

Babcock is an international defence company operating in our focus countries of the UK, Australasia, Canada, France and South Africa, with exports to additional markets with potential to become focus countries.

Our Purpose, *to create a safe and secure world, together*, defines our strategy. We support and enhance our customers' defence and security capabilities and critical assets through a range of product and service solutions. We meet our customers' requirements of value for money, increased availability, modernisation and flexibility.

We made excellent progress in our first year of turnaround; securing the balance sheet and focusing the Group through portfolio alignment and by reorganising around a new operating model and people strategy.

Supported by our ESG strategy, we are now better positioned to take advantage of the opportunities created by the strengthening global market for defence.

Please scan this code to watch a video explaining how our purpose informs all that we do and how the work we deliver is helping Babcock to create a safe and secure world, together.



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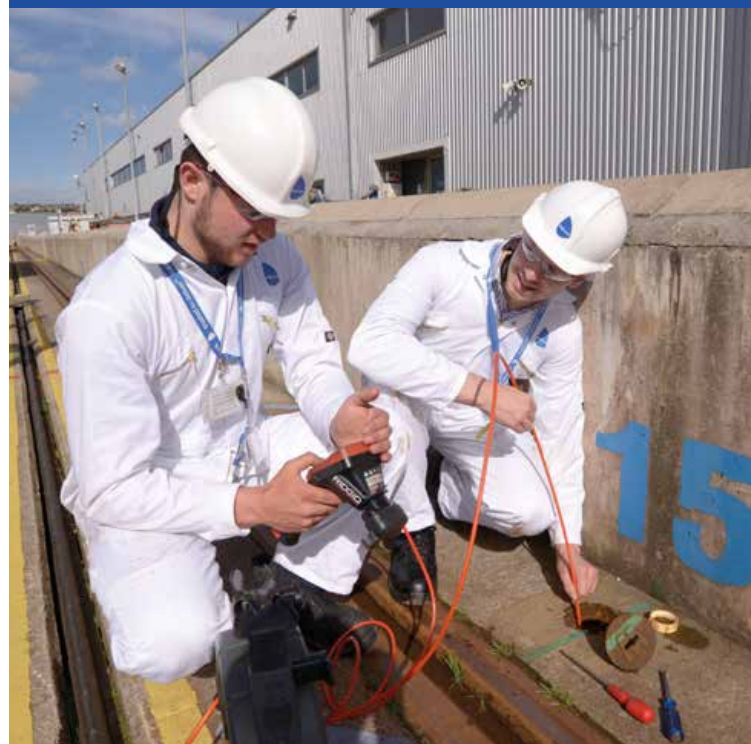


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# Babcock's transformation is far-reaching and comprehensive



**Ruth Cairnie**  
Chair

[Read Ruth's biography on page 94](#)

In last year's report I gave a full account of the developments arising from the steps we had taken to address the historic underperformance of the Group.

We had reset our financial baseline, refreshed our strategy, launched a new operating model and introduced improved governance and controls.

The first full year of our turnaround has continued the implementation of these improvements. The Board is very satisfied with the progress made against the five strategic actions we had identified for FY22, including generating more than our target of £400 million from divestments intended to focus the Group. Our progress is covered in more detail in the CEO report (page 13).

Our financial results for the year are encouraging. Underlying operating profit of £237.7 million was a 13% organic increase on last year, excluding one-off contract profitability and balance sheet (CPBS) adjustments in FY21, supported by

the expected improved performance from our new operating model and a reduction in the impact of COVID-19. Statutory operating profit of £226.8 million compares to a loss of £1,736.7 million in FY21, which included charges from the CPBS review and asset impairments. Our underlying free cash flow was slightly ahead of expectations at £(191.3) million, driven by timing benefits and advance payments.

Statutory revenue grew by 3% to £4,101.8 million. On an organic basis, revenue grew by 5% with good volume recovery in the Land and Aviation sectors.

We have had some notable commercial successes through the year, demonstrating the relevance of our capabilities to our target customers. These included the signing of a £3.5 billion Future Marine Support Programme (FMSP) contract that continues our work for the UK Royal Navy, further work on defence aviation training in France, and new contracts for next-generation tactical communications and information systems in the UK and Australia.

The Board was delighted at the early successes from the Arrowhead 140 frigate export programme, the Babcock design based on the Type 31 we developed for the UK, in Indonesia and Poland.

The transformation of Babcock is intended to be far-reaching and comprehensive, and is grounded in our corporate Purpose: *to create a safe and secure world,*

*together.* This Purpose has been communicated extensively within the Group this year and feeds through into all aspects of our strategy. It is supported by our six new Principles (see page 20) launched this year through substantial engagement with our workforce; these Principles embody the new ways of working and shift towards the more people-focused and accountable culture that we believe is essential to meet the needs of all our stakeholders. I am delighted by how positively our people have been responding.

Alongside and integral to the launch of our Principles and focus on culture is the role of sustainability. We believe that it is right for our stakeholders to expect to hold us to account for our approach and progress. Importantly, as evidenced by the tragic events in Ukraine, we believe the defence industry plays a major part in assuring the stability of sovereign nations; without stability, it is impossible to drive the necessary environmental, social and governance (ESG) improvements to create a safe and secure world.

We have progressed our ESG strategy, expanding our corporate commitments to incorporate broader environmental targets, and we have created new Group policies and guidance. Our social value activities support the needs of the local communities where we operate, which are so critical to our future success (see page 63). On climate action, we are continuing to progress our decarbonisation programme and are on track to submit science-based emission targets (see page 57).

The Board's primary focus in FY22 was to stabilise the business. Overall, we have made excellent progress against our goals for the year, driving tangible positive change across the Group against a background of increasing geopolitical uncertainty.

The second year of our turnaround will build on the strategic actions taken in FY22, with a focus on execution and growth. As we continue to make further progress, the Board is confident of delivering on its expectations of increasingly profitable growth and improved cash flow for FY23 and into the medium term. Babcock is returning to strength.

**RUTH CAIRNIE**  
Chair



# Strong progress in our first year of turnaround



**David Lockwood**  
Chief Executive Officer

[Read David's biography on page 94](#)

One year ago we defined the actions we needed to take in FY22 to stabilise the business and lay the foundations for the future.

In this, our first year of turnaround, I am pleased to report that we have made strong progress on all our strategic priorities. Overall, our financial performance in FY22 was in line with our expectations, with cash flow slightly better than anticipated. Additionally, we took significant actions to improve balance sheet quality, including the reduction of certain working capital items such as supply chain financing, debt factoring and the practice of deferring period-end creditors.

