruption to key operating sites and supply chain, and potential asset impairments. These considerations did not have a material impact on the goodwill impairment assessment.

10. Goodwill (continued)

Key assumptions

Key assumptions are based on past experience and expectations of future changes in the market, including prevailing economic forecasts, industry specific data, competitor activity and market dynamics.

Pre-tax discount rates derived from the Group's post-tax weighted average cost of capital were used to discount the estimated risk-adjusted cash flows. These pre-tax discount rates reflect the market assessment as at the period end date of the time value of money and the risks specific to the cash-generating units.

Country-specific long-term growth rates are determined based on external analyst assessments of long-term real GDP outlooks in the associated countries.

The country-specific real long-term growth rates and discount rates for the Group's operating segments are as follows:

	31 March 2023				31 March 2022			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	13.1	13.1	13.1	12.4	11.3	11.7	11.3	11.3
Post-tax discount rate	9.8	9.8	9.8	9.3	8.5	8.8	8.5	8.5
Long-term real growth rate	2.1	2.1	2.0	1.9	1.8	2.2	2.5	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:

Operating segment	Key future cash flow assumption
Marine	Continuing delivery of work programmes with the UK Ministry of Defence, including the design and build of Type 31 frigates and the production of vertical missile tubes for the US UK common missile compartment programme, future international opportunities in shipbuilding.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence, including the FMSP contract. Continuing delivery of opportunities in the UK civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts, not all of which have been assumed to renew.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence. Expansion of activities in key overseas territories.

Sensitivity

The value-in-use for Marine and Nuclear results in these operating segments having significant headroom. Assuming no change in the cash flows over the initial five-year period, it would require a long-term growth of nil combined with a discount rate in excess of 40% to reduce the headroom in these sectors to £nil. The Directors do not consider these to be plausible assumptions.

In the Aviation and Land sectors the decrease in headroom that would result from a change in the discount rate and long-term growth rate are set out in the table below:

	31 March 2023	31 March 2022
	Aviation	Aviation
Pre-tax discount rate		
Increase of 200bps (2022: 100 bps)	63.1	30.2
Long-term growth rate		
Decrease of 50bps	12.7	12.5

Management have also identified the growth rate in the short-term cash flows in the Aviation operating segment as a key assumption. Annual growth in the underlying cash flows has been determined on a contract-by-contract basis based on our knowledge of the existing contract base and management judgement regarding future wins and losses. If the five-year compound growth rate for the Aviation operating segment decreased by 14% this would cause an impairment of the goodwill allocated to this sector.

11. Other intangible assets

	Acquired intangibles – relationships £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Total £m
Cost				
At 1 April 2022 (restated)	1,095.3	222.6	27.6	1,345.5
Additions	–	18.1	3.4	21.5
Reclassification from property, plant and equipment	–	3.0	0.3	3.3
Disposal of subsidiary undertakings (note 28)	(237.0)	(4.9)	(13.9)	(255.8)
Disposals at cost	(2.0)	(7.4)	(3.0)	(12.4)
Exchange adjustments	4.7	(0.1)	0.6	5.2
At 31 March 2023	861.0	231.3	15.0	1,107.3
Accumulated amortisation and impairment				
At 1 April 2022	1,005.8	156.8	6.2	1,168.8
Amortisation charge	15.8	10.5	1.8	28.1
Impairment	–	9.0	–	9.0
Disposals of subsidiary undertakings (note 28)	(233.0)	(3.1)	(0.8)	(236.9)
Disposals	(2.0)	(6.6)	(1.7)	(10.3)
Exchange adjustments	7.8	(0.1)	0.1	7.8
At 31 March 2023	794.4	166.5	5.6	966.5
Net book value at 31 March 2023	66.6	64.8	9.4	140.8
Cost				
At 1 April 2021 (previously stated)	1,031.5	189.3	26.1	1,246.9
Restatement	–	30.4	–	30.4
At 1 April 2021	1,031.5	219.7	26.1	1,277.3
On acquisition of subsidiaries (note 28) (restated – note 23)	63.0	–	–	63.0
Additions	–	7.0	4.4	11.4
Reclassification from property, plant and equipment	–	0.1	(1.6)	(1.5)
Reclassification	–	0.9	(0.9)	–
Disposal of subsidiary undertakings (note 28)	–	(3.9)	–	(3.9)
Disposals at cost	–	(1.4)	(0.3)	(1.7)
Exchange adjustments	0.8	0.2	(0.1)	0.9
At 31 March 2022 (restated – note 23)	1,095.3	222.6	27.6	1,345.5
Accumulated amortisation and impairment				
At 1 April 2021 (previously stated)	927.5	115.0	4.5	1,047.0
Restatement	–	30.4	–	30.4
At 1 April 2021	927.5	145.4	4.5	1,077.4
Amortisation charge	21.4	13.9	1.8	37.1
Impairment (note 2)	57.6	–	–	57.6
Reclassification	–	0.1	(0.1)	–
Disposal of subsidiary undertakings (note 28)	–	(1.8)	–	(1.8)
Disposals	–	(1.0)	–	(1.0)
Exchange adjustments	(0.7)	0.2	–	(0.5)
At 31 March 2022	1,005.8	156.8	6.2	1,168.8
Net book value at 31 March 2022 (restated)	89.5	65.8	21.4	176.7

Acquired intangible amortisation charges for the year are recorded in operating costs.

During the year ended 31 March 2023, an error has been identified whereby fully amortised intangible assets were incorrectly presented net. These restatements have no impact on the total intangible assets balance nor on any other financial statement area. In addition, the carrying value of acquired intangibles – relationships as at 31 March 2022 has been revised by £1.0 million as described in Note 23 as a result of new information coming to light during the assessment period on the acquisition of a business.

11. Other intangible assets (continued)

Included in internally generated software development costs and licences is £38.6 million (2022: £40.7 million) relating to the Group's ERP system, which is amortised over a 10 year period. Included in the acquired intangible balance is £52.3 million (2022: £63.6 million) relating to the acquisition of the NSM joint venture (refer to note 28 for further details). This will be fully amortised in 20 years.

In the prior year, the Aviation operating segment recorded an impairment to acquired intangibles of £57.6 million on an acquired intangible that was initially recognised in relation to the acquisition of the Avincis business. The Group's disposal programme impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base, resulting in reassessment of the value-in-use for the operating segment in line with an assessment under IAS 36. This asset was fully impaired.

12. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2022	151.8	24.7	524.9	303.1	213.9	1,218.4
On disposal of subsidiaries (note 28)	(9.4)	(9.0)	(32.1)	(224.1)	(13.9)	(288.5)
Additions	0.4	0.2	33.2	27.8	48.3	109.9
Transfer to intangible assets	-	-	-	-	(3.3)	(3.3)
Reclassification	70.0	-	66.0	3.0	(139.0)	-
Transfer from Right-of-use-assets	-	-	-	19.5	-	19.5
Disposals	(0.8)	-	(13.1)	(40.2)	(18.8)	(72.9)
Capitalised borrowing costs	-	-	-	-	0.6	0.6
Exchange adjustments	0.2	(0.7)	(7.9)	8.4	3.0	3.0
At 31 March 2023	212.2	15.2	571.0	97.5	90.8	986.7
Accumulated depreciation						
At 1 April 2022	70.7	11.1	373.2	52.3	0.5	507.8
On disposal of subsidiaries (note 28)	(2.9)	(0.5)	(14.3)	(33.9)	-	(51.6)
Depreciation charge for the year	7.1	1.5	45.4	18.1	-	72.1
Impairment	-	-	-	(0.8)	5.7	4.9
Transfer from Right-of-use-assets	-	-	-	11.5	-	11.5
Disposals	(0.7)	-	(11.2)	(24.0)	(0.5)	(36.4)
Exchange adjustments	0.2	-	(2.5)	1.7	0.5	(0.1)
At 31 March 2023	74.4	12.1	390.6	24.9	6.2	508.2
Net book value at 31 March 2023	137.8	3.1	180.4	72.6	84.6	478.5
Cost						
At 1 April 2021 (previously stated)	159.8	15.8	506.5	365.3	187.6	1,235.0
Restatement	(1.7)	1.6	17.7	(17.5)	(32.6)	(32.5)
At 1 April 2021	158.1	17.4	524.2	347.8	155.0	1,202.5
On acquisition of subsidiaries (note 28)	-	-	0.4	-	-	0.4
On disposal of subsidiaries (note 28)	(7.6)	(0.6)	(21.6)	(17.4)	(0.9)	(48.1)
Additions	1.8	3.8	32.3	28.9	112.6	179.4
Disposals	(2.5)	(0.8)	(14.2)	(56.0)	(46.5)	(120.0)
Reclassification	1.5	4.9	(1.5)	0.9	(5.8)	-
Reclassification from intangible assets	0.4	-	1.1	-	-	1.5
Exchange adjustments	0.1	-	4.2	(1.1)	(0.5)	2.7
At 31 March 2022	151.8	24.7	524.9	303.1	213.9	1,218.4
Accumulated depreciation						
At 1 April 2021 (previously stated)	69.5	10.9	373.1	45.4	1.7	500.6
Restatement	(0.8)	0.6	(15.3)	(17.5)	0.5	(32.5)
At 1 April 2021	68.7	11.5	357.8	27.9	2.2	468.1
On disposal of subsidiaries (note 28)	(4.7)	(0.2)	(13.7)	(7.7)	-	(26.3)
Depreciation charge for the year	8.1	0.5	38.1	12.0	-	58.7
Impairment	-	-	-	58.8	-	58.8
Disposals	(1.5)	(0.7)	(10.8)	(38.9)	(1.6)	(53.5)
Exchange adjustments	0.1	-	1.8	0.2	(0.1)	2.0
At 31 March 2022	70.7	11.1	373.2	52.3	0.5	507.8
Net book value at 31 March 2022	81.1	13.6	151.7	250.8	213.4	710.6

12. Property, plant and equipment (continued)

In the year ended 31 March 2023 management identified that the prior period property, plant and equipment disclosure included a historic error which overstated historic cost and accumulated depreciation by £17.5 million (1 April 2021: £16.8 million). Additionally, an error has been identified in the classification of cost between asset categories in the prior period totalling £36.3 million and this has also been restated. These restatements have no impact on the total property, plant and equipment balance nor on any other financial statement area.

In the prior year, the Group recognised an impairment charge of £58.8 million in relation to the aircraft fleet in the Aviation operating segment due to changes in the future business performance, as informed by the Group's disposal programme. This change impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. The asset valuations have been calculated based on estimated discounted cash flows over the remaining useful expected lives of the assets. The impairment charge of £58.8 million is based on a recoverable amount for the relevant assets of £220.0 million.

13. Leases

Group as a lessee

Lease liabilities 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 2022	127.3	64.7	383.0	575.0
Additions	37.1	9.8	67.7	114.6
Transfer to Property, plant and equipment	-	-	(19.5)	(19.5)
Disposals	(10.0)	(3.7)	(24.5)	(38.2)
Disposal of subsidiaries (note 28)	(11.5)	(3.5)	(269.8)	(284.8)
Exchange adjustments	(1.3)	0.4	1.1	0.2
At 31 March 2023	141.6	67.7	138.0	347.3
Accumulated depreciation				
At 1 April 2022	42.5	40.9	157.3	240.7
Depreciation charge for the year	20.5	9.1	52.1	81.7
Impairment	0.9	-	8.7	9.6
Disposals	(7.0)	(3.3)	(21.7)	(32.0)
Disposal of subsidiaries (note 28)	(6.9)	(1.3)	(94.6)	(102.8)
Transfer to Property, plant and equipment	-	-	(11.5)	(11.5)
Exchange adjustments	(0.5)	0.3	2.7	2.5
At 31 March 2023	49.5	45.7	93.0	188.2
Net book value at 31 March 2023	92.1	22.0	45.0	159.1

13. Leases (continued)**Right of use assets (continued)**

	Leased land property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2021	152.9	72.1	584.2	809.2
Additions	24.0	3.4	61.2	88.6
Acquisition of subsidiary (note 28)	0.5	–	–	0.5
Disposals	(31.1)	(7.3)	(33.0)	(71.9)
Disposal of subsidiaries (note 28)	(21.1)	(3.0)	(228.4)	(252.5)
Exchange adjustments	2.1	–	(1.0)	1.1
At 31 March 2022	127.3	64.7	383.0	575.0
Accumulated depreciation				
At 1 April 2021	51.1	42.2	197.6	290.9
Depreciation charge for the year	23.5	9.5	72.1	105.1
Impairment	–	–	18.0	18.0
Disposals	(23.7)	(6.9)	(21.8)	(52.4)
Disposal of subsidiaries (note 28)	(9.5)	(1.9)	(109.5)	(120.9)
Reclassification	–	(2.0)	2.0	–
Exchange adjustments	1.1	–	(1.1)	–
At 31 March 2022	42.5	40.9	157.3	240.7
Net book value at 31 March 2022	84.8	23.8	225.7	334.3

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 2022	434.1
Additions	117.0
Disposals	(5.3)
Disposal of subsidiaries (note 28)	(218.1)
Exchange adjustments	9.6
Lease interest	15.9
Lease repayments	(124.4)
At 31 March 2023	228.8
Non-current lease liabilities	178.9
Current lease liabilities	49.9
At 31 March 2023	228.8
At 1 April 2021	612.3
Additions	93.8
Acquisition of subsidiaries (note 28)	0.5
Disposals	(22.6)
Disposal of subsidiaries (note 28)	(137.1)
Exchange adjustments	0.2
Lease interest	17.4
Lease repayments	(130.4)
At 31 March 2022	434.1
Non-current lease liabilities	329.3
Current lease liabilities	104.8
At 31 March 2022	434.1

See note 22 for a maturity analysis of the contractual undiscounted lease payments.

