

Babcock is an international aerospace, defence and security company. We have a leading naval business, and provide value-add services across the UK, France, Canada, Australasia and South Africa. We also operate in, and export to, additional markets.

Our strategy is to focus on our core activities in the UK, using our capabilities to work on exports from the UK and to develop our international presence in our target countries. We operate in attractive markets and are positioning ourselves for future growth.

Last year saw us begin a programme of significant change for the Group and this work will continue throughout the coming year. We now have a refreshed strategy, a more collaborative way of working and an emphasis on embedding a new culture and focus on ESG. This transformation is encapsulated in our purpose: *to create a safe and secure world, together.*



David Lockwood
Chief Executive Officer

Ruth Cairnie
Chair

David Mellors
Chief Financial Officer

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Returning Babcock to strength



This has been a very challenging year for Babcock. We needed to mitigate the ongoing operational restrictions due to the COVID-19 pandemic that prevailed throughout the year. As a result of our efforts, we have been able to maintain progress delivering our customers' critical programmes and services.

I am very proud of the extraordinary dedication demonstrated by our staff, and also of our sustained focus on the care and wellbeing of all our teams. I know that our customers and partners have appreciated both our flexibility and our commitment.

Looking to the longer term, we have faced the very significant challenge of reviewing our strategic direction, operating model and financial baseline and taking the steps needed to set the Company on a sound footing for the future.

In January 2021 we announced that we had commenced a detailed review of our contract profitability and balance sheet (CPBS), which was likely to lead to negative impacts on the Group's balance sheet and income statement. Subsequently in April we disclosed the early results of the review which indicated a significant, unexpected and deeply disappointing level of adjustments.

FY21 results

The Group's reported financial performance for FY21 is in line with the expectations set out in April. Organic revenue declined by 3%, with demand for our services largely continuing despite the challenges presented by the pandemic.

The impact of the pandemic on demand was felt most strongly in our non-defence businesses such as civil aviation and civil training. Our defence businesses did initially suffer some interruption, but most defence programmes and sites were subsequently reopened.

We are reporting a statutory operating loss of £1,643.0 million and, on an underlying basis, an operating loss of £27.6 million. Both the statutory and the underlying operating losses are primarily due to charges taken as a result of the CPBS review.

To allow a useful comparison to last year's results, and as a better measure for the future, our financial report this year focuses on the Group's underlying operating profit excluding the one-off impacts of that review.

On that basis, our underlying operating profit was £222.4 million in FY21, compared to £377.6 million the previous year (restated), mainly reflecting disposals and lost businesses as well as a significant impact from COVID-19.

The social distancing restrictions required in our operations led to less effective delivery, such that the impact of COVID-19 on profitability has been materially greater than on revenue. These restrictions, as well as higher levels of employees working from home, continue to date.

The year-on-year decline in profitability of £155.2 was exacerbated by significant credits which benefited the results of the previous financial year. These are covered in more detail in our Financial review on pages 30 to 49.

Addressing underperformance

When I became Chair in 2019, it was clear that we needed to address a pattern of underperformance compared to the expectations set by the Board, and this was reinforced by the frustrations expressed to me by several of our stakeholders.

The path to understanding and resolving these issues started with the early steps I outlined in last year's Report, which have continued and accelerated this year.

Governance has been strengthened through changes in the Board's processes and there has been significant development in the membership of the Board including a new Senior Independent Director and new Chairs of the Audit and Remuneration Committees.

A new CEO

We also moved quickly to secure a new CEO with a search started in February 2020 upon the announcement of Archie Bethel's retirement. It was essential that the transition avoided any uncertainty or instability in the business, particularly given the critical nature of our work.

Meet the CEO

David Lockwood became Babcock's CEO on 14 September 2020. Having spent his first few months listening to colleagues, customers and investors, he's been making significant changes. In this short Q&A he talks about returning the Company to strength.

Q What attracted you to Babcock?

The Company does really exciting things but has the potential to do so much more. When I first spoke to the Chair it was clear that Babcock was on a journey of strategic, operational and cultural change, and the interaction between those three elements is what's really excited me throughout my career.

Q What was it like joining the Company in the middle of a global pandemic?

I like to get out and about to meet people and customers to understand how an organisation works. Obviously that wasn't possible, so I had to learn a lot of new ways of working, so I could reach and understand the organisation in ways I hadn't thought about before.

Q And what did you learn about the business?

That we had consciously been run as a federation rather than a unified Group. It was a model that had served in the past but which now needed to change to address today's challenges and opportunities. And I learned that the good bits were better than I thought and the bad bits were worse.

Q You say the bad bits were worse – what do you think went wrong?

I think we probably set ourselves unattainable objectives for the business we were. When you overreach you can do a lot of self-harm in trying to achieve the unattainable. And like any athlete, if you aren't fit for the challenge you set yourself, if you strain for something out of reach, you open yourself up to injury. To stick with the analogy, when I arrived, Babcock had pulled a hamstring.

Q So how will you get Babcock back to full strength?

In the near term we have to rein in the challenges, focus on our recovery,

and get fitter. The strategic piece is making sure we're competing in the right events and the new operating model is how we get fit. And like any athlete who has gone through a period of being out of condition, we need to regain our confidence, and that's the work we're doing on culture.

We are aiming to become an athlete capable of performing with confidence. We will be fit for what we're taking on today, and then as we get fitter still, we can take on more.

Q How would you describe your strategy?

We will focus on our core activities in the UK, and then use them to develop internationally in two ways. Firstly to work on exporting from the UK, much more heavily embracing the aims of the UK Government and its strategy. And secondly to develop international presence in our target countries, focusing on our capabilities, particularly in Marine and value-add services. It's pretty simple. And there's loads to go for.

We're already focusing on the things that matter at a Group level. Overreaching can often mean a weak balance sheet, so focusing on where we want to compete – and divestments are part of that – will allow us to drive things differently.

Q What's your personal focus for the coming year?

Once the direction is set, the main role of a CEO is to coach, and I'll be concentrating on two distinct areas. First the cultural development – our new purpose, a greater emphasis on ESG and so on. The second is international, both the international countries in which we operate, and exports.

Q What difference are shareholders going to see?

All of this aims to deliver sustainable cash-backed margin and growth, which drives the investment proposition, which generates sustainable, predictable returns to shareholders. Babcock will be competitive on the world stage.

David Lockwood
Chief Executive Officer



We want to make a positive difference to our communities, including providing high-quality jobs that support local economies, and we are focused on being a collaborative, trusted partner across the supply chain. We have reaffirmed our commitment to championing inclusion and diversity across the Group, including setting a new target to ensure that 30% of our senior leadership roles are filled by women by 2025. Additionally we are actively working on meeting the recommendations of the Parker Review as we support increasing the representation of ethnicity on UK boards.

5) Exploring growth opportunities

While our immediate focus has been on completing our reviews and getting a more appropriate baseline in place, we are also exploring the growth opportunities ahead of us. The markets we address offer favourable medium-term growth and we will focus on opportunities for defence and value-add services in the UK, France, Canada, Australasia and South Africa.

Work on key programmes critical to the national security of the UK is the core of what Babcock does. Given our strong market position today, growth in the UK will mainly be dependent on market growth. There are areas where we will also look to increase our share, for example secure defence communications.

Growth in international markets can come from market growth and an increase in market share. We aim to develop our international presence in our target markets of France, Canada, Australasia and South Africa. We are bidding for contracts that, if won, would offer significant growth, for example pilot training in Canada.

Our range of products have further opportunities for growth including in our equipment and systems exports and international demand for the Type 31 platform. We aim to export a lot more in the future from the UK, embracing the aims of the UK Government and its strategy.

Recent business development

The Group continued to win work across all markets and sectors in the year and, as of 31 March 2021, our contract backlog was £8.7 billion. We now report a contract backlog rather than an order book as in previous years. Our new measure does not include around £6.0 billion of work expected to be done by Babcock as part of framework agreements and, to align with the change in presentation of revenue, does not include a contribution of joint ventures and associates of around £2.0 billion.