Led by our Purpose, to create a safe and secure world, together, we have taken action to secure our business; stabilising the balance sheet and focusing the Group through portfolio alignment. We have reorganised around a new operating model and people strategy, which has been further supported by our developing

ESG strategy. We are now well-positioned to take advantage of the opportunities created by the strengthening global market for defence.

## Stabilise – strategic actions update

At the start of FY22 we identified five strategic actions for the first year of our turnaround, designed to stabilise the Group both financially and operationally, and to position us for improved execution and growth:

1. Align our portfolio
2. Implement our new operating model
3. Roll out our new people strategy
4. Develop our new ESG strategy
5. Explore growth opportunities

We made strong progress against our priorities, making the changes that will drive improved delivery for our customers, a better experience for our employees and improved returns for shareholders.

**Portfolio:** We reviewed the businesses in our portfolio to determine strategic fit and the value to shareholders of their presence in our portfolio. The divestment of four businesses (our Oil and Gas aviation business, Frazer-Nash Consultancy Ltd, UK Power and our 15.4% stake in the AirTanker Holdings Limited joint venture) generated gross proceeds of £447.3 million, exceeding our target of at least £400 million. In addition, in July 2022 we signed a conditional agreement

the sale of some of our aerial emergency services (AES) businesses for a cash consideration of c.£115m. This achieved our key portfolio objectives: to reduce complexity, focus the Group on our chosen markets and strengthen the balance sheet. In March 2022, we expanded our footprint in Australia with the acquisition of the remaining 50% interest in our Australian Naval Ship Management (NSM) joint venture for £33.1 million. Our portfolio actions have enabled us to reduce our gearing to 1.8x net debt to EBITDA, in line with our year-end target of below 2.0x.

**Operating model:** Our new operating model is now established and is driving efficiencies throughout the business. We are already realising benefits from our ongoing work to streamline processes, increase standardisation and improve controls. In FY22 we achieved our target in-year operating model savings of c.£20 million and an annualised savings rate of c.£40 million, while restructuring costs of £36 million were slightly below our original expectations. This progress contributed to the increase in underlying operating margin to 5.8%. The new model increases visibility and shortens communication lines – both essential for an agile business, and important enablers for collaboration. We will continue to embed these new ways of working, with a particular focus on operational excellence and execution in FY23.

**People strategy:** With c.28,000 skilled employees in the Babcock Group, our people strategy is critical to our future success. Aligned with our Purpose, to create a safe and secure world, together, we rolled out six Principles that underpin the ongoing cultural transformation that is key to driving sustainable improvement: Be curious; Be Kind; Be Courageous, Think: Outcomes; Collaborate; and Own and Deliver. Across the Group we are harmonising our people policies and fostering a culture that shares capability, talent, innovation and best practice. We will continue to seek to optimise our legal entities and structures as we continue to roll out our people strategy.

**ESG strategy:** We have made good progress on our ESG strategy. We have matured our plans to reduce harmful emissions from our operations, and to integrate sustainability into programme

## Trading in first quarter of FY23

Trading in the quarter ended 30 June 2022 was in line with expectations. Net debt excluding operating leases was £625 million, higher than at 31 March 2022, reflecting timing of pension deficit payments.

## Outlook

We are pleased with the strong progress made in FY22 to stabilise the Group and begin the process of driving improvements in the areas we identified at the beginning of the year. In particular, the material steps we have taken to address the balance sheet and the quality of our cash flow mean that we ended the year in a far stronger position than we began.

With the business stabilised, we are in a stronger position, both financially and operationally, with the prospects for the business similarly improved. Although we are not immune to the various macro challenges, such as inflation, that continue to impact and shape the markets in which we operate, we will be as agile as we can be in response.

The second year of our turnaround will be as important as the first as we to build further on the foundations laid for a better Babcock in FY23. We will continue the drive to achieve efficiencies from better execution, including the expected c.£20 million further restructuring benefit, and to capture the increasing opportunities for growth in our core markets.

As we look ahead, and as we continue to make operational progress through the disciplined execution of our strategy, the Board is confident of delivering on its expectations of increasingly profitable growth and improved cash flow for FY23. Looking further ahead, we believe our strategy and focus on operational execution will significantly improve the Group's growth, profitability and cash generation over the medium term.



**BECKTON, UK**  
A visit to the London Fire Brigade training centre.

## Delivering for all our stakeholders

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

- **Improved outcomes for our customers:** consistent delivery and partnering with customers to solve their challenges
- **A better place to work for our employees:** an open, collaborative and diverse workplace that engages our employees
- **Returns for our shareholders:** a return to growth with improving margins and better cash conversion

We have made strong progress to position the Company for future success. There is still much to do, but we have all the elements in place to take advantage of the many opportunities which lie before us.

**DAVID LOCKWOOD**  
Chief Executive Officer

## OTHER INFORMATION

### Dividend

No ordinary dividends have been paid or declared for the financial year ended 31 March 2022.

### AGM

We will be holding our Annual General Meeting on 19 September 2022.

### Board changes

In January 2022 we welcomed John Ramsay to the Board as a Non-Executive Director. John became Chair of the Audit Committee in February 2022.

Myles Lee and Victoire de Margerie retired as Non-Executive Directors at the AGM in September 2021 after six and five years of service respectively. Russ Holden will retire as a Non-Executive Director in July 2022 after two years of service, and our 2022 AGM will see Non-Executive Director and Remuneration Committee Chair Kjersti Wiklund retire from the Board after four years of service.

# Led by our Purpose



Our Purpose is to **create a safe and secure world, together** – this is why we exist as a business, and why we do what we do. It defines and underpins our new ways of working, how we create value for our shareholders and how we improve delivery for our customers. It informs the decisions we make and how we treat each other.

Our Purpose and Principles were formally launched this year to support the major cultural shift the business is making. They were developed with the help of our people and are designed to

unite us as a company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock.

We are embedding our Principles across the business and applying them to the way we operate. We have built awareness through increased communication and direct engagement with our front-line leaders.

We have helped managers, teams and individuals to explore how to bring the Purpose and Principles to life, through 'town hall' meetings, vlogs, videos, workshops, webinars, team discussions and focused weeks. Our people have

embraced the new Principles by sharing personal stories of the Principles in action, and why they are important to them. We will continue to collect and share these stories across the business.

The next phase of this work is to embed the Principles into all of our people processes, and transform at pace how we recruit, lead, develop, recognise, reward and manage the performance of our people.

Our Principles put people at the core of everything we do and they will continue to guide how we all work together, from the front-line to the Board.