13. Leases (continued)

Amounts recognised in the Group income statement

	2023 £m	2022 £m
Interest on lease liabilities	15.9	17.4
Right-of-use asset depreciation	81.7	105.1
Right-of-use asset impairment	9.6	18.0
Loss/(profit) on disposal of right-of-use asset	0.8	(3.2)

The total expense for short term and low value leases was £3.0 million (2022: £8.9 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

	2023 £m	2022 £m
Total cash outflow for principal element of leases	108.5	113.0
Total cash outflow for interest element of leases	15.9	17.4
Total cash outflow for leases	124.4	130.4

Group as a lessor

The Group is the lessor in an arrangement for the lease of vehicles and sub-lease of leased properties. These are solely finance lease arrangements. There have been no new material lease arrangements as a lessor in the current year (2022: none).

Amounts recognised in the Group income statement

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance lease – interest income	4.4	3.1

Finance lease payments receivable

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Within one year	20.3	23.3
Greater than one year but less than two years	14.0	12.2
Greater than two years but less than three years	9.1	8.1
Greater than three years but less than four years	2.4	4.0
Greater than four years but less than five years	–	–
Greater than five years	–	–
Total undiscounted finance lease payments receivable	45.8	47.6
Impact of discounting	(7.2)	(0.2)
Finance lease receivable (net investment in the lease)	38.6	47.4

There was no material impairment of lease receivables in the year ended 31 March 2023 (2022: £nil).

The Group has minimal residual risk for underlying assets to which it retains the residual rights as all leases for which the Group acts as lessor are finance leases and therefore the asset has been leased for a term equivalent to the asset's useful economic life.

14. Investment in and loans to joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Year ended	Business activity	% interest held (2023)	% interest held (2022)	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 2023		31 March 2022	
	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited
Summarised income statement extract (year ended)				
Revenue	171.2	181.7	164.8	189.2
Depreciation and amortisation	–	(11.5)	–	(14.5)
Interest income	4.4	0.3	6.1	–
Interest expense	(5.0)	–	(0.2)	(0.3)
Income tax (expense)/benefit	(3.5)	(2.3)	(3.7)	(2.5)
Profit from continuing operations	14.5	5.9	15.4	6.5
Other comprehensive income	7.0	–	0.4	–
Total comprehensive income	21.5	5.9	15.8	6.5
Summarised statement of financial position				
Non-current assets	29.2	72.3	29.4	78.2
Current assets (excluding cash and cash equivalents)	75.5	95.2	101.5	69.0
Cash and cash equivalents	69.2	71.9	60.4	54.4
Non-current financial liabilities (excluding trade and other payables and provisions)	(109.2)	(63.2)	(137.5)	(49.3)
Current financial liabilities (excluding trade and other payables and provisions)	–	–	–	–
Current trade and other payables and provisions	(10.4)	(74.9)	(4.6)	(51.9)
Net assets	54.3	101.3	49.2	100.4
Ownership	50.0%	23.5%	50.0%	23.5%
Carrying value of investment	27.2	23.8	24.6	23.6

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	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 April	54.3	73.5	12.1	42.1	66.4	115.6
Acquisition and disposal of joint ventures and associates (note 28)	(1.0)	(24.5)	–	–	(1.0)	(24.5)
Loans repaid by joint ventures and associates	–	–	(2.4)	(31.0)	(2.4)	(31.0)
Increase in loans to joint ventures and associates	–	–	–	1.4	–	1.4
Investment in joint ventures and associates	–	2.6	–	–	–	2.6
Share of profits	9.3	20.1	–	–	9.3	20.1
Interest accrued and capitalised	–	–	1.0	3.2	1.0	3.2
Interest received	–	–	(1.2)	(3.6)	(1.2)	(3.6)
Dividends received	(8.7)	(41.6)	–	–	(8.7)	(41.6)
Fair value adjustment of derivatives	4.7	30.2	–	–	4.7	30.2
Tax on fair value adjustment of derivatives	(1.2)	(5.7)	–	–	(1.2)	(5.7)
Foreign exchange	–	(0.3)	–	–	–	(0.3)
At 31 March	57.4	54.3	9.5	12.1	66.9	66.4

The total investments in joint ventures and associates is attributable to the following reportable segments:

	2023 £m	2022 £m
Marine	3.7	4.8
Nuclear	1.4	0.3
Land	0.2	1.5
Aviation	61.6	59.8
Net book value	66.9	66.4

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 as 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 (2022: £nil). Total cumulative expected credit losses in respect of loans to joint ventures and associates are also £nil (2022: £nil) as the joint ventures and associates are considered to have low credit risk and as such impairment risk is considered minimal.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the owners, other than those imposed by the Companies Act 2006 or equivalent local regulations.

15. Inventories

	31 March 2023 £m	31 March 2022 £m
Raw materials and spares	58.6	77.3
Work-in-progress	7.2	4.1
Finished goods and goods for resale	61.0	61.3
Total	126.8	142.7

Write-downs of inventories amounted to £5.4 million (2022: £15.8 million). These were recognised as an expense during the year ended 31 March 2023 and included in operating costs in the income statement.

16. Trade and other receivables and contract assets

	31 March 2023 £m	31 March 2022 £m
Non-current assets		
Costs to obtain a contract	2.8	8.9
Costs to fulfil a contract	1.4	0.8
Other debtors	2.2	–
Non-current trade and other receivables	6.4	9.7
Current assets		
Trade receivables	307.3	311.5
Less: provision for impairment of receivables	(7.3)	(14.6)
Trade receivables – net	300.0	296.9
Retentions	6.0	4.4
Amounts due from related parties (note 32)	2.1	2.0
Other debtors	129.4	106.2
Prepayments	63.7	71.3
Costs to obtain a contract	0.6	7.6
Costs to fulfil a contract	5.1	0.6
Current trade and other receivables	506.9	488.8
Contract assets	322.5	299.3
Current trade and other receivables and contract assets	829.4	788.1

Trade and other receivables are stated at amortised cost. Details of expected credit losses on trade receivables are provided in note 22, there has been no impairment to other receivables during the year ended 31 March 2023 (2022: £nil). Other debtors primarily comprise of receivables in respect of social security and other taxes.

In the year ended 31 March 2023, amortisation of costs to obtain a contract and costs to fulfil a contract totalled £5.0 million (2022: £2.8 million). An impairment of £1.6 million was recorded in relation to costs to obtain a contract or costs to fulfil a contract (2022: £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.

16. Trade and other receivables and contract assets (continued)

Significant changes in contract assets during the year are as follows:

	Contract assets £m
31 March 2022	299.3
Disposal of subsidiary undertaking	(34.6)
Transfers from contract assets recognised at the beginning of the year to trade receivables	(218.9)
Increase due to work done not transferred from contract assets	273.1
Exchange adjustment	3.6
31 March 2023	322.5
31 March 2021	276.4
Disposal of subsidiary undertaking	16.3
Transfers from contract assets recognised at the beginning of the year to receivables	(20.8)
Increase due to work done not transferred from contract assets	(228.7)
Write down of contract assets	255.1
Exchange adjustment	1.0
31 March 2022	299.3

During the year, the Group has recognised a reversal of £48.5 million of revenue in respect of performance obligations satisfied or partially satisfied in previous periods. This figure is significantly impacted by reductions in forecast margin on three of the Group's contracts – predominantly the loss on the T31 programme as described in note 1. The variance resulting from these three contracts is a result of movements in forecast cost to complete rather than a reversal of variable consideration previously seen as highly probable. Excluding these three contracts, the Group has recognised £4.7 million of additional revenue in the current year in respect of performance obligations satisfied or partially satisfied in previous periods.

At 31 March 2023, there is £6.7 billion (2022: £5.8 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 37.8% (2022: 40.5%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2023 will be recognised as revenue during the next reporting period. A further 46.3% (2022: 59.5%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2023.

Details on the Group's approach to assess credit risk are included in note 22.

17. Cash and cash equivalents

	31 March 2023 £m	31 March 2022 £m
Cash at bank and in hand	221.7	616.0
Short-term bank deposits	230.0	530.3
	451.7	1,146.3

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

Currency	31 March 2023		31 March 2022	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	319.8	319.8	1,023.9	1,023.9
Euro	7.6	7.6	15.0	15.0
US Dollar	15.7	15.7	25.5	25.5
South African Rand	45.3	45.3	27.8	27.8
Canadian Dollar	19.1	19.1	12.2	12.2
Omani Rial	5.7	5.7	4.7	4.7
Australian Dollar	25.1	25.1	22.2	22.2
Norwegian Krone	0.6	0.6	1.4	1.4
Swedish Krona	2.4	2.4	6.5	6.5
New Zealand Dollar	2.8	2.8	1.0	1.0
Other currencies	7.6	7.6	6.1	6.1
	451.7	451.7	1,146.3	1,146.3

17. Cash and cash equivalents (continued)

Surplus cash balances are typically invested at short-term floating rates, 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.

Expected credit losses of cash and cash equivalents is £nil (2022: £nil).

18. Trade and other payables and contract liabilities

	2023 £m	2022 £m
Current liabilities		
Contract liabilities	616.4	518.3
Trade creditors	239.1	164.7
Amounts due to related parties (note 32)	0.8	1.5
Other creditors	41.6	26.9
Other taxes and social security	75.5	76.6
Accruals	554.1	618.4
Trade and other payables	911.1	888.1
Trade and other payables and contract liabilities	1,527.5	1,406.4
Non-current liabilities		
Other creditors	0.9	1.0

Included in creditors is £12.9 million (2022: £6.7 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

Significant changes in contract liabilities during the year are as follows:

	Contract liabilities £m
31 March 2022	518.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(377.5)
Cash advanced	509.8
Disposal of subsidiary undertaking	(31.9)
Exchange adjustment	(2.3)
31 March 2023	616.4
31 March 2021	396.5
Revenue recognised that was included in the contract liability balance at the beginning of the year	(294.7)
Cash advanced	419.0
Acquisition of subsidiary undertaking	8.2
Disposal of subsidiary undertaking	(12.5)
Exchange adjustment	1.8
31 March 2022	518.3

19. Bank and other borrowings

	31 March 2023 £m	31 March 2022 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	0.3	0.4
Unsecured	19.3	863.0
	19.6	863.4
Lease obligations*	49.9	104.8
	69.5	968.2
Non-current liabilities		
Bank and other borrowings		
Secured	21.0	24.0
Unsecured	747.4	823.7
	768.4	847.7
Lease obligations*	178.9	329.3
	947.3	1,177.0

* Leases are secured against the assets to which they relate.

The reduction in unsecured current liabilities is a result of the repayment of the €550 million Eurobond in October 2022 and a reduction in usage of overdraft facilities.

The Group's overdraft totalled £21.5 million at 31 March 2023 (2022: £389.8 million). Included within bank loans and overdrafts due within one year is an offsetting £2.6 million in respect of amortisation of loan fees.