In June 2021, we signed a tripartite Memorandum of Implementation with the UK's MOD and Ukraine's MOD to be the prime contractor on a major programme of naval defence projects. The programme includes the enhancement of capabilities on existing naval platforms, the delivery of new platforms, including fast attack missile craft, a modern frigate capability, shipborne armaments and the training of naval personnel. It also involves working together to regenerate Ukrainian shipyards by developing, implementing and completing a Shipyard Regeneration Plan.

Also in June 2021, we were awarded a contract with the French MOD for an expansion of our existing defence aviation training activities. This five-year contract is worth around €500 million and started in June 2021. We also won a logistic support contract worth £150 million as part of the UK MOD's £3.2 billion Battlefield and Tactical Communication Information Systems (BATCIS) programme of opportunities to deliver the next generation tactical communications and information systems.

We are currently in active discussions regarding Type 31 export opportunities with a number of countries, including Greece, Indonesia and Poland.

Summary of financial performance in FY21

Our financial performance in the year was in line with the early indications we gave in April 2021, though this now includes presentational changes as covered in the Financial review. Organic revenue decline was 3% with demand for most of our work holding up well despite the pressures of the COVID-19 pandemic.

We made a statutory operating loss of £1,643 million in the year, mainly as a result of charges taken in our CPBS including the impairment of goodwill (see page 33). On an underlying basis, our operating loss was £27.6 million, again mainly due to CPBS charges. For the most useful comparison to last year, and as a better measure for future periods, we focus in this report on the Group's underlying operating profit excluding the one-off CPBS adjustment. On this basis, we had an underlying operating profit of £222.4 million in the year compared to £377.6 million last year (restated), both of which now exclude our share results of joint ventures and associates.

This decline in profit reflects disposals and lost business as well as a significant impact from COVID-19. The year-on-year decline is exacerbated by significant credits that benefited the results of the previous financial year. These are covered in more detail in our Financial review.

The COVID-19 pandemic had a material impact in the year and continues to cause uncertainty across our markets. The impacts in the year were most severe for our non-defence businesses (e.g. civil aviation and civil training) where activity in some cases stopped. The defence businesses saw some interruption and increased costs initially. Subsequently, most defence programmes and sites were reopened, albeit with social distancing restrictions and higher levels of employees working from home. This led to less efficient delivery, hence profitability was affected proportionately more than revenue.

Unlocking potential

To become the organisation we aspire to be so we can deliver on our new purpose – *to create a safe and secure world, together* – we recognise that we need a new relationship with our people. In January 2021 I was appointed Babcock's first Chief HR Officer and it is my role to unlock the potential of our people to drive business performance that will deliver for our shareholders, customers and each other.

Over the last few months we have been undertaking reviews of our business performance, our financial baseline and our strategic priorities, along with our operating model. What is overwhelmingly clear is that we have not been leveraging our full potential, strength and capability as a single integrated Group.

We have listened to feedback from our workforce on how it feels to be part of our organisation, and taken a hard look at what we need to do to have a more efficient, agile, sustainable and people-focused business. Our federated structure has resulted in an organisation that is not as

efficient as it needs to be and is far too complex. The new operating model we announced in April will support changes to the way in which we deliver our work, including the following:

- **operating as one Babcock**, sharing capability, talent, innovation and best practice Group-wide
- **reducing layers and complexity** to enable more accountability, efficiency and agility
- **enabling functional activity to be centrally coordinated**, providing consistency across the business in the way we do things
- implementing **a new people strategy**, to better support and empower our people
- building **a better, more sustainable business**, which delivers for all our stakeholders

In addition to our new operating model, we have made some progress over recent months to achieving a people-focused business with the introduction of 'agile working', which seeks to offer our employees flexibility in the way in which they can deliver their work.

I recognise there is much more to be done and we need a step change in areas such as inclusion and diversity, employee experience and career development to create an organisation where all of our people feel a sense of belonging and that their contributions are valued.

I am currently working with a range of stakeholders to develop a people strategy that will more closely align with the organisation we want to become and put our people at the core of what we do.

While our people strategy is not yet finalised, it will seek to address a number of challenges by:

- Communicating our purpose and principles – defining who we are, the culture we want, and our shared goals. By developing a consistent purpose and set of principles, we will clarify our expectations of people who work for Babcock. This will create the basis for an integrated, collaborative organisation, which is greater than the sum of its parts and invested in our future. It will also provide clarity on what it means to deliver for our shareholders, customers and each other.
- Creating a safe and welcoming workplace – effectively connecting and engaging all our people to be a company that values diversity, where everyone can be themselves. We have a way to go on this and will be honest and transparent about what matters and our journey to get there. We will take action, tackle issues and overcome barriers to create the inclusive and engaging workplace that our people deserve.

A business where employees are trusted to make decisions about how they work, balancing personal preferences with company and customer needs. A culture that enables work-life balance, supports family commitments and promotes inclusivity, where employees are empowered to use personal judgement and make individual choices. A business that focuses on output and deliverables, not presence or location... This is our new reality.



Nikki Fox
Chief Human Resources Officer

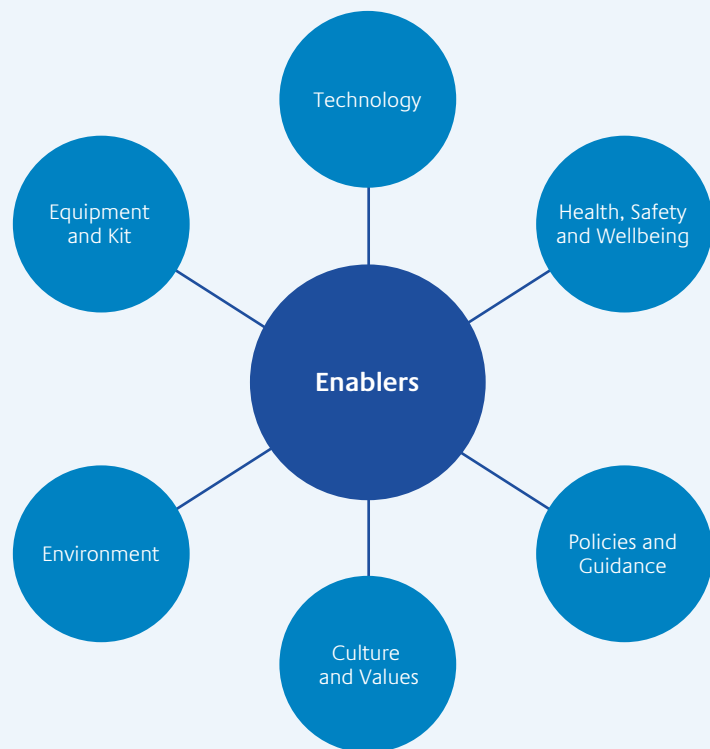
- Developing impact-focused, collaborative leaders – there will be a fundamental shift in leadership expectations, creating leaders who ‘think, connect and do’. We will set a new standard for leadership and expect leaders to act as role models for our purpose, principles and behaviours in how they support their teams.
- Driving performance and unleashing potential – enabling our people to perform at their best. We will actively recruit new people, and will develop our existing employees, through robust talent, learning and performance processes.
- Harmonising people policies and processes – building solid and aligned foundations that underpin being part of a single Babcock. We will develop a consistent proposition and experience for all Babcock employees that is delivered through an appropriately structured and highly capable people function, with simplified and clear people processes.

This is a very exciting time to be part of Babcock, and I am delighted to be leading the work we are doing around our people strategy and I look forward to working with our trades unions as we return Babcock to strength and offer a better experience for all our people, a better place to work and a better partner to our customers.

Nikki Fox

Chief Human Resources Officer

Agile Working Enablers



Babcock employees gardening at Rosyth as part of an initiative to support mental health charities.

Sustainability matters

As we reshape the business, it's evident that sustainability needs to take centre stage in our thinking at all levels, from the Board to the front line.