You can see our Principles on page 20

## Our new operating model

To further unlock our potential, we developed and implemented a new operating model during 2021. The resulting changes saw us reduce headcount, remove layers, and simplify how we work together, underpinned by our Principles.

One of the most significant changes in the period was the move to a centrally coordinated functional model, impacting areas such as HR, Finance, Procurement and Supply Chain, Communications and IT. This new way of working has empowered us to operate as one Babcock, driving accountability, efficiency and consistency across the Group.

Coupled with the new operating model and the cultural reset, we have focused on reducing complexity in the business to make us more efficient. By integrating the Group, we have increased our ability to respond quickly to changing market conditions, sharing capability and solving challenges across Babcock. The roll-out of our new People Strategy has begun and will strengthen our ability to be flexible, enabling us to move talent, innovation, and best practice around the Group and to support our people with an agile and inclusive workplace and an increased focus on output and delivery.

These changes have reinforced our commitment to being a purpose-led business, which will help to transform the experience of our people and customers, and will drive improved performance across the Group.

## Harnessing expertise

Over the past year we have accelerated our knowledge-transfer and sharing programmes to harness the engineering and technical expertise of our people and to strengthen and expand our own skills and networks.

Through our Innovation Lunch and Learn programme, our people and partners have come together to deliver over 60 hours of shared training and insight on core programmes to enable a safe and secure workplace for collaboration and learning.

Our Big Ideas programme has seen over 600 new ideas on cost savings, the environment and safety, and identified where and how we can continue to innovate across our business.

## Inclusion and Diversity

We believe being an inclusive business which supports its people and values difference is central to living our Purpose. It is key to creating the right foundations to attract and retain the best, diverse talent. We have recently appointed our first Global Head of Inclusion and Diversity, to develop our approach and to review, design and implement ways of working that empower our people.



See more about our approach to Inclusion and Diversity on page 64



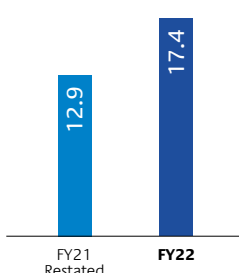
### Our approach

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

## NON-FINANCIAL

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

17.4%



#### Definition

Underlying return on invested capital is defined as underlying operating profit plus share of JV profit after tax, excluding one-off CPBS adjustments in FY21, divided by the sum of Net debt, shareholders' funds and retirement deficit or surpluses.

#### Commentary

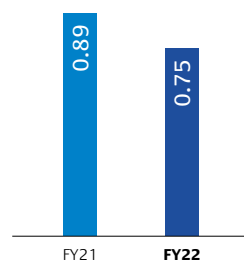
The increase in underlying ROIC reflects higher underlying operating profit and share of JV profits after tax, and lower invested capital due to reduced debt and change in our IAS 19 pension from deficit to surplus.

#### Link to glossary

Return on invested capital (pre-tax) (ROIC)

### Total injuries rate

0.75



#### Definition

Reported number of recordable work-related injuries and illnesses per 200,000 working hours (200,000 represents 100 employees working 40 hours for 50 weeks per year).

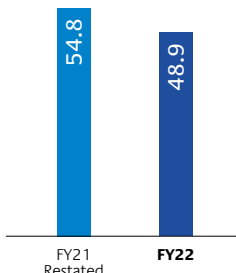
#### Commentary

We have moved to an internationally recognised HSE accident categorisation method in order to be able to benchmark vs peers.

Total Recordable Injury rate, which includes work related injuries requiring medical treatment or above, has reduced from 0.89 to 0.75 over the year, which is a reduction of 18% vs 2021. (See page 63 - 64 for more details).

### CO<sub>2</sub>e emissions (tCO<sub>2</sub>e / £m)

48.9



#### Definition

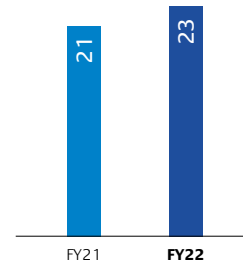
Estimated tonnes of CO<sub>2</sub>e emitted as a direct result of revenue generating operations. We now report energy consumption and carbon emissions per calendar year (01 January to 31 December). The transition has allowed more time to collate, analyse and report our environmental data, which has improved the accuracy and completeness of our data sets.

#### Commentary

During the year, estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures and improvements to our energy management practices resulted in a reduction of both our carbon baseline and FY22 operational emissions. (See page 57 for more details).

### Senior management gender diversity (%)

23%



#### Definition

Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (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

There has been an improvement in female gender representation at the senior management level that has resulted in an increase from 21% to 23% over the past year. (See page 65 for more details on gender diversity statistics).

### Link to management remuneration

Our remuneration policy, as detailed on pages 118 to 124, 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 42 - 49, we use our first two KPIs (revenue growth and underlying operating margin) to measure sector performance.



# Building relationships

Building strong and lasting relationships with our diverse global stakeholder groups is vital to our success. The Board recognises the responsibility we have to our stakeholders, and the impact of our actions, which is why we've increased our focus on stakeholder engagement. Through continued two-way dialogue, we demonstrate a strong commitment to effective stakeholder engagement.

## CUSTOMERS

### Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.

We build and maintain long-term relationships with our customers to promote the future success of the Group.

### What matters to them

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

### How Babcock engages

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

## INVESTORS

### Why they matter to us

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

### What matters to them

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communication

- Governance and management
- Sustainability strategy

### How Babcock engages

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

## SUPPLIERS

### Why they matter to us

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

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

### What matters to them

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

### How Babcock engages

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

## REGULATORS

### Why they matter to us

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

### What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics

- Safety and compliance of operations
- Sustainability
- Site-specific issues

### How Babcock engages

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



# ESG Strategy



Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: *to create a safe and secure world, together.* We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below.

During the year we progressed our corporate environment, social and governance (ESG) strategy, which focuses on the operations and strategy of the Group. We expanded our corporate commitments to incorporate broader environmental targets, see pages 57-59. We also created new Group policies and guidance to support appropriate governance of our sustainability programmes.

## Our ESG priorities

1	<b>We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040</b> <i>See page 57</i>
2	<b>We will integrate environmental sustainability into programme design to minimise waste and optimise resources</b> <i>See page 59</i>
3	<b>We will ensure the safety and wellbeing of all our people</b> <i>See page 63</i>
4	<b>We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies</b> <i>See page 67</i>
5	<b>We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges</b> <i>See page 69</i>

Sectors and regions have developed their own sustainability programmes, which support the Group-led programmes and stakeholders' needs.