The Group has £3.1 million (2022: £3.5 million) of secured debt in the land and operating segment that is secured against a property owned by the Group and £18.2 million (2022: £20.9 million) of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

Unsecured bank loans are subject to covenants which are tested six monthly on a rolling basis. Covenants comprise of Net Debt to EBITDA and Interest Cover. The Net Debt 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 2023		31 March 2022	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	19.6	49.9	863.4	104.8
Between one and two years	0.3	40.6	22.6	90.5
Between two and three years	0.6	34.5	0.6	67.9
Between three and four years	300.6	23.4	0.7	46.4
Between four and five years	466.2	19.9	356.4	38.7
Greater than five years	0.7	60.5	467.4	85.8
	788.0	228.8	1,711.1	434.1

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 2023			31 March 2022		
	Total £m	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m
Sterling	439.0	16.4	422.6	832.1	405.6	426.5
Euro*	515.4	87.2	428.2	1,181.1	252.8	928.3
US Dollar	5.9	0.4	5.5	44.4	19.1	25.3
South African Rand	25.1	18.3	6.8	30.0	20.8	9.2
Canadian Dollar	6.0	–	6.0	7.5	0.7	6.8
Australian Dollar	22.3	–	22.3	28.2	1.5	26.7
Norwegian Krone	–	–	–	4.7	3.9	0.8
Swedish Krona	–	–	–	15.6	–	15.6
New Zealand Dollar	1.0	–	1.0	0.2	–	0.2
South Korean Won	0.8	–	0.8	1.2	–	1.2
Botswana Pula	0.2	–	0.2	0.2	–	0.2
Other	1.1	0.8	0.3	–	–	–
	1,016.8	123.1	893.7	2,145.2	704.4	1,440.8

* €550 million (2022: €1,100 million) has been swapped into Sterling, with €135 million (2022: €275 million) equivalent into floating rates and €415 million (2022: €825 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% (2022: 1.9%). The weighted average period for which these interest rates are fixed is 3.5 years (2022: 4.6 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 2023 %	31 March 2022 %
UK bank overdraft	5.4	1.1
UK bank borrowings	–	1.4
8-year Eurobond September 2027 – fixed	2.9	2.9
8-year Eurobond September 2027 – floating	6.3	3.3
8-year Eurobond October 2022	–	1.8
£300 million bond 2026	1.9	1.9
Other borrowings	5.5 – 9.8	4.8 – 6.9
Leases obligations	3.7 – 17.2	2.2 – 11.8

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	31 March 2023 £m	31 March 2022 £m
Expiring in less than one year	–	–
Expiring in more than one year but not more than five years	1,152.8	1,012.2
	1,152.8	1,012.2

Bank loans include £nil million (2022: £12.5 million) that suppliers have chosen to early-fund under supplier financing arrangements, under which the suppliers can elect to receive a discounted early payment from the partner bank rather than being paid in line with the agreed payment terms. The total supplier financing facility available to the Group is £nil million at 31 March 2023 (2022: €128.5 million).

20. Provisions for other liabilities

	Contract/ warranty (a) £m	Employee benefits and business reorganisation costs (b) £m	Italian anti-trust fine (c) £m	Property (d) £m	Other (e) £m	Total provisions £m
At 1 April 2021	67.1	35.8	20.0	21.5	1.1	145.5
On disposal of subsidiaries (note 28)	–	(1.3)	–	(1.2)	–	(2.5)
On acquisition of subsidiaries (note 28) (restated – note 23)	1.3	–	–	–	–	1.3
Net charge/(release) to income statement	(8.6)	40.1	(3.6)	1.8	0.3	30.0
Utilised in year	(8.5)	(35.4)	(16.1)	(0.8)	–	(60.8)
Unwinding of discount	–	0.2	–	–	–	0.2
Foreign exchange	(0.2)	0.3	–	(0.3)	–	(0.2)
At 31 March 2022	51.1	39.7	0.3	21.0	1.4	113.5
Prior period adjustment (note 23)	2.4	–	–	–	–	2.4
At 31 March 2022 as restated	53.5	39.7	0.3	21.0	1.4	115.9
On disposal of subsidiaries (note 28)	(8.5)	(1.2)	–	(5.8)	(0.1)	(15.6)
Reclassification	(1.0)	1.4	–	(4.3)	3.9	–
Net charge/(release) to income statement	76.0	10.4	–	8.4	(0.6)	94.2
Utilised in year	(20.2)	(19.2)	(0.3)	(4.8)	(1.8)	(46.3)
Unwinding of discount	–	0.2	–	–	–	0.2
Foreign exchange	0.6	(0.8)	–	0.6	(0.1)	0.3
At 31 March 2023	100.4	30.5	–	15.1	2.7	148.7

- a) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and are recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes against their associated probabilities. Onerous contracts relate to expected future losses on contracts with customers – notably T31 as outlined in note 1.
- b) Employee benefits and business reorganisation costs relate to business restructuring activities including announced redundancies in addition to employee benefits including long-term sickness. The net charge to the employee benefits and reorganisation provision comprises a charge in the year of £12.8 million and a release of £2.4 million.
- c) Italian anti-trust fines pertain to historic court rulings in respect of the Babcock Mission Critical Services Italia SpA subsidiary. The majority of this provision was paid in the prior year with remaining amounts paid in FY23.
- d) Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.
- e) Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

Provisions have been analysed between current and non-current as follows:

	31 March 2023 £m	31 March 2022 £m
Current	67.9	55.6
Non-current	80.8	60.3
	148.7	115.9

Included within provisions is £6.9 million (2022: £7.4 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

21. Financial instruments and fair value measurement

The following table presents the Group's assets and liabilities:

31 March 2023 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	9.5	–	–	9.5	9.5
Financial assets	–	7.3	–	–	7.3	7.3
Derivatives	2.6	–	–	–	2.6	2.6
Lease receivables	–	22.2	–	–	22.2	22.2
Current financial assets						
Trade and other receivables *	1.5	345.1	–	–	346.6	346.6
Lease receivables	–	16.4	–	–	16.4	16.4
Derivatives	4.3	–	–	–	4.3	4.3
Cash and cash equivalents	–	451.7	–	–	451.7	451.7
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(768.4)	(768.4)	(670.3)
Derivatives	–	–	(53.3)	–	(53.3)	(53.3)
Current financial liabilities						
Bank and other borrowings	–	–	–	(19.6)	(19.6)	(19.6)
Trade and other payables *	–	–	–	(511.1)	(511.1)	(511.1)
Derivatives	–	–	(12.8)	–	(12.8)	(12.8)
Net financial assets / (financial liabilities)	8.4	852.2	(66.1)	(1,299.1)	(504.6)	(406.5)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

31 March 2022 (£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						
Investment in joint ventures and associates	–	54.3	–	–	54.3	54.3
Loans to joint ventures and associates	–	12.1	–	–	12.1	12.1
Financial assets	–	10.0	–	–	10.0	10.0
Lease receivables	–	24.1	–	–	24.1	24.1
Current financial assets						
Trade and other receivables *	–	335.3	–	–	335.3	335.3
Lease receivables	–	23.3	–	–	23.3	23.3
Derivatives	11.4	–	–	–	11.4	11.4
Cash and cash equivalents	–	1,146.3	–	–	1,146.3	1,146.3
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(847.7)	(847.7)	(819.6)
Derivatives	–	–	(59.3)	–	(59.3)	(59.3)
Current financial liabilities						
Bank and other borrowings	–	–	–	(863.4)	(863.4)	(833.1)
Trade and other payables *	–	–	–	(460.0)	(460.0)	(460.0)
Derivatives	–	–	(34.8)	–	(34.8)	(34.8)
Net financial assets / (financial liabilities)	11.4	1,605.4	(94.1)	(2,171.1)	(648.4)	(590.0)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

21. Financial instruments and fair value measurement (continued)

The fair value hierarchy is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

All of the financial assets and liabilities measured at fair value are classified as Level 2 or Level 3 using the fair value hierarchy. There were no transfers between levels during the period. Additional disclosures in respect of financial assets measured using Level 3 techniques are not provided as such assets are not material.

The fair values of financial instruments held at fair value have been determined based on available market information at the period end date, and the valuation methodologies listed below:

- The fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate period end rates; and
- The fair values of cross-currency interest rate swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate period end rates.

Financial assets and liabilities in the Group's Consolidated statement of financial position are either held at fair value or their carrying value approximates to fair value, with the exception of loans, which are held at amortised cost. Amortised cost items whose fair value or carrying value approximate to fair value are at Level 2 in the fair value hierarchy. Due to the variability of the valuation factors, the fair values presented at 31 March may not be indicative of the amounts the Group would expect to realise in the current market environment.

Derivative financial instruments and hedging activities

The Group enters into forward foreign currency contracts and cross-currency interest rate swaps to hedge the currency exposures that arise on sales, purchases, deposits, borrowings and leasing arrangements denominated in foreign currencies as the transactions occur. Where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. The Group's policy regarding classification of derivatives is set out in note 1.

Cash flow hedges

The Group uses cross-currency swap contracts to hedge the foreign currency risk on debt issued by the Group. These are formally designated in cash flow hedge relationships and hedge ineffectiveness is recognised immediately in the income statement.

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.

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 2023, the Group had 83% fixed rate debt (2022: 66%) and 17% floating rate debt (2022: 34%) based on gross debt, including lease liabilities, of £1,016.8 million (2022: £2,290.1 million).

22. Financial risk management (continued)

The following balances are exposed to interest rate risk as shown below:

	31 March 2023			31 March 2022		
	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	451.7	–	–	1,146.3	–	–
Bank and other borrowings	69.5	40.9	906.4	968.2	113.1	1,063.9

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 2023		Year ended 31 March 2022	
	Change in interest rate	Effect on profit before tax £m	Change in interest rate	Effect on profit before tax £m
GBP	3.0%	3.1	0.5%	3.7

The effect of fair value hedges on the Group's financial position and performance for the year is as follows:

	Year ended 31 March 2023			Year ended 31 March 2022		
	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness
Cross currency interest rate swap	246.7	(38.7)	(4.1)	246.7	(34.6)	(14.6)

1. The Group has entered into three cross currency interest rate swaps to convert £275 million of fixed rate (1.275%) 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 will 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 2023				Year ended 31 March 2022			
	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement
Debt	241.7	30.6	7.3	3.2	234.8	22.7	13.7	(0.9)

Ineffectiveness is included in the income statement in finance costs.

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	<p>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.</p> <p>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.</p> <p>The Group utilises debt factoring in support of the non-UK operations of its Aviation sector as part of its working capital management arrangements.</p>
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. During the year ended 31 March 2023 the Group has repaid a €550 million facility. No new facilities have been entered into.

22. Financial risk management (continued)

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.

	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 2023					
Bank and other borrowings	74.2	45.2	847.9	72.9	1,040.2
Derivatives cash outflows settled gross	28.7	145.4	198.8	1,503.3	1,876.2
Undiscounted lease payments	54.6	44.9	80.5	72.2	252.2
At 31 March 2022					
Bank and other borrowings	968.2	113.1	510.7	553.2	2,145.2
Derivatives cash outflows settled gross	555.7	300.5	246.4	549.6	1,652.2
Derivatives cash outflows settled net	-	-	-	0.4	0.4
Undiscounted lease payments	115.6	100.6	172.0	106.3	494.5

The impact of discounting for lease payments is £23.4 million (2022: £60.4 million) resulting in lease liabilities of £228.8 million (2022: £434.1 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.

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.

22. Financial risk management (continued)

The effect of cash flow hedges on the Group's financial position and performance in the year was as follows:

Hedging instruments (€m)	Year ended 31 March 2023							
	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	(£8.2)	13/09/27	1.152	(9.5)	(9.5)	(10.0)	–
Hedged item: EUR denominated debt	€275m	£241.7	13/09/27	N/A	10.0	N/A	N/A	N/A

As outstanding cash flow hedges matured in 2023, the amount previously recognised in the hedging reserve has been reclassified to the income statement. Any new derivatives executed to hedge purchases and sales in foreign currencies have been treated as economic hedges with the fair value changes recognised in the income statement rather than through other comprehensive income and therefore disclosure has not been provided on such items.