It's a fundamental part of the responsible management of any business. It's what all our stakeholders, from customers to investors to our own people, demand. And rightly so.

This isn't about paying lip-service to the notion of responsible business; it's about being a business that we are proud to be a part of, one which enables us to live our purpose: *to create a safe and secure world, together.*

Last year we developed an ESG strategy, and this year we are building on it. We are still at the start of our journey but we're developing the targets that we want to be measured by as we make progress along the route.

Our commitment to addressing the global climate crisis by delivering net zero emissions by 2040 is just one example.

One thing is clear, there is no chance that we will turn back.

[For details of what we are doing on ESG see pages 62 to 81.](#)

Innovating for the future

Technology is changing the way we work and what we deliver. That means our customers are increasingly turning to us for tomorrow's technology solutions. The impact of the COVID-19 pandemic alone has shown us that.

Over the last year we have taken a hard look at how we can foster innovation and technology across the Group. It was clear that whilst there were areas in which we excelled, we needed to be more flexible and proactive in driving and sharing innovation across the Group.

The responsibility for business performance and customer delivery rests on all our people, so innovation in Babcock goes beyond the technical engineering and digital domains. Innovation is vital to our service delivery and business performance, so it matters in all our operational and functional areas. It can range from continuous 'lean' thinking to larger 'landmark' capability development programmes.

That's why, as well as acting on key themes in our technology road maps, we are growing our innovation platforms and knowledge transfer networks – encouraging our people to be curious and to collaborate, to put good ideas into practice.

We believe this is an important factor in increasing our operational efficiency and our access to new markets – whether that is in deploying our full capability internationally, or exploiting the growth of new asset types and operating environments facing our customers.

As our customer requirements have changed and evolved, we've also been looking at new ways of innovating and how we can harness the wealth of expertise we have in Babcock and share that knowledge in ways that will make a real difference to how we run our business.

We know we can do things differently and we know we need to do things differently.

My appointment to the new role of Babcock's Chief Innovation & Technology Officer is a sign of the Group's commitment to driving change.



Jon Hall, PhD
Chief Innovation & Technology Officer

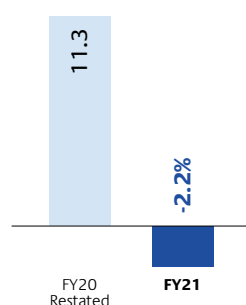
A new approach

As discussed on page 8 we are creating a new approach to running the Group, including creating the right baseline for future performance. With this process, we have changed how we calculate various metrics. Given this, we show our KPI performances for this year compared to last year but do not look further back as we feel this would not be helpful for understanding our performance or direction. Going forward, we will report on these metrics each year.

Non-Financial

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

-2.2%



Definition

Underlying return on invested capital is defined as underlying operating profit, before tax, divided by net debt (including leases) and shareholder funds (balance sheet), excluding retirement benefit deficits or surpluses.

Commentary

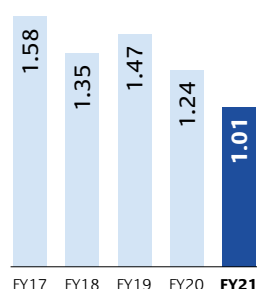
Our underlying ROIC was negative this year reflecting the impacts of the CPBS. Excluding the one-off profit impacts of the CPBS, underlying ROIC increased to 12.7%, as the impact of lower profit was more than offset by the impact of a smaller balance sheet post CPBS. We aim to improve ROIC over the long term.

Link to strategy

1. Align the portfolio
2. Implement our operating model
5. Explore growth opportunities

Total injuries rate

1.01



Definition

Reported injuries across the entire Group for every 100,000 hours worked by Babcock employees.

Commentary

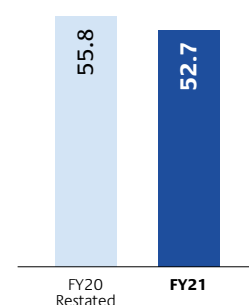
While our total injuries rate was lower this year, we saw an increase of 36% in the more serious 'Babcock RIDDOR' injury rate (see page 74 in our ESG report for more details). Tragically, in August, during a firefighting mission, an aircraft crash-landed in Spain near the Portuguese border causing two fatalities. This incident and the increase in serious injuries underlines how crucial it is we continue to focus on improving our health and safety performance, and we target a reduction in the injury rate each year.

Link to strategy

3. Roll out a new people strategy
4. Develop our ESG strategy

CO₂e emissions (tCO₂e/£m)

52.7



Definition

Estimated tonnes of CO₂e emitted as a direct result of revenue-generating operations.

Commentary

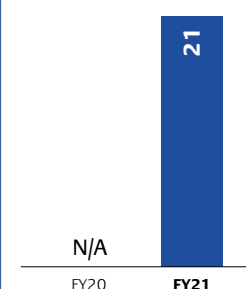
We have continued to reduce our emissions year on year, both the intensity ratio and in absolute terms. We aim to continue to reduce the emissions of our operations and we are committed to achieving net zero emissions by 2040. See page 69 for more details.

Link to strategy

4. Develop our ESG strategy

Senior management gender diversity (%)

21%



Definition

Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Exco) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (Business Unit leadership).

Commentary

This is a new KPI for this year, reflecting our increased focus on diversity as part of our new people strategy. As such we do not have a comparator figure however do have a target to increase the percentage to 30% by 2025. Further gender diversity statistics for the Group and targets can be found in the ESG review on page 72.

Link to strategy

3. Roll out a new people strategy
4. Develop our ESG strategy

Link to management remuneration

Our Remuneration policy, as detailed on pages 136 to 138, includes reference to underlying EPS, underlying operating cash flow and underlying ROCE, a measure similar to ROIC.

Operational performance measures

In the operational reviews on pages 50 to 57, we use our first two KPIs (revenue growth and underlying operating margin) to measure sector performance.

Building relationships

Customers

Why they matter to us

Enabling our customers to succeed is fundamental to our success. We work in partnership with public and private customers to enable them to deliver critical programmes and services where failure is not an option. We seek to solve their challenges through excellent operational performance and the introduction of innovations to support their longer-term needs. We build and maintain long-term relationships with our customers in order to promote the long-term success of the Group.

What matters to them

- Safety
- Operational excellence
- Reliability
- Value for money
- Deep understanding of their needs, both now and in the future
- Sustainability performance

How Babcock engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation, execution
- Strategic Partnership Programme
- Work on joint initiatives
- 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

- Creation of shareholder value
- Financial and operational performance of the Company
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency and simplification of communication
- Governance and management
- Sustainability strategy and progress

How Babcock engages

- Annual Report and financial statements and annual general meeting
- Results materials and presentations
- Investor relations team
- Treasury team with banks and noteholders and credit rating agencies
- Babcock website, including dedicated Investor section
- Investor roadshows with management and the IR team
- Chair engagement with top shareholders
- Consultation with large shareholders on Remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

Employees

Why they matter to us








We recognise that our employees are key to our success, and strive to engage with them through a variety of channels, so that they are aware of the Group's aims and priorities. We work to create a diverse and inclusive workplace where employees can reach their full potential and we engage with them to understand their expectations and meet their needs to ensure we retain and develop the best talent.