Our sustainability strategy will continue to evolve with the interests of our stakeholders, as well as those of the Company. This year we asked some of our key stakeholders for their views on our material topics to ensure that we focus on issues that matter most to them. The findings will help influence our sustainability agenda and our priorities (see Materiality assessment on following page).

### Progress against our ESG priorities

Climate action is a key focus: we are continuing to progress our decarbonisation programme (Plan Zero 40) across the Group. Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040.

During 2021, the Board and Executive Committee agreed Group strategic priorities for climate action and we incorporated Task Force on Climate-related Financial Disclosures (TCFD) risk management and scenario planning into both our strategic planning cycle and corporate risk management framework. This year we are enhancing our level of disclosure against the TCFD requirements (see pages 60-62 for more detail).

Sustainability is central to our thinking and we are integrating it into programme design to ensure optimal use of resources and to minimise waste. We are using data and digital techniques to inform our through-life thinking and support effective and efficient asset operation and management.

We want to create a better working environment at Babcock and ensuring the safety and wellbeing of our employees is at the heart of all that we do. In the context of our new unifying corporate Purpose, we ran a Group-wide safety stand-down to focus on and re-emphasise our Care and Learn safety commitments.

We aim to provide a workplace which is inclusive and where each individual feels supported and respected. Inclusion and Diversity (I&D) is therefore a key focus and this year we hired additional senior women into our senior leadership team, increasing female representation at the end of the year to 21%. We are pleased that our Mean Gender Pay Gap has narrowed year-on-year from 12.5% to 11.8%. (See Babcock's 2021 Gender Pay Gap report on our corporate website.)

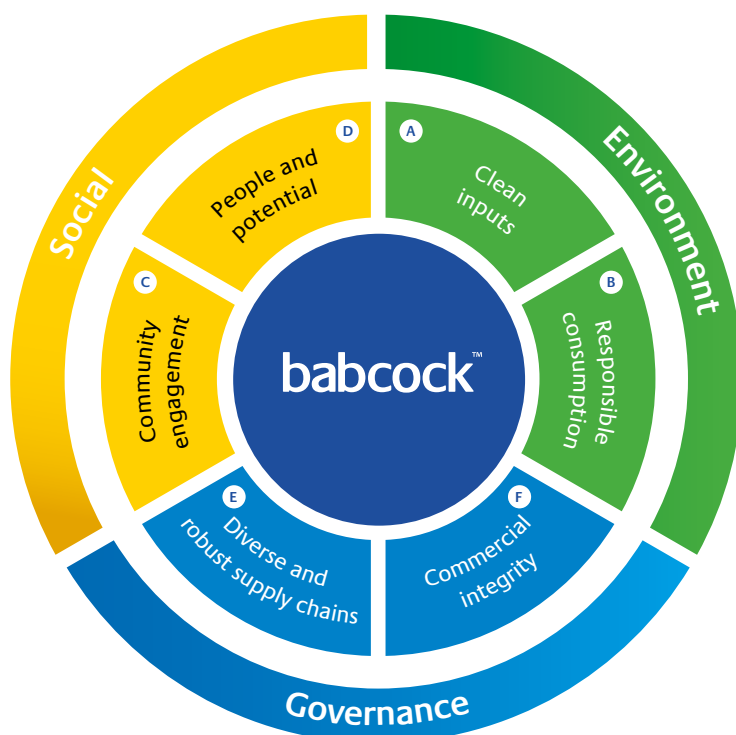
We recently appointed our first Global Head of I&D to develop our approach and review, design and implement activities that will enable Babcock to become a more inclusive business that values difference.

We want to have a positive impact on the communities in which we operate, to be a good neighbour and contribute to the local economy through social value initiatives. This year we developed a Group-wide Sponsorship and Donations policy which is aligned to our corporate Purpose and is supported by local activity. In January the Executive Committee also agreed to launch a Group-wide volunteering programme, which will allow every employee to volunteer for one day per year.

We have engaged the consultancy Oxford Economics to conduct a comprehensive study of Babcock's economic impact including how the Company delivers social value as outlined in the Government's Social Value Model.

We continue to actively collaborate through industry partnerships, academia and our supply chain to meet global challenges such as climate change.

## Our sustainability charter



**A** We use innovative solutions to reduce our energy needs, while focusing on cleaner energy and other natural resources.

**B** We integrate environmental sustainability into our programme design, optimise use of resources and minimise waste through increased re-use and recycling.

**C** We play an active part in our local communities to enhance development and inspire the next generation.

**D** The safety and wellbeing of our people is our priority. We encourage a diverse and inclusive employee base where each person feels respected and able to fulfil their potential.

**E** We partner with our supply chains to identify innovative solutions and ensure timely delivery of quality products and services.

**F** We believe that ethical behaviour underpins our sustainability activities. We have robust processes and controls to identify opportunities and manage corporate risks.

## Materiality assessment

Last year we conducted an internal materiality assessment to highlight the issues we believed mattered most to our stakeholders and to Babcock (see table below). This year we extended the materiality assessment to capture the views of some of our key stakeholder groups and ensure that our strategy evolves with their interests and needs, and aligns with our priorities.

To capture the views of our employees we ran an employee opinion poll in March, to identify the top three priority sustainability issues they think we should be focusing on in order 'to create a safe and secure world, together'.

We also asked our investors for their views on sustainability priorities. Below we have highlighted the three topics cited by these respective groups.

### Employees:

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

### Investors:

- Sustainable supply chains: In an increasingly unpredictable macro environment, supply chain resilience is key. Also, embedding sustainable practices within the supply chain will be an important factor in achieving our net zero target

- Governance, accountability and culture: These are key to delivering benefits from the operating model and to fully integrate ESG in the business to achieve our sustainability ambitions
- Talent and development: Babcock requires skilled employees. Our workforce is ageing and there is concern that we could struggle to deliver planned growth or take advantage of emerging opportunities

This year we intend to survey our key suppliers and several customer stakeholders within contracts across the sectors and regions.

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

Material issues	Environment	Social	Governance
	Biodiversity and ecological impact	Community engagement	Business ethics and integrity
	Climate change	Health, safety and wellbeing	Data and cyber security
	Waste	Talent and development	Governance, accountability and culture
	Water consumption	Local economic contribution	Sustainable supply chains
		Employee inclusion and diversity	Innovation and technology
			Collaboration

As a flagship, we have recently launched an electric vehicle (EV) salary sacrifice scheme for our UK operations. This scheme will promote and accelerate the uptake of EVs across our workforce, which will lead to a reduction in the footprint and impact of our operations.