Hedging instruments (€m)	Year ended 31 March 2022							
	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	(17.7)	13/09/27	1.152	2.8	(2.4)	3.3	(0.4)
Hedged item: EUR denominated debt	€275m	231.7	13/09/27	N/A	(2.4)	N/A	N/A	N/A

Hedging instruments (€m)	Year ended 31 March 2022					
	Maturity date	Notional average hedged rate	Change in fair value of instrument	Change in fair value of derivative	Carrying value of derivative	Notional amount
Hedging forecast purchases in EUR	05/03/2023	1.3617	(3.0)	3.0	(2.2)	73.3
Hedging forecast sales in GBP	17/04/2023	0.8929	(1.1)	1.1	(1.1)	110.0
Hedging forecast purchases/sales in CHF/EUR**	20/11/2023	0.9387	1.0	(1.0)	1.0	22.1
Hedging forecast purchases/sales in EUR/NOK**	21/09/2022	10.4500	–	–	–	–
Hedging forecast purchases/sales in other currencies**	19/10/2022	N/A	0.2	(0.2)	(0.4)	38.7
Cash flow hedges			(2.9)	2.9	(2.7)	244.1

** Individually immaterial items.

The following table demonstrates the effect on profit before tax for reasonably possible changes in EUR, ZAR, AUD and CAD exchange rates.

	Year ended 31 March 2023			Year ended 31 March 2022		
	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%	1.5	1.5	5%	0.8	0.8
ZAR	5%	(2.0)	(2.0)	5%	(1.6)	(1.6)
AUD	5%	(0.4)	(0.4)	5%	(1.6)	(1.6)
CAD	5%	(0.4)	(0.4)	5%	(0.5)	(0.5)

* This sensitivity analysis excludes the impact of the disposal of the Group's Aerial Emergency Services business, as this is a one-off transaction which is not expected to re-occur.

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.

22. Financial risk management (continued)

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	Currency 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 £7.4 million (2022: £14.6 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 2023	31 March 2022
AA+ or higher	8.0%	15.3%
A+ to A-	45.0%	78.7%
BBB+ to BB-	11.0%	6.0%

Trade receivables

The Group's assessment is that credit risk in relation to customers or sub-contractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from governments and sub-contractors to government customers is therefore considered immaterial in the context of the receivables balance. The Group manages credit risk in relation to trade and other receivables for all non-government commercial customers through various mitigating controls including credit checks, credit limits and ongoing monitoring. Expected credit losses are assessed for all non-government customers, however this is not considered to be material to the financial statements.

For trade receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other assets the loss allowance is measured using 12-months expected credit losses unless there was a significant increase in credit risk since initial recognition. Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

The Group considers that default has occurred when receivables are more than 90 days overdue and recognises a provision of 100% against all such receivables unless there is evidence of recoverability at the individual receivable level. The movement on the provision for expected credit losses is as follows:

	2023 £m	2022 £m
Balance at 1 April	(14.6)	(14.0)
Charged to the income statement	(1.7)	(1.0)
Receivables written off during the year as uncollectable	-	-
Unused amounts reversed	2.0	0.7
Disposal of businesses	7.4	-
Exchange differences	(0.4)	(0.3)
Balance at 31 March	(7.3)	(14.6)

The creation and release of provisions for impairment of receivables have been included in operating costs in the income statement.

22. Financial risk management (continued)

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. None of the trade receivables that were written off during the year are still subject to enforcement activity. The ageing of trade receivables is detailed below:

	Year ended 31 March 2023			Year ended 31 March 2022		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	291.3	–	291.3	298.0	(1.1)	296.9
Up to 90 days overdue	3.7	(0.1)	3.6	7.4	(7.4)	–
Past 90 days overdue	12.3	(7.2)	5.1	6.1	(6.1)	–
	307.3	(7.3)	300.0	311.5	(14.6)	296.9

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.

Offsetting financial assets and liabilities

	Year ended 31 March 2023			Year ended 31 March 2022		
	Balance sheet £m	Amounts not offset ¹ £m	Net balances £m	Balance sheet £m	Amounts not offset £m	Net balances £m
Assets						
Cash and cash equivalents	451.0	(18.9)	432.1	1,146.3	(388.9)	757.4
Derivatives	6.9	(6.9)	–	11.4	(11.4)	–
Liabilities						
Bank and other borrowings	(18.9)	18.9	–	(863.4)	388.9	(474.5)
Derivatives	(66.1)	6.9	(59.2)	(94.1)	11.4	(82.7)

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 (borrowings disclosed in note 19 after deducting cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as disclosed in note 24). The Group is not subject to any externally imposed capital requirements.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, and to provide returns for shareholders and other stakeholder benefits.
Policy	The Group's policy is to protect and strengthen the Group statement of financial position through the appropriate balance of debt and equity funding.
Risk management	The Group manages its capital structure and makes adjustments in response to changes to economic conditions and the strategic objectives of the Group. The Group raises finance in the public debt market from financial institutions, using a variety of capital market instruments and borrowing facilities.
Performance	During the current financial year, the Group has entered into an overdraft facility of £50 million. No other new facilities have been entered into.

23. Revisions to historic acquisitions within the IFRS 3 measurement period

Under IFRS 3, when new information obtained about facts and circumstances that existed at the acquisition date arises within the measurement period, the Group is required to adjust amounts recognised through the acquisition accounting. Post-acquisition, we have determined that assumptions used to calculate a pain/gain share provision in respect of the Naval Ship Management (Australia) Pty Limited ('NSM') acquisition did not reflect the facts and circumstances at the acquisition date. This has resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £1.0 million, increased acquired intangibles by £1.0 million, increased deferred tax assets by £0.4 million at 31 March 2022.

31 March 2022 – Group statement of financial position (extract)

	31 March 2022 (previously published)	(iii) Acquisition accounting adjustment	31 March 2022 (restated)
Assets			
Non-current assets			
Goodwill	782.4	1.0	783.4
Other intangible assets	175.7	1.0	176.7
Deferred tax asset	47.0	0.4	47.4
Total non-current assets *	2,461.1	2.4	2,463.5
Liabilities			
Current liabilities			
Provisions	(53.2)	(2.4)	(55.6)
Current liabilities *	(2,480.3)	(2.4)	(2,482.7)
Equity			
Retained earnings	(1,241.4)	–	(1,241.4)
Total equity *	701.5	–	701.5

* The table above includes only those financial statement line items which have been restated. The total non-current assets, non-current liabilities, and equity do not therefore represent the sum of the line items presented above.

24. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2022 and 31 March 2023	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2021 and 31 March 2022	505,596,597	303.4

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2023 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 10,346,859 shares (2022: 9,945,822 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.

24. Share capital (continued)

Potential issues of ordinary shares (continued)

Grant date	Type	Exercise period	2023 Number	2022 Number
13 June 2018	DBP	13/06/2021 – 13/06/2022	–	23,335
13 June 2019	DBP	13/06/2021 – 13/06/2022	–	14,668
13 June 2019	DBP	13/06/2022 – 13/06/2023	22,971	224,369
13 June 2019	PSP	13/06/2022 – 13/06/2023	–	2,330,777
13 June 2019	PSP	13/06/2024 – 13/06/2025	–	803,839
3 August 2020	DBP	03/08/2022 – 03/08/2023	44,300	146,306
3 August 2020	DBP	03/08/2023 – 03/08/2024	109,929	109,929
13 August 2020	DBP	13/08/2022 – 13/08/2023	–	8,474
13 August 2020	DBP	13/08/2023 – 13/08/2024	192,096	192,096
1 December 2020	PSP	01/12/2025 – 01/12/2026	1,389,984	1,389,984
1 December 2020	PSP	01/12/2023 – 01/12/2024	1,470,518	1,653,975
24 August 2021	PSP	24/08/2026 – 24/08/2027	769,165	769,165
24 September 2021	DBP	24/09/2024 – 24/09/2025	45,312	45,312
24 September 2021	PSP	24/09/2024 – 24/09/2025	1,368,274	1,606,889
24 September 2021	PSP	24/09/2026 – 24/09/2027	553,389	626,704
1 August 2022	DBP	01/08/2022 – 01/08/2023	551,420	–
1 August 2022	DBP	01/08/2022 – 01/08/2025	218,895	–
1 August 2022	PSP	01/08/2022 – 01/08/2025	2,191,017	–
1 August 2022	PSP	01/08/2022 – 01/08/2027	1,419,589	–
			10,346,859	9,945,822

Options granted to Directors are summarised in the Remuneration report on pages 131 to 133 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan ("PSP").
2. DBP – Award issued without matching shares, has two-year vesting period.
3. DBP – Award issued without matching shares, has three-year vesting period.
4. DBP – Award issued without matching shares, has one-year vesting period.

The table below shows shares already held by the trustees of the BEST in order to meet these awards.

	31 March 2023		31 March 2022	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	69,517	–	398,036
Total	–	69,517	–	398,036

A reconciliation of PSP and DBP movements is shown below:

	31 March 2023 Number '000	31 March 2022 Number '000
Outstanding at 1 April	9,946	10,438
Granted	4,492	3,222
Exercised	(350)	(263)
Forfeited/lapsed	(3,741)	(3,451)
Outstanding at 31 March	10,347	9,946
Exercisable at 31 March	67	38

The weighted average share price for awards exercised during the year was 339.1p per share (2022: 319.3p per share). The weighted average fair value of awards granted in the year was 327.1p per share (2022: 312.3p per share)

During the year 21,362 ordinary shares (2022: nil shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2023, 349,881 shares (2022: 263,427 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2023, the Trust held a total of 69,517 ordinary shares (2022: 398,036 ordinary shares) at a total market value of £207,717 (2022: £1,291,682) representing 0.01% (2022: 0.08%) 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.

24. Share capital (continued)

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.

25. Share-based payments

The charge to the income statement has been based on the assumptions below and is based 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. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £9.4 million (2022: £5.5 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £7.6 million (2022: £4.5 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

PSP and DBP¹

	Options awarded Number	Share price at grant or modification Price	Expected volatility %	Expected life Years	Expected performance criteria	Share price per option – £	Fair value per option – £	Correlation %	Grant or modification date
2022 PSP	2,302,009	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 PSP	613,078	351.4	19.0%	6.0	100.0%	–	316.3	55.0%	01/08/22
2022 PSP	806,511	351.4	19.0%	6.0	100.0%	168.7	316.3	55.0%	01/08/22
2022 DBP	218,895	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 DBP	551,420	351.4	19.0%	2.0	100.0%	–	351.4	55.0%	01/08/22
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,849	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18

1. PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

The vesting period and the expected life of PSP awards are three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

PSP awards for 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

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.

25. Share-based payments (continued)

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 140,340 matching shares (2022: 159,494 matching shares) at a cost of £0.4 million (2022: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2022: 4,784 matching shares) and 1,055 matching shares vested (2022: 2,823 matching shares) leaving a balance of 5,918 matching shares (2022: 6,973 matching shares).

26. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Defined contribution schemes	94.6	83.4

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	31 March 2023 £m	31 March 2022 £m
Retirement benefits – funds in surplus	94.8	300.9
Retirement benefits – funds in deficit	(156.2)	(109.3)
	(61.4)	191.6

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes). Each of these schemes is predominantly a final salary plan in which future pension levels are defined relative to number of years' service and final salary. Retirement age varies by scheme. The nature of these schemes is that the employees only contribute whilst they are active employees of a scheme, with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

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.

26. Retirement benefits and liabilities (continued)

Defined benefit scheme risks

Through its defined benefit pension schemes, the Group is exposed to a number of risks, the most notable of which are as follows:

Risk	Mitigation
Asset volatility – discount rates (determined with reference to AA corporate bond yields) are used to determine expected returns on plan assets. Asset yields which vary from this expected return will result in an increase or decrease in the overall surplus/deficit.	Pension scheme assets are held in a diversified portfolio of assets in order to minimize risk arising from asset return volatility. Investments are well diversified, such that failure of any singular investment would not have a material impact on the overall level of assets. The asset investment strategy is agreed following consultation between the Group and the plan Trustees.
Following the 23 September 2022 UK 'mini budget', gilt yields increased at an unprecedented rate causing significant market turmoil – increasing the asset volatility risk during the year.	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.
Salary increases – changes in long-term salary increases will impact the final salary position on which pension benefits are determined.	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.
	In 2019, the Group closed the Babcock International Group Pension Scheme to future accrual for some employees; and, in 2020, closed the Rosyth Royal Dockyard Pension Scheme to future accrual for all employees.

The defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The details of the latest formal actuarial valuation of the scheme are as follows (the actuarial valuation of the Devonport Royal Dockyard Scheme as at 31 March 2023 and the actuarial valuation of the Babcock Rail Ltd section of the Railways Pension Scheme as at 31 December 2022 have commenced):

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2020	31/03/2022	31/03/2021	31/12/2019
Number of active members at above date	1,607	308	–	180
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,529m	£946m	£271m
Level of funding	90%	105%	86%	92%

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.

26. Retirement benefits and liabilities (continued)

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	21.6%	30.3%	N/A	12.48%	14.0% - 48.0%	-
Future service cash contributions	£12.1m	£3.2m	-	£0.5m	£2.3m	£18.1m
Deficit contributions	£18.6m	£13.7m	£12.4m	£1.5m	£1.6m	£47.8m
Additional longevity swap payments	£7.3m	£3.6m	£4.3m	-	-	£15.2m
Expected employer cash costs for 2023/24	£38.0m	£20.5m	£16.7m	£2.0m	£3.9m	£81.1m
Expected salary sacrifice contributions	£5.8m	£0.4m	-	£0.5m	£0.8m	£7.5m
Expected total employer contributions	£43.8m	£20.9m	£16.7m	£2.5m	£4.7m	£88.6m

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.

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2023 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 2023				
Rate of increase in pensionable salaries	3.0%	3.0%	-	0.5%
Rate of increase in pensions (past service)	2.8%	3.2%	3.3%	2.9%
Discount rate	4.8%	4.8%	4.8%	4.8%
Inflation rate (RPI) – year 1	6.9%	6.9%	6.9%	6.9%
Inflation rate (RPI) – thereafter	3.3%	3.3%	3.3%	3.3%
Inflation rate (CPI) – year 1	4.7%	4.7%	4.7%	4.7%
Inflation rate (CPI) – thereafter	2.8%	2.8%	2.8%	2.8%
Weighted average duration of cash flows (years)	13	12	13	13
Total life expectancy for current pensioners aged 65 (years) – male	85.5	86.3	84.4	85.0
Total life expectancy for current pensioners aged 65 (years) – female	87.5	88.9	86.8	87.3
Total life expectancy for future pensioners currently aged 45 (years) – male	86.2	86.8	85.6	86.0
Total life expectancy for future pensioners currently aged 45 (years) – female	88.5	89.4	88.1	88.5
March 2022				
Rate of increase in pensionable salaries	3.4%	3.4%	-	0.5%
Rate of increase in pensions (past service)	3.2%	3.5%	3.7%	3.2%
Discount rate	2.7%	2.7%	2.7%	2.7%
Inflation rate (RPI)	3.7%	3.7%	3.7%	3.6%
Inflation rate (CPI)	3.2%	3.2%	3.2%	3.2%
Weighted average duration of cash flows (years)	16	14	16	17
Total life expectancy for current pensioners aged 65 (years)	85.9	86.8	85.0	85.3
Total life expectancy for future pensioners currently aged 45 (years)	86.6	87.4	85.9	86.4

26. 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:

	2023				2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	(3.1)	10.6	26.6	34.1	31.6	14.3	30.6	76.5
Property funds	301.7	0.2	5.9	307.8	364.0	0.1	5.1	369.2
High yield bonds/emerging market debt	–	–	0.4	0.4	44.1	–	0.4	44.5
Absolute return and multi-strategy funds	6.0	148.0	17.5	171.5	46.0	182.9	31.8	260.7
Low-risk assets								
Bonds	1,227.7	95.5	45.1	1,368.3	1,924.1	77.2	77.5	2,078.8
Matching assets*	1,524.7	1.4	21.7	1,547.8	2,094.0	1.3	101.8	2,197.1
Longevity swaps and annuities	(231.8)	–	(10.1)	(241.9)	(283.5)	–	(10.2)	(293.7)
Fair value of assets	2,825.2	255.7	107.1	3,188.0	4,220.3	275.8	237.0	4,733.1
Percentage of assets quoted	79%	100%	70%	80%	84%	100%	46%	82%
Percentage of assets unquoted	21%	–	30%	20%	16%	–	54%	18%
Present value of defined benefit obligations								
Active members	450.7	45.7	21.7	518.1	756.0	65.7	35.8	857.5
Deferred pensioners	686.6	65.3	34.7	786.6	1,066.2	93.5	132.7	1,292.4
Pensioners	1,773.6	130.5	40.6	1,944.7	2,170.4	167.9	53.3	2,391.6
Total defined benefit obligations	2,910.9	241.5	97.0	3,249.4	3,992.6	327.1	221.8	4,541.5
Net (liabilities)/assets recognised in the statement of financial position	(85.7)	14.2	10.1	(61.4)	227.7	(51.3)	15.2	191.6

* The matching assets 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 £2,580 million (2022: £3,966 million) and associated repurchase agreement liabilities of £1,053 million (2022: £1,872 million). Repurchase agreements are entered into with counterparties to better offset the scheme's exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

The amounts recognised in the Group income statement are as follows:

	2023				2022			
	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	21.7	1.3	2.8	25.8	25.7	2.0	3.4	31.1
Incurred expenses	6.2	0.5	0.1	6.8	6.6	0.5	0.3	7.4
Total included within operating profit	27.9	1.8	2.9	32.6	32.3	2.5	3.7	38.5
Net interest (credit)/cost	(8.5)	1.4	(0.4)	(7.5)	1.5	2.1	0.1	3.7
Total included within income statement	19.4	3.2	2.5	25.1	33.8	4.6	3.8	42.2

26. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	Year ended 31 March 2023				Year ended 31 March 2022			
	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	(1,437.0)	(17.1)	(79.0)	(1,533.1)	77.0	13.1	(1.7)	88.4
Experience (losses)/gains arising on scheme liabilities	(135.6)	(18.0)	(9.3)	(162.9)	(70.6)	14.2	2.4	(54.0)
Changes in assumptions on scheme liabilities	1,111.2	101.2	81.2	1,293.6	238.8	27.4	21.9	288.1
At 31 March	(461.4)	66.1	(7.1)	(402.4)	245.2	54.7	22.6	322.5

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2023				Year ended 31 March 2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	4,220.3	275.8	237.0	4,733.1	4,123.7	265.6	234.3	4,623.6
Interest on assets	113.4	7.3	5.4	126.1	82.3	5.2	4.7	92.2
Actuarial (loss)/gain on assets	(1,437.0)	(17.1)	(79.0)	(1,533.1)	77.0	13.1	(1.7)	88.4
Employer contributions	167.4	2.5	4.6	174.5	182.5	2.6	5.1	190.2
Employee contributions	0.1	–	–	0.1	0.2	–	–	0.2
Benefits paid	(239.0)	(12.8)	(4.8)	(256.6)	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	–	–	(56.1)	(56.1)	–	–	–	–
At 31 March	2,825.2	255.7	107.1	3,188.0	4,220.3	275.8	237.0	4,733.1
Present value of benefit obligations								
At 1 April	3,992.6	327.1	221.8	4,541.5	4,290.0	369.6	242.9	4,902.5
Service cost	21.7	1.3	2.8	25.8	25.6	2.0	3.5	31.1
Incurred expenses	6.2	0.5	0.1	6.8	6.6	0.5	0.3	7.4
Interest cost	105.0	8.7	4.9	118.6	83.8	7.3	4.8	95.9
Employee contributions	0.1	–	–	0.1	0.2	–	–	0.2
Experience loss/(gain)	135.6	18.0	9.3	162.9	70.6	(14.2)	(2.4)	54.0
Actuarial (gain)/loss – demographics	(38.2)	(3.6)	(1.7)	(43.5)	(11.5)	(3.5)	–	(15.0)
Actuarial (gain)/loss – financial	(1,073.1)	(97.7)	(79.3)	(1,250.1)	(227.3)	(23.9)	(21.9)	(273.1)
Benefits paid	(239.0)	(12.8)	(4.8)	(256.6)	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	–	–	(56.1)	(56.1)	–	–	–	–
At 31 March	2,910.9	241.5	97.0	3,249.4	3,992.6	327.1	221.8	4,541.5
Net (deficit)/surplus at 31 March	(85.7)	14.2	10.1	(61.4)	227.7	(51.3)	15.2	191.6

The movement in net deficits for the year ended 31 March 2023 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 2023 and the changes to the Group income statement for the year to March 2024, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £m	Income statement 2024 £m
Initial assumptions	3,249.4	25.0
Discount rate assumptions increased by 0.5%	(192.1)	(11.5)
Discount rate assumptions decreased by 0.5%	211.1	10.5
Inflation rate assumptions increased by 0.5%	145.7	7.8
Inflation rate assumptions decreased by 0.5%	(137.2)	(7.4)
Total life expectancy increased by half a year	60.2	3.0
Total life expectancy decreased by half a year	(60.2)	(3.0)
Salary increase assumptions increased by 0.5%	13.3	0.9
Salary increase assumptions decreased by 0.5%	(12.8)	(0.9)

26. Retirement benefits and liabilities (continued)

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets (including reimbursement rights) 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.

27. Changes in net debt including loans to joint ventures and associates and lease receivables

	31 March 2022 £m	Cash flow £m	Additional leases £m	Other non-cash movement ¹ £m	Clarification of net debt definition ² £m	Changes in fair value £m	Exchange movement £m	31 March 2023 £m
Cash and bank balances	1,146.3	(687.9)	–	–	–	–	(6.7)	451.7
Bank overdrafts	(389.8)	366.6	–	–	–	–	1.0	(22.2)
Cash, cash equivalents and bank overdrafts	756.5	(321.3)	–	–	–	–	(5.7)	429.5
Debt	(1,321.3)	556.2	–	(1.6)	–	37.2	(36.3)	(765.8)
Derivatives hedging Group debt	(29.3)	(0.8)	–	–	–	21.8	–	(8.3)
Lease liabilities	(434.1)	108.5	(117.0)	223.4	–	–	(9.6)	(228.8)
Changes in liabilities from financing arrangements	(1,784.7)	663.9	(117.0)	221.8	–	59.0	(45.9)	(1,002.9)
Lease receivables	47.4	(31.9)	28.5	–	–	–	(5.4)	38.6
Loans to joint ventures and associates	12.1	(2.4)	–	(0.2)	–	–	–	9.5
Derivatives hedging interest on Group debt	–	–	–	–	(36.1)	(3.0)	–	(39.1)
Net debt	(968.7)	308.3	(88.5)	221.6	(36.1)	56.0	(57.0)	(564.4)

1. Other non-cash movements predominantly relate to the disposal of lease liabilities and associated lease receivables as part of the disposal transactions described in note 28.

2. During the year the definition of net debt has been clarified, resulting in the inclusion of the interest rate swap hedging Group debt, which was excluded in the prior year.

	31 March 2022 £m	Cash flow £m	Additional leases £m	Other non-cash movement ¹ £m	Changes in fair value £m	Exchange movement £m	31 March 2022 £m
Cash and bank balances	904.8	238.6	–	–	–	2.9	1,146.3
Bank overdrafts	(373.9)	(15.9)	–	–	–	–	(389.8)
Cash, cash equivalents and bank overdrafts	530.9	222.7	–	–	–	2.9	756.5
Debt	(1,333.6)	8.6	–	(2.0)	(1.6)	7.3	(1,321.3)
Derivatives hedging Group debt	(19.1)	–	–	–	(10.2)	–	(29.3)
Lease liabilities	(612.3)	113.0	(93.8)	159.2	–	(0.2)	(434.1)
Changes in liabilities from financing arrangements	(1,965.0)	121.6	(93.8)	157.2	(11.8)	7.1	(1,784.7)
Lease receivables	39.6	(36.9)	41.9	–	–	2.8	47.4
Loans to joint ventures and associates	42.1	(29.6)	–	(0.4)	–	–	12.1
Net debt	(1,352.4)	277.8	(51.9)	156.8	(11.8)	12.8	(968.7)

28. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

Acquisitions

There have been no acquisitions in the year ended 31 March 2023.

In the prior year, the Group acquired the remaining 50% of Naval Ship Management (Australia) Pty Limited on 15 March 2022. The Group had previously held a 50% interest in this entity since May 2012 which was classified as a joint venture. NSM provides repair, engineering and maintenance services to the Australian Navy. The Group paid cash consideration of £33.1 million (AUD60 million) for this acquisition.