What matters to them

- Remuneration and reward
- Professional development
- The Group's aims, goals, priorities and reputation
- Employee engagement
- Health and Safety
- An empowering employment culture
- Diversity and Inclusion
- Sustainability

How Babcock engages

- Employee forums and meetings with representative groups
- Regular employee surveys
- CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Regular updates on the intranet and App
- Cascade briefings
- Inductions, including using a dedicated App
- Apprentice and Graduate programmes
- Regular training, including on Code of Conduct
- Access to independent whistleblowing process
- Senior management and Board visits
- Director designated for employees meetings

	Sustainability at Babcock	SDGs	Some examples which demonstrate our progress and impact during FY21
Social	Good Health and Wellbeing	Our intention is to promote good health and wellbeing through policy and our corporate culture.	 <ul style="list-style-type: none"> We have a Group-wide approach to corporate health and wellbeing and increased communications to staff during COVID-19, see social section on page 71.
	Quality Education	Our intention is to ensure inclusive and equitable quality work-related education and promote lifelong learning opportunities for our employees and support education in the wider community in which we operate.	 <ul style="list-style-type: none"> Through the COVID-19 Recovery Commission we are working to reverse the impact that the pandemic has had on the UK's levelling-up agenda. Across the Group, we have employed over 250 graduates and over 300 apprentices. We continue to support STEM activities, see page 75
	Gender Equality	Our intention is achieve gender equality and empower all females through our partnerships and networks.	 <ul style="list-style-type: none"> Through our partnership with Women in Science and Engineering and our active involvement in Women in Defence and Women in Nuclear, we are working to address the gender imbalance across the sectors in which we operate. Examples include Aviation's Fly High women's network, Women in Defence 2020 Awards, supporting the '1 of the Million' campaign by Women in Science and Engineering (WISE) and supporting International Women in Engineering Day 2020. During the year, the Executive Committee has reviewed the Group's gender pay report. In the 2020/21 Gender Pay report (reflecting data relating to April 2020), our mean gender pay gap was 12.5% and our median gender pay gap was 12.3%, representing a further year-on-year narrowing of the gap, as has consistently been the case since reporting commenced in 2017.
	Decent Work and Economic Growth	Our intention is to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work.	 <ul style="list-style-type: none"> We have exceeded our 5% Club commitment to employ 5% of the workforce on an Early Careers programme – in 2021 we employed 7.26%. We publicise our apprenticeship opportunities through the Government's Redundancy Support Service for Apprentices. We pay all staff (excluding apprentices) in line with the Living Wage Foundation's living wage.
	Reduced Inequalities	Our intention is to reduce inequalities throughout our business and value chain.	 <ul style="list-style-type: none"> In 2017, Babcock established a five-year partnership with Vine Trust for employees to volunteer on 14-day home-building expeditions. To date, 65 Babcock employees from across the UK and Canada have volunteered on home-building projects in Tanzania. In 2021 we signed the UK social mobility pledge which means we are committed to reducing inequalities and will review our recruitment practices and how we support progression once in employment.
	Responsible Consumption and Production	Our intention is to ensure sustainable consumption and production patterns by aligning our processes to international standards and through corporate policy.	 <ul style="list-style-type: none"> We are aligning our processes and standards to ISO 20400 (Sustainable Procurement). We are currently looking to develop a Group-wide approach to our support for communities and sponsorship initiatives, to be implemented in FY22.
Governance	Peace, Justice and Strong Institutions	Our intention is to ensure we and our value chain are effective, accountable and inclusive institutions.	 <ul style="list-style-type: none"> Group Procurement developed four additional modules to raise awareness of elements specific to the function. As of mid-December 2020, 438 users had registered, with 307 actually marked as having completed and passed them all. Prompt payment, see Governance section. We recognise the value of SMEs and encourage them to engage with us.

Environmental – Clean inputs

At Babcock, our Group-wide Energy and Environmental policies and strategies set out the direction and ambition of the organisation for environmental matters. Our sectors and business units have policies, strategies and implementation plans which are specific to their operations and impacts. Our approach ensures that sustainable considerations and practices are embedded throughout the organisation.

Across our operations we are providing products and services to support the renewable energy and low-carbon economy, from our services within Cavendish Nuclear on critical nuclear power plants, to Liquid Gas Equipment's low-carbon shipping solutions and Fastblade turbine R&D.

Low carbon energy

We purchase electricity for our UK operations from renewable energy sources aligned with our flexible purchasing strategy; this ensures cost effectiveness, reduces our carbon emissions and supports the shift to a low carbon economy. We are also investigating renewable energy opportunities across our global operations and plan a transition to renewable energy sources where feasible.

Across our estate and operations we are working to investigate opportunities for alternative energy sources, low-carbon technology and renewable energy installations. Babcock Power has trialled solar pods to power its temporary accommodation at remote sites.

This sustainable solution leverages solar hybrid technology with an automatic backup generator to power sites and is a low-carbon alternative to diesel generators. The solution has resulted in a 43% reduction in fossil fuel consumption and a reduction in carbon emissions.

Developments across our estate continue to be designed and delivered to high environmental standards and aim to achieve BREEAM Excellent ratings as a minimum.

We are committed to improving the environmental performance of our estate and are actively investigating SMART Building Solutions in line with our Agile Working policy.

At our new Bristol Technology Centre campus, we are assessing the feasibility of sustainable and low-carbon technologies, along with incorporating biophilic design aspects. We are working to complete Investment Grade Energy Audits to identify energy saving and carbon reduction opportunities. We have also completed renewable energy feasibility studies across a number of our key sites.

At Rosyth Dockyard, in line with investigations into the digital dockyard, we are working to complete Investment Grade Energy Audits for an Integrated Energy System which includes the integration of solar, wind, battery storage and water source heat pump technologies.

Data is the cornerstone to understanding and managing our environmental impacts. We are working to develop our environmental data management systems and to improve the accuracy and completeness of our data sets.

In line with our net zero carbon strategy, Plan Zero 40, we are investigating the transition to an ultra-low emission fleet in addition to reviewing a range of additional sustainable transport opportunities. Across the organisation we are also supporting our customers with their transition to ultra-low emission vehicles.

We are working to engage with our supply chain to understand, manage and reduce our wider environmental impacts. Our Group-wide Procurement Environmental policy ensures that environmental aspects are taken into account as part of supplier procurement and purchasing activities.

We do recognise that the change in working brought about by COVID-19 has resulted in increased energy consumption within our employees' homes. We are working to assess this increase and to identify opportunities to reduce the impact.

Environmental – Task Force for Climate-related Financial Disclosure

This year we have started to report in line with the TCFD requirements and have agreed our journey towards full disclosure.

In FY22 we will be incorporating TCFD risk management and scenario planning into our strategic planning cycle and working towards full TCFD disclosure requirements.

	FY21 Progress	FY22 Priorities
Governance	<ul style="list-style-type: none"> Defined Executive Committee's role in climate-related disclosure The CEO is the Executive accountable for climate change, and he determined that the Chief Corporate Affairs Officer is the Executive sponsor for climate change Established new management ESG Committee which is responsible for management of climate-related issues and driving the performance of wider sustainability agenda 	<ul style="list-style-type: none"> Executive Committee completed Chapter Zero Board Readiness assessment Training to ensure the competence of the Board and Executive Committee to respond to climate-related risks and opportunities effectively Climate-related risks and opportunities are integrated into standard Board agendas Full and clear consideration of the physical, transition and liability risks over the short, medium and longterm Agree financial incentives for Executives on progress towards ESG goals
Strategy	<ul style="list-style-type: none"> We recognise the impact that greenhouse gas emissions have on our environment and we are committed to reducing our impact 	<ul style="list-style-type: none"> Ensure climate-related risks and opportunities are integrated into sector and geographic strategies Develop approach to scenario analysis and assess organisational resilience
Risk Management	<ul style="list-style-type: none"> Reviewed current approach to identify and capture climate-related risks 	<ul style="list-style-type: none"> Identify and disclose physical and transitional risks and opportunities in the short, medium and long term Integrate climate-related risk into Babcock's overall risk management process
Metrics and Targets	<ul style="list-style-type: none"> Disclose Scope 1, Scope 2 and limited Scope 3 emissions Agreed Babcock's commitment to our net zero carbon target, Plan Zero 40, and to developing science-based targets 	<ul style="list-style-type: none"> Baseline Scope 1 and 2 emissions and plan approach for Scope 3 mapping Set emissions reduction targets in line with strategy and risk management process

Capability and skills

Maintaining and developing the capability and skills of our workforce is important to Babcock to ensure we deliver on our contractual and operational commitments.