### Raise awareness of environmental and sustainability issues

We understand our people are key to embedding sustainability into our operations. Over the past year we have effectively engaged with our workforce and wider stakeholder groups to educate and raise awareness of environment and sustainability issues. In the run-up to and throughout COP26 we hosted a series of events including 'lunch and learn' briefings and a presentation/Q&A with Olympic gold medallist Hannah Mills. We also ran a climate podcast series with appearances from Babcock's CEO David Lockwood and the Ministry of Defence's Lt Gen Richard Nugee. We have exciting plans to continue and enhance our engagement over the coming year.

### Data management

Data is the cornerstone of our Environmental strategy and journey to net zero. We use data to understand our impacts, inform our decisions and communicate our position in a transparent manner.

Throughout 2021 we implemented a range of improvement measures to our data management system to ensure high accuracy and completeness. As a priority we are investigating the development of an environmental data management system which will form the basis of our approach.

## 2 Integrating environmental sustainability into programme design

### Climate action Executive Committee priorities

As part of Babcock's TCFD governance workstream, climate action priorities have been agreed by the Group Executive Committee and are underway to ensure the assessment and management of climate-related risks. See page 60.

### Waste

Consumption of materials and resources is a significant contributor to Babcock's environmental footprint and we understand our responsibility to minimise the impacts of our operations. We continue to deliver improvements to our waste management practices and to minimise waste sent to landfill.

Within our Marine business we have adopted innovative technology, such as robotic welding, which reduces waste along with providing a wide range of additional benefits. Within our Aviation business we harnessed data to inform the scheduling and planning of our touring pilots and reduced wasted travel and expense by over 50%.

We have set three waste targets;

- Preparing waste management plans across all significant sites by 2024
- Zero controlled waste to landfill by 2025
- Eliminate the use of unavoidable single-use plastic by 2027

### Water

Water is a key resource across our global operations and we understand the need to reduce our impacts and manage our water consumption responsibly. Across the organisation, local environmental teams are working to identify water reduction opportunities and to incorporate water reduction technologies such as rainwater harvesting, leak detection and flow restriction in our new developments.

Within our African operations, water scarcity poses a significant challenge and we have taken proactive steps to reduce our impacts through rainwater harvesting to recycling water for irrigation and flushing toilets. For example in Botswana our teams created wash bays that recycle and filter the runoff water for reuse, which has achieved a 60% reduction in water consumption.

- We have set a target to prepare water management plans across all significant sites by 2024

### Biodiversity

Maintaining and enhancing biodiverse ecosystems is a fundamental aspect of our Environmental strategy and we aim to ensure we preserve and enhance natural capital. Our local environmental specialists ensure that environmental considerations are embedded throughout our operations and our impacts are minimised.

We have set two biodiversity targets;

- Conduct biodiversity assessments across all significant sites by 2024
- Deliver a 10% biodiversity increase across the estate by 2030



## Task Force on Climate-related Financial Disclosures

This year we have been working towards full disclosure to the Task Force on Climate-related Financial Disclosures (TCFD) requirements, as per Listing Rule LR9.8.6R. We have appropriate governance with respect to climate change, integrated risk management and scenario planning in our strategic planning cycles and we have set some initial targets. As we work towards full disclosure, we will assess how climate change scenarios impact on the organisation's business strategy, financial planning and budgeting. For further details see FY23 priority table, page 62.

### Governance

#### Board oversight of climate-related risks and opportunities

In FY21 the Board, in order to progress the ESG programme and meet the expectations of our stakeholders, approved Babcock's carbon initiative (Plan Zero 40), our list of identified ESG material issues and our phased approach to full TCFD implementation.

Group-wide ESG matters are now an integral part of Board strategic discussions. In FY22, the Board reviewed progress on Plan Zero 40 and TCFD through updates from the Group Head of Sustainability. See page 97 for further details on our governance framework.

Climate-related risks and opportunities are to be reported to the Executive Committee on a quarterly basis.

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

The executive with responsibility for TCFD reporting is the Chief Corporate Affairs Officer. TCFD workstreams are championed by the Group Head of Sustainability and activities are overseen by the Corporate ESG Committee, which meets quarterly and includes representatives from the Executive Committee. Progress on TCFD activities is reported to this Committee, and any actions/activities required to further climate-related risk management activities are agreed by the Committee. Executive Committee members who are members of the Corporate ESG Committee are indicated on page 97.

TCFD actions and activities are managed at the Group and sector level by 'TCFD Sponsors' with oversight from the Group Head of Sustainability and support from each sector risk lead and/or relevant environmental, technical or facilities team. The sponsors are typically Finance

Directors/Heads of Finance, which ensures that TCFD activities are overseen by individuals with sufficient seniority, and authority, to delegate tasks and monitor progress. Sponsors also hold responsibility for ensuring that climate-related risks and opportunities within their sector are understood, financially quantified and delegated for management on an ongoing basis.

Plan Zero 40 is being led by the Group environmental team, with sectors accountable for developing their bottom-up carbon reduction plans. For further details on decarbonisation, see page 58.

Additionally, during the year the Edinburgh University Centre for Business and Climate Change facilitated an Executive Education session with the Executive Committee on climate change.

### Strategy

We have analysed climate-related risks and opportunities across all of our business operations against three climate scenarios. These are based on an evolution and customisation of scenarios developed by the Network for Greening the Financial System (NGFS). We customised these scenarios to include location-specific information relating to areas where we carry out our operations. Additional criteria were also developed to capture the longer-term nature of climate-related risks and opportunities.

#### Orderly: 'Net Zero 2050' (warming limited to 1.5°C)

- Early high levels of transition risks with reduced subsequent physical risks

#### Disorderly: 'Delayed Transition' (warming limited to 2°C)

- Delayed transition risks with higher subsequent physical risks

#### Hothouse World: 'Current Policies' (warming of 3°C+)

- Limited or no transition risks but runaway physical risks

These scenarios were adopted as they were determined to be in line with Babcock's most likely possibilities across the business. Due to the disparate geographies that we operate in, the most relevant scenario for each sector or region varies, particularly in relation to policy retention. The UK, European countries and New Zealand are broadly seen to have a high amount of legislation that addresses climate change, with a legal commitment to achieve net zero by 2050. Canada and South Africa are aspirational for the transition but more locked into traditional carbon-intensive economies. Australia is much further behind in this area. As a result, transition risks in the UK are different from those in the Australian

region. Some sectors also have operations exposed to different types of transition risk depending on their geographic spread.