The fair value of assets and liabilities recognised as a result of the acquisition were as follows:

	Year ended 31 March 2022 (restated) Naval Ship Management £m
Fair value gain on previously held interest:	
Carrying value of previously held interest	0.7
Fair value gain on previously held interest	32.4
Fair value of previously held interest at acquisition date	33.1
Purchase consideration:	
Cash consideration	33.1
Fair value of previously held interest	33.1
Total consideration	66.2
Assets acquired:	
Property, plant and equipment	0.4
Right of use assets	0.5
Deferred tax assets	0.7
Contract assets	16.3
Trade and other receivables	11.6
Cash and cash equivalents	17.6
Deferred tax liability	(18.9)
Income tax payable	(0.4)
Lease liabilities	(0.5)
Contract liabilities	(8.2)
Trade and other payables	(34.5)
Provisions	(3.7)
Net identifiable assets acquired	(19.1)
Goodwill	22.3
Intangible assets	63.0
Net assets acquired	66.2

Post-acquisition, Naval Ship Management (Australia) Pty Limited contributed £0.7 million to the profit before tax of the Group for the year ended 31 March 2022. If this entity had been owned for the full financial year the contribution to profit before tax would have been £10.5 million.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by intangible assets of £63.0 million, relating to customer relationships, and goodwill of £22.3 million, representing potential for future synergies arising from combining the acquired businesses with the Group's existing business. Goodwill is not deductible for tax purposes. Post-acquisition, we determined that assumptions used to calculate a gain/share provision did not reflect the facts and circumstances at the acquisition date. This resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £1.0 million, increased acquired intangibles by £1.0 million, increased deferred tax assets by £0.4 million at 31 March 2022. Further detail is included in note 23.

28. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates (continued)

Disposals

Year ended 31 March 2023

On 19 July 2022, the Group announced it had entered into a sale and purchase agreement to dispose of part of its aerial emergency services business in Europe. The disposal group was part of the Aviation sector and provided Aerial Emergency Services, including medical, firefighting and search & rescue to customers and communities, in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million.

On 1 September 2022, the Group entered into a sale and purchase agreement to dispose of its Civil Training business. The disposal group was part of the Land sector and the disposal completed on 1 February 2023. The Group received consideration of £5.5 million.

	Year ended 31 March 2023			Total £m
	Aerial Emergency Services £m	Civil Training £m	Other £m	
Goodwill	–	0.6	–	0.6
Investment in joint ventures and associates	1.0	–	–	1.0
Other intangible assets	18.9	–	–	18.9
Property, plant and equipment	236.8	0.1	–	236.9
Right of use assets	182.0	–	–	182.0
Deferred tax assets	20.6	–	–	20.6
Other non-current assets	4.4	–	–	4.4
Inventory	35.4	–	–	35.4
Trade and other receivables	99.5	9.4	–	108.9
Derivatives	4.2	–	–	4.2
Income tax receivable	1.5	–	–	1.5
Cash, cash equivalents and bank overdrafts	10.5	2.6	–	13.1
Other non-current liabilities	(0.2)	–	–	(0.2)
Bank and other borrowings	(1.6)	–	–	(1.6)
Lease liabilities	(218.1)	–	–	(218.1)
Deferred tax liability	(6.3)	–	–	(6.3)
Income tax payable	(0.6)	–	–	(0.6)
Trade and other payables	(128.7)	(4.6)	–	(133.3)
Other current liabilities	–	–	–	–
Provisions	(15.6)	–	–	(15.6)
Net assets disposed	243.7	8.1	–	251.8
Cumulative currency translation loss	(1.2)	–	–	(1.2)
Total	242.5	8.1	–	250.6
Consideration	187.1	5.5	–	192.6
Disposal costs	(18.1)	(1.3)	–	(19.4)
Net consideration after disposal costs	169.0	4.2	–	173.2
Loss on disposal	(73.5)	(3.9)	–	(77.4)
Disposal related items	(43.4)	–	3.1	(40.3)
Business acquisition, merger and divestment related items	(116.9)	(3.9)	3.1	(117.7)
Sale proceeds	187.1	5.5	–	192.6
Sale proceeds less cash disposed of	176.6	2.9	–	179.5
Less non-cash proceeds	–	(1.5)	–	(1.5)
Less transaction costs	(18.1)	(1.3)	–	(19.4)
Net cash inflow	158.5	0.1	–	158.6

Disposal related items in relation to the Aerial Emergency Services disposal include asset impairments for assets not disposed but relating to the Aerial Emergency Services businesses whose carrying value exceeded recoverable amount following the disposal transaction along with provisions for certain warranty related items.

28. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates (continued)

Disposals

Year ended 31 March 2022

On 11 March 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of the Oil and Gas business, which provides offshore Oil and Gas crew transportation services in the UK, Denmark and Australia. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 1 September 2021, on which date control of the Oil and Gas business passed to CHC Group LLC. The Group received consideration of £10 million.

On 13 August 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of Frazer-Nash Consultancy, which provides engineering and technology solutions across a broad range of critical national infrastructure. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 20 October 2021, on which date control of Frazer-Nash Consultancy passed to KBR Inc. The Group received consideration of £291.7 million.

On 24 December 2021, the Group announced the disposal of the Power business to M Group Services, which provides engineering services in the UK overhead line electric transmission and distribution industry. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 24 December 2021, on which date control passed to M Group Services. The Group received consideration of £50 million.

On 13 September 2021, the Group announced a definitive agreement with Equitix Investment Management Limited for the sale of its 15.4% shareholding in AirTanker Holdings Limited, a joint venture with Airbus, Thales and Rolls-Royce which owns 14 A330 Voyager aircraft to support air-to-air refuelling, air transport and ancillary services for the MOD. The Group has retained its 23.5% shareholding in AirTanker Services Limited, which operates these aircraft. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 9 March 2022, on which date control passed to Equitix. The Group received consideration of £95.6 million, and shareholder loans of £31.5 million were repaid.

	Year ended 31 March 2022				
	Oil and Gas Business £m	Frazer-Nash Consultancy £m	Power £m	AirTanker £m	Total £m
Goodwill	0.4	64.5	44.1	80.0	189.0
Investment in joint ventures and associates	-	-	-	23.8	23.8
Other intangible assets	-	2.1	-	-	2.1
Property, plant and equipment	15.1	2.2	4.5	-	21.8
Right of use assets	125.8	3.9	1.9	-	131.6
Deferred tax assets	18.8	0.5	0.3	-	19.6
Other non-current assets	-	-	-	-	-
Inventory	3.6	-	0.1	-	3.7
Trade and other receivables	46.5	31.0	9.3	-	86.8
Derivatives	-	-	-	-	-
Income tax receivable	1.5	2.9	-	-	4.4
Cash, cash equivalents and bank overdrafts	-	4.9	4.2	-	9.1
Other non-current liabilities	-	-	-	-	-
Bank and other borrowings	-	-	-	-	-
Lease liabilities	(129.7)	(5.4)	(2.0)	-	(137.1)
Deferred tax liability	(12.0)	-	-	-	(12.0)
Income tax payable	(1.0)	-	-	-	(1.0)
Trade and other payables	(39.6)	(13.9)	(9.9)	-	(63.4)
Other current liabilities	-	-	-	-	-
Provisions	(1.3)	-	(1.2)	-	(2.5)
Net assets disposed	28.1	92.7	51.3	103.8	275.9
Disposal costs	2.0	10.1	2.7	2.7	17.5
Cumulative currency translation loss	(7.3)	-	-	-	(7.3)
Recycle of hedge reserve	-	-	-	20.8	20.8
(Loss)/profit on disposal	(12.8)	188.9	(4.0)	(31.7)	140.4
Sale proceeds	10.0	291.7	50.0	95.6	447.3
Sale proceeds less cash disposed of	10.0	286.8	45.8	95.6	438.2
Less non-cash proceeds	-	-	-	-	-
Less transaction costs	(2.0)	(10.1)	(2.7)	(2.7)	(17.5)
Net cash inflow	8.0	276.7	43.1	92.9	420.7

29. Transactions with non-controlling interests

There were no material transactions with non-controlling interests in the current or prior year.

30. Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. There are a number of contingent liabilities that arise in the normal course of business, including:

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.

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.

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.

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.

Corporate rules in those jurisdictions may also extend to compensatory trade agreements, or economic offset rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Group if not undertaken appropriately.

31. Capital and other financial commitments

Capital commitments

	31 March 2023 £m	31 March 2022 £m
Contracts placed for future capital expenditure not provided for in the financial statements	7.8	21.3

31. Capital and other financial commitments (continued)

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Legal entity name	Company number	Legal entity name	Company number
Aspleyford Shipbuilders (2004) Ltd	02052982	Babcock Management Ltd	00107414
Babcock Airports Ltd	03954520	Babcock Marine (Devonport) Limited	02959785
Babcock Assessments Limited	02881056	Babcock Marine Limited	02530351
Babcock Contractors Limited	01398475	Babcock Marine Shipbuilding Limited	14302509
Babcock Critical Assets Holdings LLP	OC376675	Babcock Mission Critical Services Leasing Ltd	04635275
Babcock Defence & Security Holdings LLP	OC376674	Babcock Mission Critical Services Ltd	08010453
Babcock Defence and Security Investments Ltd	08132272	Babcock Mission Critical Services Topco Ltd	08338012
Babcock Defence Systems Limited	01199791	Babcock Mission Critical Services UK Ltd	07527245
Babcock Education & Training Holdings LLP	OC376676	Babcock MSS Limited	01996548
Babcock Education and Skills Limited	03494815	Babcock Nuclear Limited	01603273
Babcock Education Holdings Ltd	08132276	Babcock Project Investments Ltd	03463927
Babcock Fire Services Limited	03707192	Babcock Project Services Limited	02888133
Babcock Fire Training (Avonmouth) Ltd	04168329	Babcock Services Group Ltd	03939840
Babcock Group (US Investments) Ltd	07445425	Babcock Southern Holdings Ltd	01915771
Babcock Information Analytics and Security Limited	02275471	Babcock US Investments Ltd	07422616
Babcock Integrated Technology (Korea) Ltd	09566389	Bond Aviation Topco Limited	08493398
Babcock Integration LLP	OC356460	Flagship Fire Fighting Training Ltd	03700728
Babcock International Support Services Limited	03335786	ICF IP Management Company Ltd	SC695940
Babcock Investments (Fire Services) Limited	04380306	Peterhouse Group Ltd	01517100
Babcock Investments (Number Four) Ltd	05269128	Vosper Thornycroft (UK) Ltd	00070274
Babcock Investments Ltd	00165086		

Babcock International Group PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 March 2023 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.

32. Related party transactions

Related party transactions for the year ended 31 March 2023 are:

2023	2023 Revenue to £m	2023 Purchases from £m	2023 Year-end debtor balance £m	2023 Year-end creditor balance £m
Joint ventures and associates				
First Swietelsky Operation and Maintenance	9.0	–	0.4	(0.4)
Ascent Flight Training (Management) Limited	0.9	–	0.3	–
Ascent Flight Training (Holdings) Limited	–	–	0.2	–
Rotary Wing Training Limited	4.1	–	–	–
Fixed Wing Training Limited	3.1	(0.2)	–	(0.4)
Advanced Jet Training Limited	1.3	–	0.3	–
Rear Crew Training Limited	0.8	–	–	–
Airlanker Services Limited	13.7	–	0.1	–
Alert Communications Limited	7.4	–	0.5	–
Duqm Naval Dockyard SAOC	–	–	0.3	–
	40.3	(0.2)	2.1	(0.8)

2022	2022 Revenue to £m	2022 Purchases from £m	2022 Year-end debtor balance £m	2022 Year-end creditor balance £m
Joint ventures and associates				
First Swietelsky Operation and Maintenance	9.1	–	0.5	(1.5)
Ascent Flight Training (Management) Limited	3.3	–	0.1	–
Ascent Flight Training (Holdings) Limited	1.4	–	–	–
ALC (Superholdco) Limited	0.4	–	–	–
Rotary Wing Training Limited	3.6	–	0.6	–
Fixed Wing Training Limited	3.5	–	0.3	–
Advanced Jet Training Limited	1.8	–	0.2	–
Rear Crew Training Limited	1.1	–	0.2	–
Airlanker Services Limited	11.3	–	0.1	–
Alert Communications Limited	4.4	–	–	–
	39.6	–	2.0	(1.5)

- a) All transactions noted above arise in the normal course of business and on normal, arm's length commercial terms.
- b) Defined benefit pension schemes. Please refer to note 26 for transactions with the Group defined benefit pension schemes.
- c) Key management compensation is shown in note 6.
- d) Transactions in employee benefits trusts are shown in note 26.

33. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in this Annual Report.

34. 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 2023 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. The Group's interest in the voting share capital is 100% unless otherwise stated. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited

Appledore Shipbuilders (2004) Limited[†]
Devonport Royal Dockyard, Devonport, Plymouth,
PL1 4SC, United Kingdom

Armstrong Technology Associates Limited*

Babcock (Ireland) Treasury Limited
Custom House Plaza, Block 6, FSC, Dublin, 1, Ireland

Babcock (NZ) Limited

C/O Babcock Central Office, HMNZ Dockyard,
Devonport Naval Base, Queens Parade, Devonport,
Auckland, 0744, New Zealand

Babcock (UK) Holdings Limited**

Babcock Aerospace Limited

Babcock Africa Investments (Pty) Ltd
Riley Road Office Park, 150 Riley Road, Bedfordview,
Gauteng, 2007, South Africa

Babcock Airports Limited

Babcock Assessments Limited

Babcock Australia Holdings Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000,
Australia

Babcock Aviation Services (Holdings)
Limited**

Babcock B.V.
Bezuilenhoutseweg 1, 2591 AB The Hague,
The Netherlands

Babcock Canada Inc.
45 O'Connor Street, Suite 1500, Ottawa, Ontario
K1P 1A4, Canada

Babcock Communications Cyprus Limited
Spyridou Kyprionou, 47, 11 Floor, Mesa Chitonia, 4004
Limassol, Cyprus

Babcock Communications Limited

Babcock Contractors Limited

Babcock Corporate Secretaries Limited*

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

Babcock Critical Services Limited
103 Waterloo Street, Glasgow, Scotland, G2 7BW,
United Kingdom

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments
Limited

Babcock Defence Systems Limited

Babcock Defense (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808,
United States

Babcock Design & Technology Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife,
KY11 2YD, Scotland

Babcock DS 2019 Limited*

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Engineering Limited*

Babcock Europe Finance Limited*

Trident Park, Notabile Gardens, No. 2 – Level 3,
Mdina Road, Zone 2, Central Business District,
Birkirkara CBD 2010, Malta

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Group (US Investments) Limited

Babcock Holdings (USA) Incorporated*
251 Little Falls Drive, Wilmington, Delaware 19808,
United States

Babcock Holdings Limited**

Babcock Information Analytics and Security
Holdings Limited*

Babcock Information Analytics and Security
Limited

Babcock Integrated Technology (Korea)
Limited

Babcock Integrated Technology GmbH
Am Zoppenberg 23, 4-366 Schwanthal, Germany

Babcock Integrated Technology Limited

Babcock Integration LLP

Babcock International France Aviation SAS
Le Coude du Portier, 83340, Le Cannet-des-Maures,
France

Babcock International France SAS

21 Rue Leblanc 75015, Paris, France

Babcock International France Terre SAS

21 Rue Leblanc 75015, Paris, France

Babcock International Holdings BV

Bezuilenhoutseweg 1, 2594 AB The Hague,
The Netherlands

Babcock International Holdings Limited*

Trident Park, Notabile Gardens, No. 2 – Level 3,
Mdina Road, Zone 2, Central Business District,
Birkirkara CBD 2010, Malta

Babcock International Limited*

Babcock International Support Services
Limited

Babcock International US Inc

251 Little Falls Drive, Wilmington, Delaware 19808,
United States

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Four) Limited

Babcock Investments (Number Nine) Limited

Babcock Investments Limited

Babcock IP Management (Number One)
Limited

Babcock IP Management (Number Two)
Limited

Babcock Ireland Finance Limited
44 Esplanade, St Helier, JE4 9WC, Jersey

Babcock Korea Limited

72-1, Shinsan-ro, Sahag-gu, Busan, 49434, South
Korea

Babcock Land Defence Limited

Babcock Luxembourg Finance S.a.r.l.

12F rue Guillaume Kroil, L – 1882 Luxembourg

Babcock Luxembourg Investments I S.a.r.l.

12F rue Guillaume Kroil, L – 1882 Luxembourg

Babcock Luxembourg Investments S.a.r.l.

12F rue Guillaume Kroil, L – 1882 Luxembourg

Babcock Luxembourg S.a.r.l.

12F rue Guillaume Kroil, L – 1882 Luxembourg

Babcock M 2019 Limited*

Babcock Malta Limited
44 Esplanade, St Helier, JE4 9WC, Jersey

Babcock Malta (Number Two) Limited

44 Esplanade, St Helier, JE4 9WC, Jersey

Babcock Malta Finance (Number Two)
Limited

Trident Park, Notabile Gardens, No. 2 – Level 3,
Mdina Road, Zone 2, Central Business District,
Birkirkara CBD 2010, Malta

Babcock Malta Finance Limited

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 Malta Holdings Limited*

Trident Park, Notabile Gardens, No. 2 – Level 3,
Mdina Road, Zone 2, Central Business District,
Birkirkara CBD 2010, Malta

Babcock Management 2019 Limited*

Babcock Management Limited

Babcock Marine & Technology Holdings
Limited

Babcock Marine (Clyde) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife,
KY11 2YD, Scotland

Babcock Marine (Devonport) Limited
Devonport Royal Dockyard, Devonport, Plymouth,
PL1 4SC, England

Babcock Marine (Rosyth) Limited

Rosyth Business Park, Rosyth, Dunfermline, Fife,
KY11 2YD, Scotland

Babcock Marine Holdings (UK) Limited*

Babcock Marine Limited

Babcock Marine Products Limited*

Babcock Marine Training Limited

Babcock MCS Congo SA
Avenue Charles de Gaulle, PE 5871, Pointe-Noire,
PB 5871, The Republic of Congo

34. Group entities (continued)

Subsidiaries, wholly owned (continued)

Babcock Mission Critical Services Australia Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Mission Critical Services Design and Completions Limited

Babcock Mission Critical Services Germany GmbH
Augsburg Airport, Flughafenstrasse 19, 86169 Augsburg, Germany

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Onshore Limited

Babcock Mission Critical Services Topco Ltd

Babcock Mission Critical Services UK Limited
Babcock MSS Limited

Babcock Nuclear Limited

Babcock Oman LLC
P.O. Box 2315, Chadia, Muscat, 130, Oman

Babcock Overseas Investments Limited

Babcock Project Investments Limited

Babcock Project Services Limited

Babcock Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Rail Limited

Babcock Services Group Limited

Babcock Services Limited

Babcock Southern Careers Limited*

Babcock Southern Holdings Limited*

Babcock Support Services (Investments) Limited

Babcock Support Services GmbH
Am Zoppenberg 23, 41366 Schwalmata, Germany

Babcock Support Services Limited*
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

Babcock Training Limited

Babcock UK Finance

Babcock USA LLC
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments (Number Two) LLC

251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments Inc.
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments Limited*

Babcock Vehicle Engineering Limited*

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*

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited*

Cavendish Nuclear (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Cavendish Nuclear Japan KK

Regus Tokyo, Arca Central Office 104, Arca Central Building 14F 1201, Kinshi, Sumida Ku, Tokyo, Japan

Cavendish Nuclear Limited*

Chepstow Insurance Limited

PO Box 155, Mill Court, La Charroterie, St Peter Port, CY11 4ET, Guernsey

Devonport Royal Dockyard Limited

Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SC, United Kingdom

Devonport Royal Dockyard Pension Trustees Limited*

Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SC, United Kingdom

FBM Babcock Marine Holdings (UK) Limited*

FBM Babcock Marine Limited*

FBM Marine International (UK) Limited*

Flagship Fire Fighting Training Limited

Heli Aviation China Limited*

Rooms 05-15, 13 A/F South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

IMAST Limited*

INAER Helicopter Chile S.A.*

2930 Avenida Vasconcelo Norte Avenue, Suite 1102, Conchalí, Santiago, Chile

INAER Helicopter Peru S.A.C. (In liquidation)

1118 Av. Los Conquistadores, Santa Cruz, San Isidro, Lima, Peru

LCE 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*

251 Little Falls Drive, Wilmington, Delaware 19808, United States

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

Marine Industrial Design Limited

c/o Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Palace, Devonport, Auckland, 0744, New Zealand

Naval Ship Management (Australia) Pty Ltd
9, 70 Franklin Street, Adelaide, SA 5000, Australia

Peterhouse Group Limited

Peterhouse GmbH

Am Zoppenberg 23, 41366 Schwalmata, Germany

Port Babcock Rosyth Limited*

Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Limited*

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*

Skills2Learn Ltd

Vosper Thornycroft (UK) Limited

34. Group entities (continued)

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51.0%)
PO Box 248 (Muskar Al-Mutafala (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90.0%)*
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90.0%)*
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90.0%)
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)*
52 St Christopher Street, Valletta, VLF 1462, Malta

Babcock Education and Training (Pty) Ltd (90.0%)
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Financial Services (Pty) Ltd (90.0%)
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90.0%)
No. 9, Carrot Avenue, Accra, Accra, Ghana

Babcock Mission Critical Services (Ireland) Limited (49.82%)
13-18 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services France SA (49.82%)
Leclerc de Portiers, 83340, Le Cannet-des-Maures, France

Babcock Namibia Services Pty Ltd (90.0%)
Unit 3 Ground Floor, Dr Agostinho Neto Road, Aussparn Plaza, Aussparnplatz, Windhoek, Namibia

Babcock Ntuthuko Aviation (Pty) Limited (66.78%)*
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Pty) Limited (46.37%)
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Pty) Limited (46.81%)*
Unit C3 Victoria House, Plot 132 Independence Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Ltd (64.82%)*
Riley Road Office Park, 155 Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock TCM Plant (Proprietary) Limited (90.0%)*
Unit C3 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 Aéronne 709 Cognac 16100 Châteaubernard, France

National Training Institute LLC (70.0%)
PO Box 267, Madinat Qaboos, Sultanate of Oman, 115 Oman

Joint ventures and associates (equity accounted):

A3C Electrification Ltd (33.3%)*
8th Floor, The Place, High Holborn, London, WC1V 7AA

AirTanker Services Limited (23.5%)*
AirTanker Hub RAi Brize Norton, Carterton, Oxfordshire, England, OX18 3UX, United Kingdom

Alert Communications Group Holdings Limited (20.0%)

Ascent Flight Training (Holdings) Limited (50.0%)

Cavendish Boccard Nuclear Limited (51.0%)

Cavendish Dounreay Partnership Limited (50.0%)

Cavendish Fluor Partnership Limited (65.0%)

Debut Services (South West) Limited (50.0%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

Duqm Naval Dockyard SAOC (49.0%)
The Special Economic Zone at Duqm, Al Duqm, Al-Wusata, 3972 112, Oman

FSP (2004) Limited (50.0%)
9th Floor, 100, Hamilton International Technology Park, Bantyre, G72 0LH, Scotland

Okeanus Vermögensverwaltungs GmbH & Co. KG (50.0%)
Vorketsen 54, 20459, Hamburg, Germany

Wholly owned subsidiaries with registered office at 55 Baker Street, London, W1U 7EU, United Kingdom, currently in Members Voluntary Liquidation:

Babcock Civil Infrastructure Limited;
Babcock Infrastructure Holdings LLP; Bond Aviation Leasing Limited.

Wholly owned subsidiaries with registered office at 5 Temple Square, Temple Street, Liverpool L2 5RH, United Kingdom, currently in Members Voluntary Liquidation:

Babcock Emergency Services Limited*;
Babcock Leaseco Limited; Babcock Technical Services Limited; HCTC Limited; KML (UK) Limited; Touchstone Learning & Skills Ltd; Westminster Education Consultants Limited.

