

Babcock

Creating a safe and secure world, together

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From submarines beneath the waves to secure communications in space, Babcock plays a critical role in international defence.

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

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.

CEO statement



David Lockwood
Chief Executive Officer

 [Read David's biography on page 108](#)

“

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

David Lockwood
Chief Executive Officer

Introduction

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

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

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

Strong underlying FY23 results

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

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

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

A better Babcock

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

Stabilise: balance sheet strengthened

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

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

A focused and differentiated portfolio

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

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

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

Execute: ongoing operational improvement

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

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

Enhanced control environment

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

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

Enhanced delivery

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

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

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

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

Further advancing our ESG strategy

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

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

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

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

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

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

Financial risks being better managed

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

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

Capital allocation

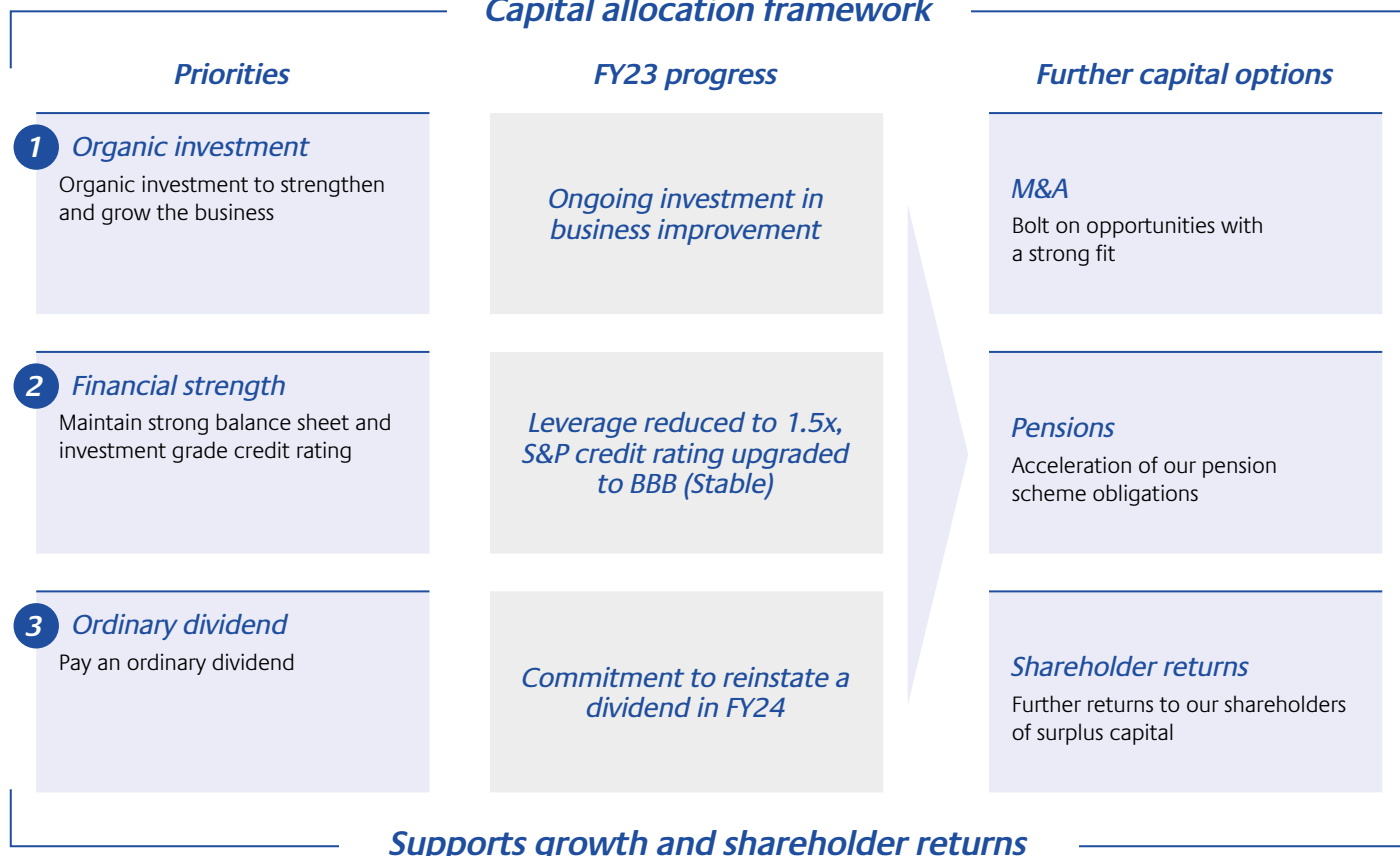
Our refreshed capital allocation framework is underpinned by a commitment to maintain strong balance sheet and investment-grade credit rating, with a target leverage of 1.0x to 2.0x net debt to EBITDA.