Our process for identifying and assessing the impact of future potential scenarios included interviews with senior executives across all of our sectors and regions, as well as a number of workshops. More than 100 stakeholders have been involved across Babcock, providing coverage of nearly all business functions. This confirmed the materiality of climate-related issues. Based on analysis of the impact of these risks on Babcock's operations, the following areas will influence our sector/regional strategies and business model:

- Extension of risk management timescales to accommodate the longer-term nature of climate-related risks
- Development of robust green credentials to continue to attract top talent
- Implementation of flexible and adaptable governance structures and processes to accommodate regulation change
- Implementation of renewable energy sourcing and energy-efficiency measures across sites and facilities
- Implementation of a contracting approach that includes climate considerations
- Collaboration with supply chain to understand/mitigate suppliers' climate impacts

### Risks

An analysis of climate-related risks relevant to Babcock has shown that many risks and opportunities are in the medium term (2030-2040) and long term (2040-2100), giving Babcock time in the short term to implement activities to mitigate.

Details of our most significant climate-related physical and transition risks, proximity, impact and control measures introduced can be seen in the graphic on the next page.

Our most significant physical risk is dockyard disruption and we have assessed the risk of increased flooding and storm surges. The highest risk is seen in a 3°C scenario, where we expect to see more extreme weather patterns.

From our assessment of transition risk, we believe increased climate-related regulation will have an impact on supply chain disruption. The lowest risk is in the 3°C scenario which assumes that only current climate policies are implemented, therefore transition risks globally will be negligible.

## Examples of key risks and control measures

Risk title	Risk description	Proximity	Scenario			Control measures
			1.5°C	2°C	3°C+	
Dockyard disruption	Dockyards owned/operated by Babcock may be flooded due to an increase in sea level and higher frequency of extreme weather, resulting in storm surges.	Short (2020-2030)				Our Devonport site is currently undertaking a significant infrastructure rebuild and climate-related risk is being factored into rebuild decisions.
		Medium (2030-2040)		●		
		Long (2040+)	●		●	In the medium to longer term as the site develops, for the design of rebuild and new facilities we will consider climate-related risk in line with the latest ONR standards.
Supply chain disruption	Increased climate-related regulation, such as taxes on fossil fuels, may affect Babcock's supply chain cost base or viability of supply chain companies.	Short (2020-2030)	●			Our Sustainable Procurement policy has been implemented, which considers our suppliers and sub-contractors' ability to meet our requirements against 12 sustainability priorities. We will consider the plans of our suppliers in our sourcing decisions and actively monitor and manage sustainability performance in the supply chain. Further details can be found in our Sustainable Procurement policy.
		Medium (2030-2040)		●		
		Long (2040+)			●	We have invested in an AI monitoring solution for our supply chain, see page 69.

### Impact

● Insignificant / Moderate    ● Moderate    ● Major    ● Severe

Plan Zero 40 is our chief mitigation mechanism to combat transition risk, which is highest in countries with a strong net zero policy, such as the UK.

### Opportunities

We also recognise there will be opportunities in the transition towards a greener economy. Through our Liquid Gas Equipment (LGE) business, we aim to continue to develop our ammonia fuel gas supply system, as well as solutions for the transportation and storage of CO<sub>2</sub> in line with customer and legislative requirements. This will ensure that we are optimising efficiency while developing zero-carbon solutions.

We're collaborating cross-industry and working with academia on several programmes such as the MarRI-UK hydrogen Fuel Cell-BATTERY Ship Advanced Power-Energy Management Solution for Zero Emission Marine Propulsion Systems. In our PHOENIX II contract, we manage in excess of 15,000 White Fleet vehicles and are working with the customer to deliver its commitment to achieve both the 2022 and 2027 UK Government's 'Road to Zero' targets. The targets require a transition of 25% of the M1 Classified Fleet (predominantly cars) to ULEVs by the end of 2022, and then 100% of M1 and N1 (predominantly vans, 4x4s) fleets to zero tailpipe emission vehicles by the end of 2027.

In 2021, we integrated the climate-related risks and opportunities flowing from our TCFD scenario workshops into our strategic planning process. Each sector, region and function has detailed its strategies for managing the priority risks and realising opportunities over the strategic plan period (five-year outlook).

### Risk management

Our process for identifying and assessing climate-related risks and opportunities utilised the existing Babcock risk management framework.

The horizons against which the climate-related risks were assessed are as follows:

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

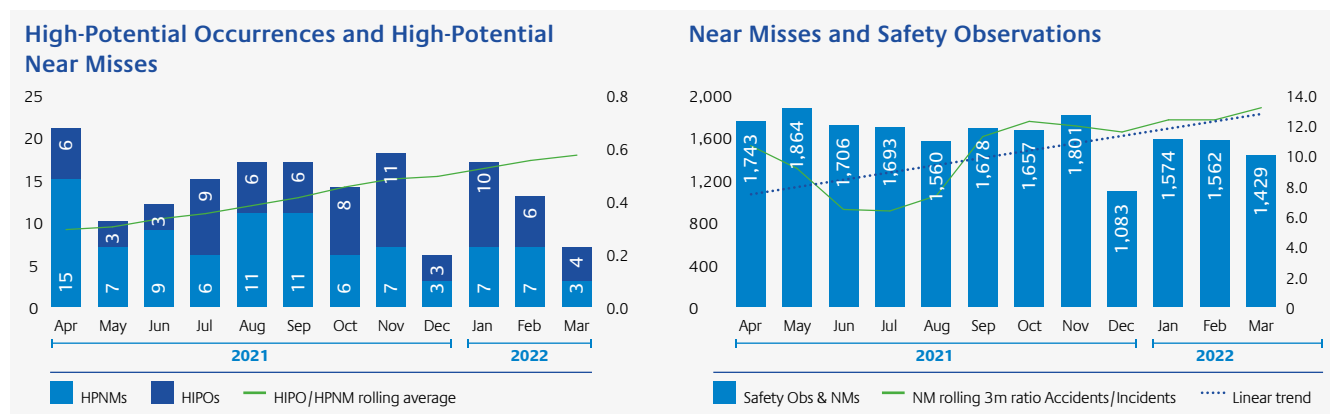
Once all relevant climate-related risks and opportunities had been identified, assessed and scored across the relevant time horizons, individual climate-related risk registers were created for each sector. These registers have been delegated to individual owners by TCFD sponsors and are required to be submitted on a quarterly basis inclusive of relevant mitigation or controls in place. On an annual basis, owners will be required to review the initial scoring of each item to assess the effectiveness of control measures. The Group Risk policy has been updated to reflect integration of the new process.