Wholly owned subsidiary with registered office at 4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX currently in Members Voluntary Liquidation:

First Engineering Holdings Limited

Joint venture, with registered office at 18-22 Lloyd Street, Manchester, M2 5WA United Kingdom, currently in Members Voluntary Liquidation:

ALC (Superholdco) Limited (50.0%)*

Notes

- * Dormant entity.
- Babcock International Group Plc has a 49% holding in Babcock (UK) Holdings Limited, and preference shares (class A and B) in Babcock Aviation Services (Holdings) Limited.
- Holding of two types of ordinary shares.
- Holding of three types of ordinary shares.
- Holding of four types of ordinary shares.
- Holding of six types of ordinary shares.
- Holding of ordinary and preference shares.
- Holding of ordinary and redeemable preference shares.
- Holding of ordinary and three types of preference shares.
- Holding of ordinary and two types of redeemable shares.
- Holding of one type of ordinary share only, where more than one type of share is authorised for issue.
- Holding of two types of ordinary shares, where more than two types of share are authorised for issue.
- Holding of one type of ordinary share and one type of redeemable share, where more than two types of share are authorised for issue.
- Statutory year end 31 December, however consolidated based on the financial performance for the period from 1 April 2022 to 31 March 2023.
- Statutory year end 30 June however, consolidated based on the financial performance for the period from 1 April 2022 to 31 March 2023.

Company statement of financial position

As at 31 March	Note	2023 £m	2022 £m
Non-current assets			
Investment in subsidiaries	5	3,449.5	2,466.5
Trade and other receivables	6	2,585.5	2,633.5
		6,035.0	5,100.0
Current assets			
Trade and other receivables	6	236.7	1,175.7
Cash and cash equivalents		150.4	337.1
		387.1	1,512.8
Total assets		6,422.1	6,612.8
Non-current liabilities			
Bank and other borrowings	7	744.4	819.4
Other financial liabilities	8	47.4	51.4
		791.8	870.8
Current liabilities			
Bank and other borrowings	7	–	502.5
Other financial liabilities	8	–	41.5
Trade and other payables	9	2,893.5	2,465.2
		2,893.5	3,009.2
Total liabilities		3,685.3	3,880.0
Net assets		2,736.8	2,732.8
Equity			
Called up share capital	10	303.4	303.4
Share premium account		873.0	873.0
Capital redemption reserve		30.6	30.6
Other reserve		768.8	768.8
Retained earnings		761.0	757.0
Total equity		2,736.8	2,732.8

The accompanying notes are an integral part of this Company statement of financial position. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual income statement of the Company is disclosed. The Company's loss (2022: profit) for the financial year was £4.3 million (2022: £169.4 million).

The financial statements on pages 243 to 251 were approved by the Board of Directors on 20 July 2023 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 2021 (restated)	303.4	873.0	768.8	30.6	590.7	2,566.5
Profit for the year	-	-	-	-	169.4	169.4
Other comprehensive income	-	-	-	-	(8.6)	(8.6)
Total comprehensive income	-	-	-	-	160.8	160.8
Share-based payments	-	-	-	-	5.5	5.5
Tax on share-based payments	-	-	-	-	-	-
Net movement in equity	-	-	-	-	166.3	166.3
At 31 March 2022	303.4	873.0	768.8	30.6	757.0	2,732.8
Loss for the year	-	-	-	-	(4.3)	(4.3)
Other comprehensive income	-	-	-	-	(1.5)	(1.5)
Total comprehensive income	-	-	-	-	(5.8)	(5.8)
Share-based payments	-	-	-	-	9.4	9.4
Tax on share-based payments	-	-	-	-	0.4	0.4
Net movement in equity	-	-	-	-	4.0	4.0
At 31 March 2023	303.4	873.0	768.8	30.6	761.0	2,736.8

1. Other comprehensive income comprises fair value adjustment on debt related derivatives of £9.5 million and hedging gains/(losses) reclassified to profit or loss of £10.0 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.

Notes to the Company financial statements

1. General information

Babcock International PLC is incorporated and domiciled in England, UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 70(e) (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 £ million.

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.

2. Significant accounting policies (continued)

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Taxation

Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Finance costs

Finance costs are recognised as an expense in the year in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 25 to the Group financial statements.

(b) Pension arrangements

The Company operates a multi employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 26 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost

Amounts due from subsidiary undertakings and preference shares in subsidiary undertakings are classified as financial assets held at amortised cost. Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised. These gains or losses are then realised through the income statement as the asset is sold.

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.

2. Significant accounting policies (continued)

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 has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2023 (2022: £nil) provided to certain Group companies. 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.

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. The key assumptions about the future, and other key sources of estimation uncertainty at the reporting year end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Critical accounting estimates – Impairment of investment in subsidiaries

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. Note 5 provides information on key assumptions and sensitivity analyses performed.

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 loss (2022: profit) for the financial year was £4.3 million (2022: £169.4 million).

Fees payable to the parent auditor and its associates in respect of the audit of the Company's financial statements were £1.9 million (2022: £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 £3.1 million (2022: £3.9 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 2023 as at the date of exercise was £nil (2022: £nil) and the net aggregate value of assets received by Directors in the year ended 31 March 2023 from Long Term Incentive Plans as calculated at the date of vesting was £nil (2022: £nil 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

	31 March 2023 £m	31 March 2022 £m
Cost at 1 April	2,466.5	2,466.5
Additions – preference shares converted into investments	983.0	–
Cost at 31 March	3,449.5	2,466.5

Investment additions relate wholly to the conversion of preference shares in subsidiary undertakings, which matured by mutual agreement of both parties on 31 March 2023.

At 31 March 2023, the carrying amount of the Company's net assets of £2,747.3 million exceeded the Group's market capitalisation of £1.5 billion (2022: £1.6 billion). As a result, management performed an impairment test of the Company's major investments in line with the requirements of IAS 36 'Impairment of assets'.

Results of the impairment test for the year ended 31 March 2023

This impairment test for the year ended 31 March 2023 did not result in an impairment.

Impairment methodology

Cash-generating units

The CGU for the purpose of this analysis is the Group as a whole, as the Company has an investment in a single holding company through which it indirectly owns the rest of the Group. The recoverable amount of the CGU is the higher of its value-in-use and its fair value less costs of disposal.

Calculation of recoverable amount

The recoverable amount of the Company's investment in subsidiary undertakings was assessed by reference to value-in-use calculations. Note 10 of the Group financial statements sets out further details in relation to how the value-in-use calculations are determined.

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 10 of the Group financial statements.

The discount rates and long-term growth rates used to determine the recoverable amount of the Company's investment in subsidiary undertakings are set out below.

	31 March 2023				31 March 2022			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	13.1	13.1	13.1	12.4	11.3	11.8	11.3	11.3
Post-tax discount rate	9.8	9.8	9.8	9.3	8.5	8.8	8.5	8.5
Long-term growth rate	2.1	2.1	2.0	1.9	2.2	2.2	2.4	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. Reasonably possible changes in estimates are those that could give rise to a material impairment in the following year. The Company carried out sensitivity analyses on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for the Company's investment in subsidiary undertakings.

Reasonably possible assumptions for the pre-tax discount rate and long-term growth rate for 2023 were considered to be 200 basis points (2022: 100 bps) and 50 bps (2022: 50 bps) respectively. Significant headroom exists under these reasonably possible sensitivities.

In the prior year it was noted that an increase to the pre-tax discount rate of 100 basis points would have caused an impairment of £115.1 million and a decrease to the long-term growth rate of 50 basis points would have reduced headroom by £199.5 million.

6. Trade and other receivables

	31 March 2023 £m	31 March 2022 £m
Non-current		
Amounts due from subsidiary undertakings	2,581.7	2,628.4
Deferred tax	3.8	5.1
Total non-current trade and other receivables	2,585.5	2,633.5
Current		
Amounts due from subsidiary undertakings	236.6	241.9
Preference shares in a subsidiary undertaking	–	930.4
Prepayments	0.1	3.4
Total current trade and other receivables	236.7	1,175.7

There are no material provisions held against trade and other receivables under the expected credit loss model. Amounts due from subsidiary undertakings that do not carry interest are repayable on demand.

The Group has performed an assessment of expected credit loss for intercompany balances at 31 March 2023 and as a result of this exercise the Company has recorded a lifetime expected credit loss provision under IFRS 9 in relation to certain amounts due from subsidiary undertakings. This provision has been recorded due to a significant increase in assessed credit risk, as indicated by a change in liquid assets as a result of the disposal of the Aerial Emergency Services business. This is based on the value-in-use of the counterparty and its subsidiaries, as well as the availability of liquid assets that could be used to repay the intercompany balance at the reporting date. In assessing whether an expected credit loss is required, historical default rates are reviewed and adjusted for forecast future economic conditions. This assessment has been prepared for the purpose of IFRS 9 and does not reflect the Group's commercial assessment of recoverability of intercompany balances.

Of the preference shares in a subsidiary undertaking, the B preference shares of USD500 million matured during the year by mutual agreement of both parties and carried interest at 5.64%. The remaining preference shares in subsidiary undertakings were Euro denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4.0%. All preference shares were converted into investments on 31 March 2023 (see note 6).

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
EURIBOR + 4.0%	24.4	62.4	152.7	160.4
EURIBOR + 2.0%	13.1	–	–	–
EURIBOR + 1.5%	–	–	5.4	–
EURIBOR + 0.0%	–	–	0.8	–
SONIA + 4.0%	89.7	115.1	29.2	41.3
USD LIBOR + 4.0%	5.8	5.7	–	–
STIBOR + 4%	–	19.4	6.8	3.3
BBSW + 1.5%	23.9	–	–	–
BBSW + 4.0%	–	25.1	–	–
NIBOR + 4.0%	–	–	6.7	5.3
1.5%	–	0.7	–	8.5
4.5%	–	100.8	–	–
5.4%	–	–	–	1.9
Interest-free	2,424.7	2,299.2	64.2	21.2
	2,581.6	2,628.4	2,139.7	241.9

7. Bank and other borrowings

	31 March 2023 £m	31 March 2022 £m
Non-current		
Bank loans and other borrowings	744.4	819.4
Current		
Bank loans and other borrowings	-	502.5

The reduction in current bank and other borrowings is a result of the repayment of the €550 million Eurobond in October 2022.

The Company has £1,968.0 million (2022: £2,301.8 million) of committed borrowing facilities, of which £768.4 million (2022: £1,289.6 million) was drawn at the year end. The effective interest rates applying to bank loans and other borrowings were as follows:

	31 March 2023 %	31 March 2022 %
UK bank overdraft	5.4	1.1
UK bank borrowings	-	0.6
8-year Eurobond October 2022	-	1.8
8-year Eurobond September 2027 – fixed	2.9	2.9
8-year Eurobond September 2027 – floating	6.3	3.3
£300 million bond 2026	1.9	1.9

8. Other financial liabilities

	31 March 2023 £m	31 March 2022 £m
Non-current		
Other financial liabilities – currency and interest rate swaps	47.4	51.4
Current		
Other financial liabilities – currency and interest rate swaps	-	41.5

Disclosures in respect of the fair value of other financial assets and liabilities are provided in note 21 to the Group accounts.

9. Trade and other payables

	31 March 2023 £m	31 March 2022 £m
Current		
Amounts due to subsidiary undertakings	2,887.6	2,455.6
Accruals and deferred income	5.9	9.6
	2,893.5	2,465.2

The amounts due to subsidiary undertakings are repayable on demand and £2,887.6 million (2022: £2,455.6 million) is interest-free.

10. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2022 and 31 March 2023	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2021 and 31 March 2022	505,596,597	303.4

11. Contingent liabilities

- (a) The Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with utilisation of £18.9 million at 31 March 2023 (2022: £383.6 million).
- (b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2023 these amounted to £257.8 million (2022: £396.5 million), of which the Company had counter-indemnified £249.2 million (2022: £378.9 million).
- (c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

12. Group entities

See note 34 of the Group financial statements for further details.

13. Events after the reporting period

See note 33 of the Group financial statements for further details.

Shareholder information

Financial calendar

Financial year end	31 March 2023
2022/23 full-year results announced	20 July 2023
Annual General Meeting	28 September 2023

Registered office and Company number

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Registered in England
Company number 02342138

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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 Link using their postal or email addresses given above.

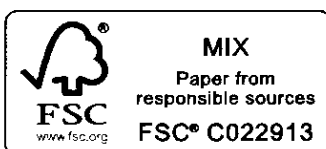
Tel: +44 (0)37 1664 0300
(Calls are charged at standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)

www.babcock-shares.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations.

Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org



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