To ensure we have a sound baseline of current and future requirements we have implemented a robust Strategic Workforce Planning Process (SWFP). To satisfy the requirements identified through our SWFP we source and develop talent through a number of routes. We bring experienced talent into the business through our experienced hire and contingent labour programmes, we bring new talent in through our early careers programmes and we develop our existing workforce through our learning and development offerings.

To develop our leadership capability we re-launched the Babcock Academy this year. The academy provides development from team leader to senior leader within the business. To date we have had around 50 employees start the team and operational leadership programmes and around 60 employees start the senior leader programmes leading to an MSc or MBA qualification.

Early careers

For our early careers we run extensive apprenticeship and graduate development programmes across the business.

We recruited over 300 apprentices onto our apprenticeship programmes during the year. The majority of these were new

starters on level two and three programmes, which create entry level opportunities to join the workforce.

We recruited over 250 graduates onto our graduate development programme this year, our largest intake to date. We have implemented a new behavioural programme for all graduates across the Group which has been developed following extensive research involving our current graduates, their managers and mentors and a range of senior leaders.

Inclusion and diversity

We have seen improvements over the year in our efforts to build an inclusive and diverse organisation that more accurately represents the communities and countries in which we operate. This has included the addition of new networks including BAME and Multifaith, along with the growth of existing networks that have collaborated and worked together to lead a number of initiatives across the business. Our vision for Babcock is that we are a company where people can bring their whole selves to work and feel proud to be part of an organisation where everyone feels respected, included and supported.

At Babcock we recognise the value for our people of working in an inclusive environment where differences are valued, where everyone can thrive, give their best and fulfil their potential. We are committed to being a workforce that reflects the rich diversity of wider society and to be a business that inspires and shapes the

communities in which we operate. We also recognise the importance of diverse thinking in the development of solutions for customers and our ambition is to become an employer of choice for diverse candidates, attracting and nurturing the best talent, that will enable us to deliver exceptional business outcomes.

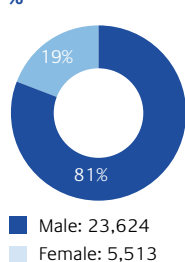
Our Diversity and Inclusion focus areas for the year ahead are: harnessing our data to drive insight and measure results; strengthening and broadening our employee networks; transforming our key people processes; creating a culture of wellbeing; and celebrating inclusion and diversity as our key differentiating strength.

To monitor progress in these areas we will focus on enhanced data collection and measure ourselves against three targets:

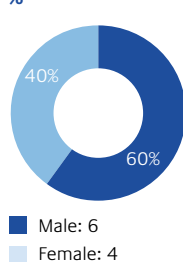
1. 80% disclosure of diversity data within 18 months.
2. 30% women within senior leadership teams by 2025. Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Executive Committee) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (BU leadership.)
3. 30% gender representation at all levels by 2030.

Gender Diversity

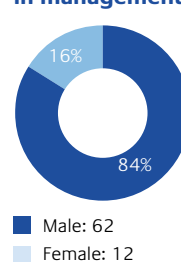
Total workforce



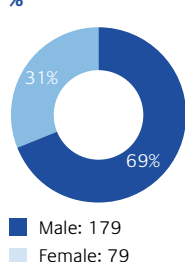
Board



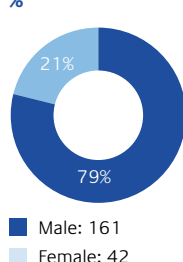
Executive Committee and Direct Reports in management roles %



Graduate intake



Senior Management*



* See KPI on page 29.

Along with these commitments, we are also actively working on meeting the recommendations of the Parker Review as we support increasing the representation of ethnicity on UK boards.

Gender diversity and gender pay gap

In relation to female representation across our Company, we have made in-roads over the past year with 19% of our total workforce female (2020: 18.8%). At the end of the financial year, our Senior Management population (over 200 people in senior leadership positions throughout the business against which we will measure our progress (see opposite and page 29)) was 21% women and 9% of our Executive Committee were women. This alongside our 31% female graduate intake supports that we are making progress and gender diversity will be a key focus over the coming year as we deliver on the commitments we have set ourselves for the future.

Our gender pay gap results support that we have made progress in rebalancing the representation of our female staff across our business. In spite of this, the engineering sector, as well as other STEM disciplines in which we operate, continues to be male dominated and we therefore remain committed to driving down this gap.

We are pleased to see our gender pay gap has reduced year on year since first reporting in 2017. The mean gender pay gap has narrowed year on year from 16.2% in 2017 to 12.5% in 2020. Similarly, the median gender pay gap has narrowed year on year from 16.5% in 2017 to 12.3% in 2020. We recognise that closing this gap will take time and whilst these results do reflect the positive outcome of our efforts, we remain focused on cutting the time it will take us to get there.

For further information please see our Gender Pay Gap Report.

Focus for FY22

We will seek to address the challenges identified in the Chief HR Officer's opening statement through the implementation of a new people strategy in support of the new Babcock operating model. We are reviewing our Diversity and Inclusion strategy and metrics and by the next Annual Report will have a more comprehensive set of Diversity and Inclusion metrics.

Health and safety

Governance

The Group's Board and Executive Committees review safety commentary and performance reports on a monthly basis.

The mission of the Group is that everyone goes "Home Safe Every Day". Our vision is that Health and Safety is at the heart of all that we do.

We have a high-performing, open and just safety culture, with strong leadership at all levels, where our people are empowered to speak up, intervene, and are heard, invested in and trusted.

The Corporate Safety Leadership Team (CSLT) leads the development and implementation of all policies, standards and expectations for Health, Safety and Environmental (HSE) issues within Babcock.

The role of the CSLT is to:

- Recommend and set the Group policy and standards for health, safety and environment relating to all matters relevant to the protection of the environment and the health and safety of the Group's employees and any other persons affected by the Group's undertakings.
- Assure the Group Executive Committee of the delivery of these policies and standards.
- Facilitate and enable corporate learning around the Group, raising awareness of health, safety and environmental topics throughout the business.
- Own and deliver Group-wide health, safety and environmental culture initiatives and projects.

The CSLT is responsible for driving the generation of the safety strategy and standards for the Group and adherence of businesses to these. Additionally, there are sector-specific industry standards and regulations that must also be adhered to, for example Nuclear, Aviation and Product Safety. The expectation is that subject matter experts are retained within the sectors and consequently the CSLT's remit/scope does not seek to replicate specialist sector-specific roles.

Achievements and improvements

Our annual Group Safety Conference promotes the Group safety vision and the sharing of health and safety initiatives and activities. It also recognises the hard work and tireless efforts made every day by Babcock personnel, our customers and our suppliers. Our 14th annual event was held virtually in February 2021 with 250 attendees and a theme of 'Share, Learn and Improve'. Safety leadership is the primary driver for a positive safety culture. When we have a positive safety culture, we create an environment where we listen and take notice, we don't walk by and we take time to stop and think. We collectively learn from our mistakes and successes to achieve our goals safely.

Chair's introduction



Ruth Cairnie
Chair

Dear Shareholder

On my appointment as Chair of Babcock in 2019, I was aware that stakeholders had become frustrated by the pattern of underperformance compared with the expectations set by the Board. As I set about to understand the causes, I anticipated that these might reflect, at least in part, deficiencies in Board governance. I therefore took early steps to refresh the Board's working, mindful of the fact that strong governance requires an effective combination of a number of key ingredients:

- strong structure and processes;
- a diverse and capable membership working in a climate of open and frank debate;
- a team of senior executives who recognise both the Board's importance and their critical role in providing the information and insight the Board needs.

Following their appointments, David Lockwood and David Mellors instigated a number of reviews, including the contract profitability and balance sheet review. The findings from this review are deeply disappointing, with many adjustments being made including the correction of prior year errors. Clearly our governance had not been performing as required and this is referenced in the Statement of Compliance on page 107. In this introduction, I give an overview of the multi-faceted changes and improvements we have made to Board governance, operating model and financial control. Together, the reforms make us confident that the weaknesses have been addressed.