### Metrics and targets

Babcock has developed the following metrics, with associated targets and timescales, to measure our progress towards reducing our exposure to climate-related risk. We plan to develop and disclose further metrics and targets in the next financial year.

- Establish baseline and submit carbon reduction targets to the Science Based Targets initiative by April 2023
- Complete an assessment of climate-related risk of all critical Babcock infrastructure by December 2024
- Complete a review of climate-related changes to working conditions covering all employees who are exposed at geographical locations. Our target for this review is April 2023
- Ensure climate-related impacts are considered in all new business bid/no bid decisions and associated contract negotiations/KPIs
- 100% of electricity for Babcock facilities to be sourced from renewable supplies by 2030, as far as reasonably practicable
- Complete an assessment of all our critical suppliers' climate-related risks and associated impact on Babcock in autumn 2022

## Proactive reporting – Reporting safety issues before they cause harm continued

**Employee inclusion and diversity**

At Babcock, we are guided by our Purpose – ‘creating a safe and secure world, together’ – and a clear set of Principles that are central to everything we do. To deliver on our Purpose, we are committed to creating an agile, people-centred business where everyone is included, supported and empowered to unlock their potential.

We see inclusion as an enabler and the key to creating the right foundations to attract and retain the best, diverse talent. We recently appointed our first Global Head of Inclusion and Diversity (I&D) to develop our approach to I&D and to review, design and implement activities that enable Babcock to become a more inclusive business that values difference.

Our three-pillar approach outlines the:

- insight and data needed to drive an evidence-led approach to I&D
- policies and programmes that drive greater talent engagement
- ways in which we educate and demonstrate the value of an inclusive organisation

We remain firmly committed to embedding this approach and monitoring our progress.

Our gender targets are:

1. 30% women within senior leadership teams by 2025
2. 30% female representation at all levels by 2030
3. 80% disclosure of diversity data by 2025

In the 2021 report we indicated a target of 80% disclosure of diversity data within 18 months. As we analysed the data for our People strategy and revisited all our targets, we realised this target was going to be difficult to achieve. However, we remain focused on our diversity data as it's a key component of our I&D strategy and approach. We have identified a breadth of activity required to help us meet this target by 2025 and drive real and sustainable changes across the workplace. Alongside our continued work on gender balance, LGBTQ+, faith and neurodiversity, we will renew our focus on disability and ethnicity, as well as greater exploration of social mobility as we drive to be a more inclusive company.

**Gender diversity**

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

Our global workforce diversity has improved over the past year, moving from 19% in 2021 to 21% in 2022. This is in spite of an overall headcount reduction through 2021 that focused on business functional areas and tend to be female dominated. Female representation declined at the Board level reflecting a snapshot in time after the retirement of one female Board member. As recruitment proceeds to build the Board back to its full complement, maintaining diversity will be an important consideration as covered in the Nominations Committee report (see page 106.)

There has however been an improvement in representation at the senior management levels, that has resulted in a shift from 21% to 23% over the past year. Most notably, at the Executive Committee and management level,

good progress has been made around the attraction and promotion of female talent, resulting in a positive move of 5 percentage points since 2021, from 16% to 21%.

Following our overall headcount reductions, our graduate population shrank this year from 258 in 2021 to 135 in 2022, which resulted in a subsequent reduction in our female intake by three percentage points. This is mainly driven by the challenges associated with recruiting in a very competitive graduate market, and in response we have implemented a number of changes that will drive back up our progress and build our pipeline of female talent.

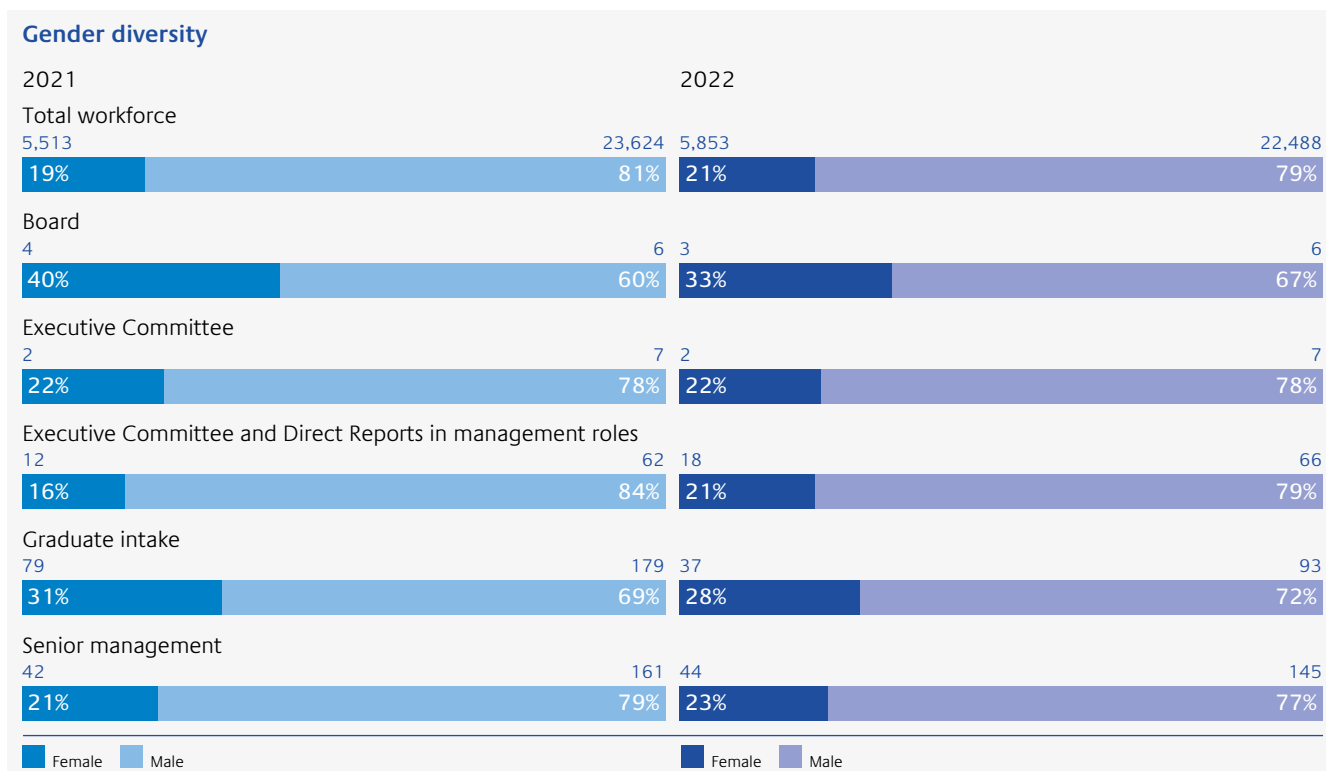
In spite of these challenges, Babcock is on track to fulfil our commitment to our gender targets and be an inclusive and diverse company, a great place to work where people feel part of an integrated, more global business.