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



Other information

Dividend

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

Board changes

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

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

Our defence and nuclear markets

Defence remains our largest market.

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

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

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

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

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

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

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

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

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

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

UK defence

54% of FY23 revenue*

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

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

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

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

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

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

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

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

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

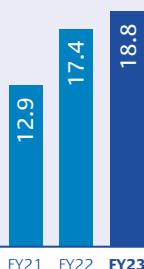
Our approach

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 investigations may result in a restatement of prior year figures.

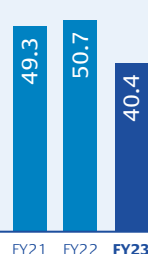
Commentary

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

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

CO₂e emissions (tCO₂e/£m)

40.4



Definition

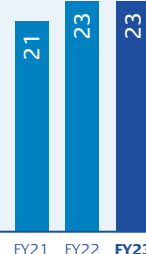
Estimated tonnes of CO₂e emitted as a direct result of revenue generating operations. The reporting period for our energy consumption and carbon emissions is the calendar year (01 January to 31 December). Reporting calendar year data enables more time to collate, analyse and report our environmental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

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

Task Force on Climate-related Financial Disclosures

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

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

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

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

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

Governance

Board oversight of climate-related risks and opportunities

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

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

See page 110 for further details on our governance framework.

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

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

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

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

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

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

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

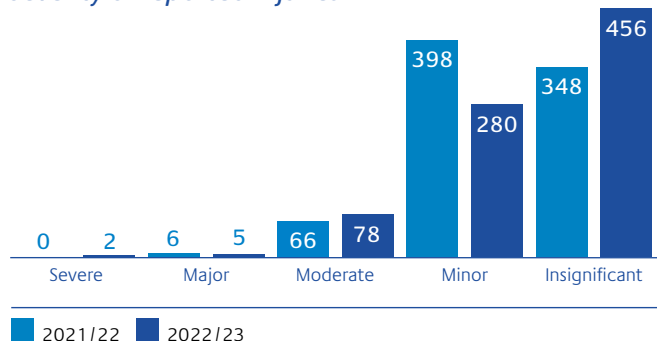
A Steering Group was set up, which included the Chief Financial Officer and Director of Group Finance, to ensure governance and oversight of the engagement.

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

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

For further details on decarbonisation, see page 63.

Severity of reported injuries



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

Deepening inclusion, increasing diversity

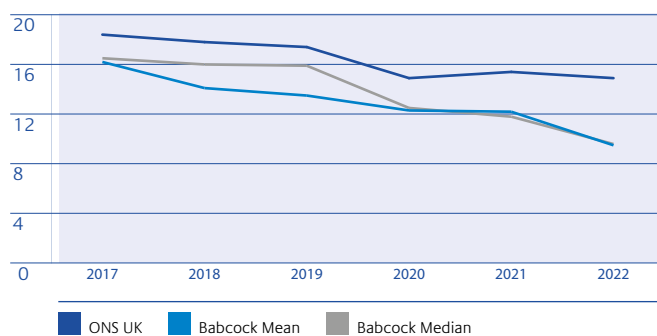
At Babcock we are guided by our Purpose: creating a safe and secure world together — and a clear set of Principles that are central to everything we do. We are committed to creating and maintaining a working environment that is inclusive, diverse and supportive, which provides opportunities for all our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

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

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

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

Gender pay gap (2017–2022)