Board changes

Board structure

In my report last year I covered the initial steps I had taken on Board structure and processes. Change has accelerated further this year. The changes are set out opposite but they include: adjusting the Board agenda to give a greater focus on strategy; the appointment of a Non-Executive director as designated for employee engagement; refreshing the role of the Board's Disclosure Committee; reducing membership of the Committees to enhance accountability; and streamlining attendance at Board meetings to support effective debate and constructive challenge. In addition, a UK Security

Committee has been formed to enable closer scrutiny of those programmes where information can only be shared with security-cleared UK citizens.

Board membership

The work to ensure a strong and diverse Board membership has also continued with the appointment of new Non-Executive directors to replace those due to leave the Board. Lord Parker brings an outstanding track record of leadership and public service while Carl-Peter Forster, who took over the role of Senior Independent Director following last year's AGM, brings a wealth of senior board experience. Russ Houlden, in the Audit Committee Chair role since last year's AGM, has made significant improvements to the operation of the Audit Committee as set out in the Audit Committee report. I am most grateful to Russ for the rigour he has brought to the Committee's discussions. I am also grateful to Sir David Omand, Myles Lee and Victoire de Margerie for their service on the Board. Sir David retired at the end of the financial year 2021, while Myles and Victoire will both retire after this year's AGM.

New leadership team

We have been very focused this year on finding successors to Archie Bethel as CEO and Franco Martinelli as CFO. David Lockwood took over the CEO role in September last year and was joined by David Mellors as CFO in November.

I was pleased that the thorough and thoughtful process to select our new CEO and CFO progressed at pace despite the COVID-19 challenges, and that the whole transition was achieved without uncertainty or disruption within the organisation: an important consideration given the critical nature of our operations.

Board process and climate

These appointments have enabled us to drive progress on the third critical ingredient of effective Board governance – the interaction between the Executive directors and the Board. David, David and I have strongly aligned views on the importance of open, regular and comprehensive communication. There has been a significant shift in the design and content of Board papers and we have paid careful attention to improving the dynamic of Board discussions. I was pleased to see that the creation of an inclusive climate, with constructive yet robust debate incorporating the views of both Non-Executive Directors and Executive Directors, was recognised in our recent independent Board review.

New operating model

On joining the Group, David Lockwood and David Mellors undertook an in-depth review of our business model and operational design. As a result of the review, the Board recognised that Babcock's previous strongly federated and fragmented organisational design did not support Babcock's scale,

breadth and complexity. As a consequence, David Lockwood has created a new operating model better able to underpin Babcock's more focused and purpose-driven future.

The Board believes that the simplified structure will improve leadership line of sight, while the new operating model will create a more efficient and effective business, built on empowerment and collaboration, as well as enhancing internal and financial controls. This model allows Babcock to take a consistent approach across the Group; this can be seen already from the changes made to the Group's purpose, people strategy, health and safety programmes and ESG. A Group-wide approach to strengthening the culture of the organisation is planned. David Lockwood describes his approach in more detail in his CEO Review on pages 12 to 15.

David Mellors has led the contract profitability and balance sheet review. The Board believes that the outcome of this Review will be improved financial transparency and control, a baseline for a return to growth, and ultimately a stronger balance sheet. David has also reviewed the Group's policies, processes and controls with a focus on consistency and simplicity, which will support better flows of information and strengthened management of operational, business and financial performance. These changes are described in David's Financial review on page 47.

Key changes since 2019 to address issues identified by the contract profitability and balance sheet review

As described in my opening paragraph, the Board has made or is making a number of enhancements to its corporate governance structure to address the issues identified by the contract profitability and balance sheet review, as summarised below:

Board governance	Financial control	Operating model
<ul style="list-style-type: none"> Refreshed Board to drive tone from the top <ul style="list-style-type: none"> New Executive Directors New Senior Independent Director New Audit Committee Chair New Remuneration Committee Chair Enhanced focus and accountability of Board Committees by reducing membership Refreshed the role of the Disclosure Committee and established the UK Security Committee Streamlined Board agendas and focused Board papers Approved the new risk management process Approved enhanced delegation of authority Reviewed letter of representation covering policy compliance from management every six months 	<ul style="list-style-type: none"> Simplification of income statement and cash flow management reporting Standardised management reporting across the Group Developed standards of financial control Revised Group accounting policies Revised Treasury controls and policies Revised sector business and balance sheet reviews 	<ul style="list-style-type: none"> Launched new operating model Standardised bid review process Group-wide common approach to project management, project reviews and change control Refreshed Corporate Safety Leadership Team
Please see above and the following pages.	Please see page 47.	Please see pages 13 and 47.

Board of Directors



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. 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. She is a fellow of the Energy Institute.

Current external appointments: Ruth is currently the Senior Independent Director of Associated British Foods plc. She is Patron of the Women in Defence Charter, the Chair of POWERful Women, a trustee of Windsor Leadership and a trustee of the White Ensign Association.



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. 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. He received an OBE for services to industry in Scotland in 2011.

Current external appointments: None

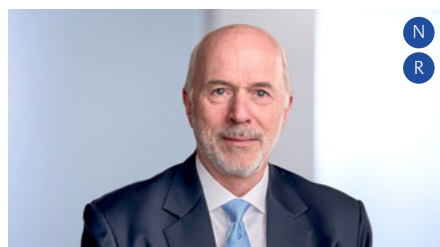


David Mellors
Chief Financial Officer

Appointed: November 2020

Skills and experience: David brings extensive CFO experience in 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 several roles at Logica PLC, CMG plc and Rio Tinto PLC. David has a Degree in Physics from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Current external appointments: None



Carl-Peter Forster
Senior Independent Director

Appointed: June 2020

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



Kjersti Wiklund
Independent Non-Executive Director

Appointed: April 2018

Skills and experience: Kjersti, a Norwegian national, brings broad technology and business experience gained across Europe, Eastern Europe/Russia and Asia. She has held senior roles, including Director, Group Technology Operations of Vodafone, and Chief Operating Officer of VimpelCom Russia, Deputy Chief Executive Officer and Chief Technology Officer of Kyivstar in Ukraine, Executive Vice President and Chief Technology Officer of Digi Telecommunications in Malaysia, and Executive Vice President and Chief Information Officer at Telenor in Norway. Kjersti was also a Non-Executive Director of Cxense ASA and Fast Search & Transfer ASA in Norway, Telescience Inc in the US and Laird PLC in the UK. Kjersti holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.

Current external appointments: Kjersti is a Non-Executive Director of Trainline plc, Spectris PLC and was appointed as a Non-Executive Director of Zegona Communications PLC in February 2020.



Russ Houlden
Independent Non-Executive Director

Appointed: April 2020

Skills and experience: Russ brings accounting and treasury management experience along with his extensive knowledge of driving performance improvement. He was Chairman of the Financial Reporting Committee of the 100 Group (from 2013 to March 2020), Chief Financial Officer of United Utilities Group PLC (from 2010 to July 2020), Chief Financial Officer of Telecom New Zealand (from 2008 to 2010) and Finance Director of Lovells (from 2002 to 2008). Until 2002 he held a variety of divisional Finance Director positions in ICI and BT. Russ holds a degree in Management Sciences from Warwick Business School and is a Fellow of the Chartered Institute of Management Accountants, a Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

Current external appointments: Russ is currently the Audit Committee Chairman of Orange Polska SA, which is listed on the Warsaw Stock Exchange.



Prof. Victoire de Margerie*
Independent Non-Executive Director

Appointed: February 2016

Skills and experience: Victoire, a French national, brings strong international strategic and commercial experience. She was a Non-Executive Director of Banque Transatlantique, Italcementi S.p.A (Italy), Morgan Advanced Materials PLC (UK), Norsk Hydro ASA (Norway) and Outokumpu Oyj (Finland). During her earlier executive career, Victoire held senior management positions in France, Germany and the USA, with Atochem, Carnaud MetalBox and Pechiney. Victoire holds a PhD in Strategic Management from Université Panthéon-Assas and a Master in Business Administration from HEC Paris.

Current external appointments: Victoire is the Executive Chairman of Rondol (France), a start up developing micro machinery for advanced industry applications. She is also a Non-Executive Director of Eurazeo S.A. (France) and Arkema (France) and, since December 2020, Chair of the Supervisory Board of Ixellion AS.



Myles Lee*
Independent Non-Executive Director

Appointed: April 2015

Skills and experience: Myles, an Irish national, brings extensive global experience in management, M&A and finance. He was Chief Executive Officer (from 2009 to 2013) and Finance Director (from 2003 to 2008) of CRH PLC. Myles holds a degree in Civil Engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.

Current external appointments: Myles is a Non-Executive Director of UDG Healthcare PLC and Trane Technologies plc, which is listed on the New York Stock Exchange.



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. She was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. In her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and was previously Chief Executive Officer, UK & Ireland, of Fujitsu, the Chief Operating Officer and Executive Director of Equiniti Group, Chief Executive Officer UK & Ireland of Alcatel Lucent (now Nokia) and had a 19-year career at BT, where she held various senior roles, including Managing Director of Group and Openreach Service Operations. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

Current external appointments: Lucy is currently the Chief Strategy and Transformation Officer of Virgin Money UK Plc.



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-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.

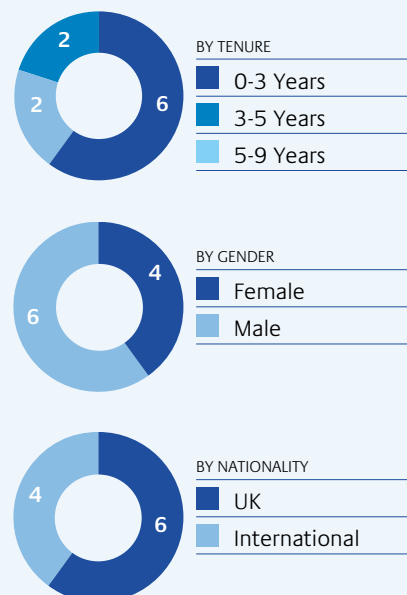
Current external appointments: Lord Chamberlain (head of the Royal Household), member of the House of Lords, Board Adviser to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

Appointment key

- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- D Disclosure Committee
- Board Committee Chair

Membership of the UK Security Committee is variable depending on the security level required for the business under discussion.

Board Diversity*



* July 2021.

* Victoire de Margerie and Myles Lee will retire from the Board after the 2021 AGM.

Our governance framework

The Board

The Board's role is to lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value, to review and approve the Group's strategic plan and to supervise 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 110). For other matters, authority is delegated to management by way of 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 119 to 131.

Remuneration Committee

Determines the Remuneration policy for the Executive Directors and is responsible for oversight of the remuneration policies and practices of the wider workforce.

See pages 132 to 153.

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 117 and 118.

Disclosure Committee

Ensures that policies, systems and controls exist so that potential price-sensitive information is escalated, considered, verified and promptly released to the market, where required.

UK Security Committee

Receives reports on those UK programmes on which the Group is engaged and access to which either requires a certain security clearance or UK nationality.

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. For its membership, please see page 106.

Principal Management Committees

Corporate ESG Committee

Responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the performance of the wider sustainability agenda. The Committee is chaired by the Chief Corporate Affairs Officer. Reporting to the Committee are the Inclusion and Diversity Steering Group and the Carbon, TCFD and Communities and sponsorship working groups.

See page 70.

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 73.

Disclosure Panel

Oversees potential price-sensitive information and evaluation to ensure prompt disclosure, reporting up to the Disclosure Committee as appropriate.

See page 113.

The membership and attendance at scheduled Board and Committee meetings are shown below. In addition a number of unscheduled meetings were held.

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	10	4	4	6
Current Directors				
Ruth Cairnie	10 of 10	4 of 4	–	–
Carl-Peter Forster ¹	8 of 9	4 of 4	–	6 of 6
Kjersti Wiklund	10 of 10	4 of 4	4 of 4	6 of 6
Russ Houlden ²	10 of 10	4 of 4	4 of 4	6 of 6
Victoire de Margerie ³	9 of 10	3 of 4	–	6 of 6
Myles Lee	10 of 10	4 of 4	4 of 4	–
Lucy Dimes	10 of 10	4 of 4	4 of 4	–
Lord Parker ⁴	5 of 5	1 of 1	–	–
David Lockwood ⁵	7 of 7	–	–	–
David Mellors ⁶	4 of 4	–	–	–
Former Directors				
Archie Bethel ⁷	3 of 3	–	–	–
Franco Martinelli ⁸	6 of 6	–	–	–
Ian Duncan ⁹	3 of 3	2 of 2	3 of 3	–
Jeff Randall ¹⁰	3 of 3	2 of 2	–	3 of 3
Sir David Omand ¹¹	10 of 10	4 of 4	–	–

1. Carl-Peter Forster was appointed to the Board in June 2020 and was absent from one meeting due to a prior engagement.

2. Russ Houlden was appointed to the Board in April 2020.

3. Victoire de Margerie was absent from certain meetings due to prior engagements.

4. Lord Parker was appointed to the Board in November 2020.

5. David Lockwood was appointed to the Board in September 2020.

6. David Mellors was appointed to the Board in November 2020.

7. Archie Bethel retired from the Board in September 2020.

8. Franco Martinelli retired from the Board in November 2020.

9. Ian Duncan retired from the Board after the AGM in August 2020.

10. Jeff Randall retired from the Board after the AGM in August 2020.

11. Sir David Omand retired from the Board on 31 March 2021.

Roles and responsibilities

The roles of the Chair and Chief Executive are clearly defined, with the Chair responsible for the leadership and effectiveness of the Board and the Chief Executive for the running of the Group's business. Non-Executive Directors support the Chair and provide objective and constructive challenge to management. The Senior Independent Director (SID) provides a sounding board for the Chair and serves as an intermediary for the Chief Executive, other Directors and shareholders when required. The Company Secretary makes sure that appropriate and timely information is provided to the Board and its Committees and is responsible for advising and supporting the Chair and Board on all governance matters. All Directors have access to the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. A more detailed description of these roles is available online at www.babcockinternational.com.

Review of independence of Non-Executive Directors

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 Governance Code. Although Ian Duncan and Sir David Omand had served for over nine years at the time of their resignations, the Board did not consider that this impaired their independence and they both played a role in the managed succession. Ian stepped down as Audit Committee Chair and Director after the AGM in 2020. Sir David passed on his responsibilities as SID to Carl-Peter Forster after the 2020 AGM and retired from the Board at the end of the financial year.

Board of Directors

The Board is satisfied that each Director has the necessary time to devote to the effective discharge of 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. This was evidenced by the Directors attendance at additional meetings as required during the year.

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 and these are clearly defined in their terms of reference (available online at www.babcockinternational.com) and other responsibilities are delegated to management under a delegated authorities matrix.

Conflict of interests

Babcock has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest 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.

Possible conflicts of interest authorised by the Board are reviewed annually. 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).

Summary of key matters reserved for the Board

- Group strategy and resourcing
- 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 10 scheduled full Board meetings each financial year, with typically two other meetings devoted solely to strategy. As the strategy was being refreshed this year there were also a number of additional updates at Board meetings. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present.

Board induction and development

Board induction continued to be a challenge during the year with face-to-face meetings and first-hand experience of our operations not possible due to restrictions on access to our sites. However, new ways of working have been adopted in our induction process using virtual sessions, with adjustments to our programmes made accordingly.

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

- Meetings with the Executive Directors and the sector CEOs
- 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, which normally include Devonport, Rosyth, Bristol and the Group's EU operations
- Briefings on key contracts and customers.