FY23 Gender split

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

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

Agile, effective and inclusive

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

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

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

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

Developing and evolving in 2023 and beyond

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

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

Gender balance Action Plan

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

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

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

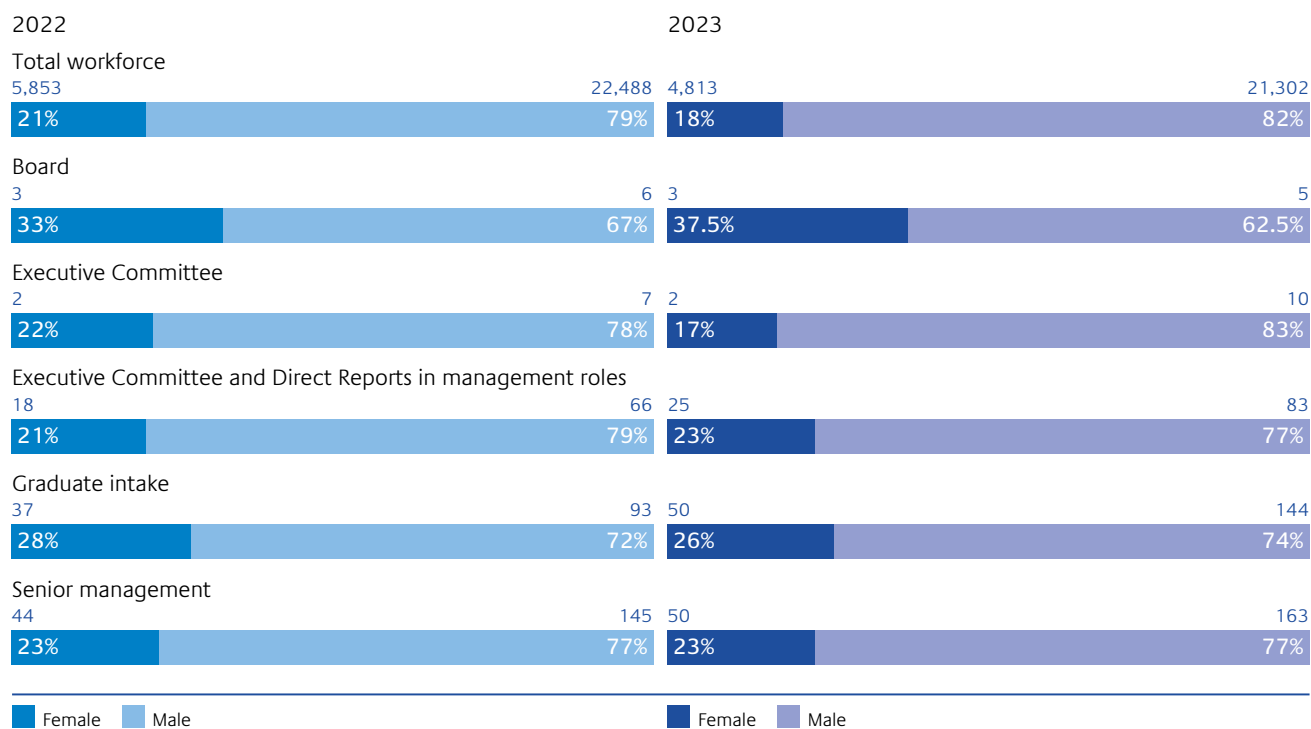
Driving business-led change, creating success

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

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

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

Gender diversity



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

Broadening our inclusion strategy

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

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

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

Bringing it back to the business

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

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

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

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

About Me campaign

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

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

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

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

Current external appointments: 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 Equiniti 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 iomart plc.



7



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9

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

N

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-centred 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 Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

8. Jane Moriarty

Independent Non-Executive Director

ANR

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 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

AN

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

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

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

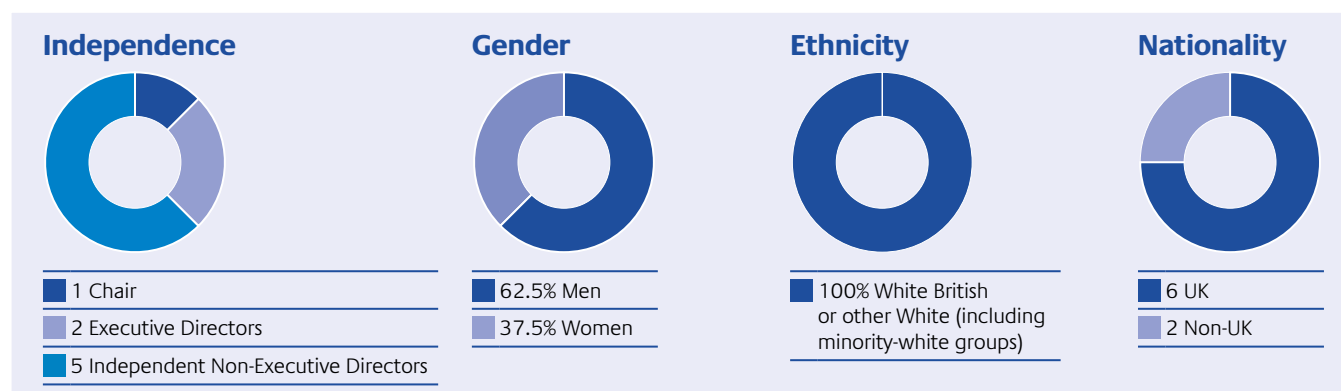
	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
White British or other White (including minority-white groups)	8	100%	4	14	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian 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, SID and 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



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

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.

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.