In addition, the Company Secretary arranges training and ongoing updates as requested or as required. Normally, Non-Executive Directors are encouraged to make visits at any time to any Group business although this continued not to be possible during the year.

David Lockwood joined the Company in August after the end of the first COVID-19 lockdown. As such he was able to visit the Group's principal UK sites. He was also able to visit certain key sites in Europe. During these visits, he had the opportunity to meet and talk with a broad range of employees

from sector management, local management and front-line employees. During his induction, he also met with the Group's auditors and external advisors. These meetings covered the full range of topics relating to the Company's business. As well as hearing from different levels of the Company, David Lockwood was keen to understand the views and priorities of the Company's external stakeholders. To this end, he met with the Company's principal shareholders as well as with the Company's key contacts in the UK Government, the Group's most significant customer, again to get a better understanding of their views.

As David Mellors joined the Group as the COVID-19 restrictions were starting to be re-imposed before the end of 2020, he was not able to travel around the Group as many of our sites were closed to visits. However he did manage to visit Devonport Royal Dockyard. Although David was not able to visit sites physically, he was able to continue his induction virtually. This included in-depth briefings from all parts of senior management, the external auditors and other advisors. These briefings covered all the topics relevant to his responsibilities as CFO, including the Group's financial reporting structure, key accounting issues, the external and internal audit plans, the Group's business portfolio and strategy.

Lord Parker joined the Board in November 2020. His induction included a series of virtual meetings with senior management on the Group's businesses, its strategy, its corporate governance and Directors' duties. As with David Mellors, and with Russ Houlden and Carl-Peter Forster before him, Lord Parker has had limited opportunity to visit the Group's principal sites due to the restrictions caused by COVID-19. However, once the restrictions have eased, a series of visits will be scheduled.

Auditor independence is a key principle, and the Audit Committee was satisfied that PwC was independent for the purposes of their audit of the 2020/21 financial statements (see page 128) and that Deloitte will be independent for the purposes of their audit of the 2021/22 financial statements (see page 130). The Committee also ensured that the relationship between the Committee, the auditor and management is appropriate with no undue influence by any of the parties on any other, thereby ensuring the integrity of the audit process.

Whilst we have made substantial improvements in 2020/21, we are committed to continuous improvement and aim to take further steps to improve our financial reporting and the quality of the Audit Committee's oversight for the benefit of shareholders and other stakeholders:

- We will continue to focus on improving the quality of management papers reviewed by the Audit Committee.
- We will continue our emphasis on improving the quality of the statutory audit.
- We will monitor the implementation of the programme of improvement of internal and financial controls with a particular focus on Group Head Office, Aviation and Land.
- We will review the scope of internal audit and we will assess whether there is a better alternative to our current outsourced model.
- We will, as part of the wider Corporate Governance event highlighted in the Chair's introduction to the Governance section (see page 103), engage proactively with our larger shareholders regarding the Audit Committee's work in 2020/21 and plans for 2021/22.
- We will oversee the quality of implementation of digital financial reporting using the European Single Electronic Format.
- We will consider preparatory steps for the main, longer lead-time changes likely to result from the UK Government's proposals on "Restoring trust in audit and corporate governance".

I would like to thank my colleagues on the Committee for their support during this year of substantial change. We will continue our improvement journey in the year ahead.

Russ Houlden
Committee Chair

Quick facts

The Committee

- Russ Houlden has chaired the Committee since August 2020. He is a qualified accountant and a qualified corporate treasurer. He has served as CFO of a FTSE 100 company and an NZX50 company and as Audit Committee Chair of a WIG20 company. The Nominations Committee considers that Russ Houlden has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the Company operates.
- The other Committee members are Myles Lee (who is also a qualified accountant with experience as Finance Director of a FTSE 100 company and as Audit Committee Chair of a FTSE 350 company), Kjersti Wiklund and Lucy Dimes, all of whom are independent Non-Executive Directors. Ian Duncan chaired the Committee until he retired from the Board at the AGM in August 2020.
- Attendance at Committee meetings is set out on page 109, and the relevant Directors' biographies are on pages 104 and 105.
- The Committee regularly invites the CEO, the CFO, the Company Secretary and the Group Financial Controller, as well as representatives from the statutory

auditor, PwC, and the internal auditor, BDO, to attend its meetings. None of these attendees are members of the Committee.

- PwC and BDO each have time with the Committee to share any concerns they or the Audit Committee may have without management being present.

Highlights

- Substantial improvements in papers presented to the Audit Committee.
- On-boarding of new internal auditor in 2020/21 and improvement in the process for setting the internal audit plan for 2021/22.
- Review of statutory auditor performance in 2019/20 and early adoption of best practice engagement-level Audit Quality Indicators for 2020/21.
- Selection of statutory auditor for 2021/22 and extension of scope to include a half year review report.
- Contract profitability and balance sheet review resulting in 147 accounting adjustments, some of which would probably have been discovered through normal year end processes.
- Improvements in presentation of adjusting items, joint ventures and free cash flow.

Key responsibilities

- Leading tenders for internal and statutory auditors, agreeing their fees and making recommendations to the Board for the appointments.
- Establishing policies for the provision of any non-audit services by the statutory auditor.
- Reviewing the scope and the results of the statutory audit and reporting to the Board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- 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.
- Reviewing the Group's procedures for reporting fraud, bribery and corruption.

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 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 has been a process for identifying, evaluating and managing principal risks throughout the year to 31 March 2021 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review. Management reviews data for consolidation into the Group's financial statements to ensure that it reflects 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. More information can be found in the Audit Committee report on page 131.

In line with the Audit Committee (please see page 131), the Board considers that the system of internal and financial controls was not operating effectively in certain parts of the Group, in particular, in Aviation, Land and Head Office. The Audit Committee is reviewing plans to address the key issues. Since January 2021, the Company has implemented a number of improvements. Provided that these plans are effectively implemented, the Audit Committee believes that the Company's internal and financial controls should become fully effective.

Further information on the principal internal controls and risk assurances in use in the Company can be found on pages 84 to 86.

Auditor

As described on page 119 the Board has, subject to shareholder approval, appointed a new statutory auditor for the year ending 31 March 2022. A resolution to appoint Deloitte as independent auditor of the Company 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 regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

Under company law, 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 Group and the Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Notes to the Group financial statements

1. Basis of preparation and significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 96. The Board considered the 18 month period from 31 March 2021 to 30 September 2022 in its assessment of going concern. The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments. 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 2020:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2020 and did not have a material impact on the consolidated financial statements:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. The amendment is effective for annual reporting periods beginning on or after 1 January 2020 and relates to the definition of material.
- IFRS 3, 'Business Combinations', amendment is effective for annual reporting periods beginning on or after 1 January 2020 and relates to the definition of a business.

The following standards and amendments to IFRSs become effective for the annual reporting period beginning on 1 April 2020, but were early adopted by the Group for the annual reporting period beginning on 1 April 2019:

- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures', amended effective for periods beginning on or after 1 January 2020 with early adoption allowed. Amendments to IFRS 7 and IFRS 9 have been issued which modify specific hedge accounting requirements and allow it to be assumed that the interest rate benchmark is not altered as a result of the uncertainties of LIBOR reform when performing hedge effectiveness testing. There is no impact on the Group's fair value hedge accounting or cash flow hedge accounting as a result of adopting the amendments.

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:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Amendment effective for annual reporting periods commencing on or after 1 January 2022. The amendment relates to the classification of liabilities as current or non-current.
- IAS 37, 'Provisions, contingent liabilities and contingent assets'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the clarification of costs that an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Management's project to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IFRS 3, 'Business Combinations', amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures'. These amendments are effective for periods commencing after 1 January 2022 and relate to Phase 2 of Interest Rate Benchmark Reform.
- IFRS 16, 'Leases', amendment effective 1 June 2020. The amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.
- IFRS 17, 'Insurance Contracts', amendment effective 1 January 2023. This has been deferred from the initial effective date of 1 January 2021.

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.