Areas we are addressing to accelerate the pace of change:

**1. Providing a culture in which women can progress their careers**

- Redefining our ways of working
- Designing interventions and policies to support women at work, including, for example the introduction of Group-level menopause and gender-neutral leave policies
- Establishing a Returners approach and programme of activity which includes an overarching STEM returners programme. Elements within the programme will support different stages of a woman's life and career





1. The total workforce is 28,560 but excludes 2 non-binary, 4 prefer not to say, 151 non specified and 62 unknown in the gender percentages.
2. The gender diversity reflects Board composition at a point in time. We are recruiting for two non-executive directors in FY23 and we would expect this to change.
3. Executive Committee and Direct Reports in management roles total is 86 but excludes 2 non-specified in the gender percentages.  
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).
4. Senior management role total is 189.
5. Graduate intake is 135 (119 UK, 12 South Africa, 4 Australasia) but excludes 1 non-binary and 4 unknown in the gender percentages.

- Designing an Early Careers strategy and approach to maximise increase in numbers of female students entering the organisation, to continue to increase the diversity of our pipeline
- Establishing an approach to supporting carers in the workplace – like the Gender-Neutral policy, this will benefit any carers, not just female ones. It is of course also a support tool and mechanism for women to stay in and progress at work

## 2. Establishing a pipeline of women ready to move up through the business

- We continue to engage with our women's networks across the Group to identify gaps in how we support women
- We will create individual leadership development plans to prepare female talent for senior roles
- We have opened our Women in Defence mentoring scheme to a wider range of employees to apply as both mentors and mentees

We are encouraged by our progress and are confident we have put in place a strategy which will provide a roadmap to drive systematic and sustainable change for the better.

## Creating gender balance and closing the gender pay gap

Work to reduce our gender pay gap has seen year-on-year progress. Whilst we are pleased to see the median pay gap decreasing from 12.5% to 11.8%, we know we still have a way to go.

Our challenge is not a pay issue but an issue of representation. The engineering and defence sectors in which we operate in continue to be male-dominated. For us, enabling a more equal gender representation remains key to our long-term strategy.

Our intention is to create an environment which attracts and retains more women into the business and delivers a better gender balance. To make this a reality, we will continue to work with internal and external stakeholders, including our gender networks and organisations such as Women in Defence, Nuclear, Science and Engineering, and review our policies and activities that inspire and support women – such as offering access to new ways of working.

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

For further information, please see our 2021 Gender Pay Gap Report on our corporate website at <https://www.babcockinternational.com/news/uk-gender-pay-gap-report-2021/>.

### Focus for FY23 and beyond

Our vision for the future is to be a strong, safe and unified global business that delivers year-on-year sustainable growth with better outcomes for our culture, customers and communities.

Championed by the Board and our Group Executive Committee, our leaders are encouraged and empowered to act in line with our Principles and to role-model inclusive behaviours. They will be supported by our three pillar approach to deepen inclusion and drive results.

Our focus for the coming year is to:

- Gather data and insight from our employees to enable an evidence-led approach to driving greater inclusion and diversity
- Set clear metrics for disability and ethnicity (in addition to gender) to focus our effort, measure our performance and progress and create accountability across the Group
- Establish and embed I&D governance globally, including the further development of employee networks and peer support groups – to create a more consistent approach and build a better people experience
- Identify processes and interventions that will enable us to realise the targets set and increase I&D
- Further embed our Principles and engage our people in understanding the benefits of inclusion, social mobility and community engagement
- Continue our commitment to the Social Mobility Pledge and reduce inequalities through a thorough review of our recruitment practices and how we support progression once in employment

As we develop our Employee Networks, we will embed a new Peer Support Group model to support their development as they will continue to play a critical role in achieving Babcock's ambition for a more inclusive business. Our current networks include multi-faith, ethnicity, gender, LGBTQ+ and neurodiversity along with wider common interest groups.

We will work with our networks across a three-year programme to develop them to a global level, to drive a consistent employee experience and greater diversity across the Group. We will also identify where networks could be developed to support employee enablement, for example in relation to disability and those with caring responsibilities.

### Ways in which we are changing to meet our inclusion and diversity aspirations

#### Growing new talent pipeline for the long term

- STEM support: more than 738 STEM ambassadors within the organisation have engaged over 32,220 students in STEM activities
- STEM returners: by FY23 we aim to increase the pool of female talent by establishing a UK pilot to hire women back into a career in STEM and support returners
- Early careers: more than 1,024 apprentices (14% female) and 335 graduates (30% female) are employed on our early careers' schemes. Our target is to achieve a 50/50 balanced intake in early careers by FY24
- Community engagement: we are extending our community engagement to attract, retain and develop more diverse talent

#### Attracting the best diverse candidates from the current talent pool

- Recruitment analytics: we have increased the amount of data collected and reviewed to highlight any bias in our recruitment process
- Charters and memberships: we are proud stakeholders in the Women in Defence Charter, Women in Aviation Charter and Women in Nuclear UK. We are also members of the Armed Forces Covenant and are actively looking to develop further partnerships
- Our networks, supported by our newly introduced Peer Support Groups model, play a key role in championing and supporting colleagues across Babcock to drive the cultural change we seek

#### Enabling employees to fulfil their potential within Babcock

- Flexible working: we have introduced the Agile Working Framework to encourage work-life balance, support family commitments, improved health and wellbeing and drive inclusivity
- Culture change: as part of an ongoing cultural change programme, we have reinforced our zero-tolerance position to any form of discrimination

### Employee engagement: (see Culture change section page 18)

Our Purpose and Principles were formally launched this year. Developed with the help of hundreds of employees across the Group, we are continuing to drive engagement in our culture and bring it to life through town halls, vlogs, videos, workshops, meetings, webinars, team discussions and focused weeks.

Our people have embraced our new Principles by sharing stories of where they have seen them in action and when they have 'lived' one of our Principles. We will continue to collect and share these stories and create a cultural guide to working at Babcock.

To support the engagement and cultural immersion of new hires into the UK business, we now have a dedicated onboarding platform, designed to enable new employees to familiarise themselves with the business before they officially start. Information is tailored, based on their start date and business area and we plan for this to be extended to the whole business in due course.

Whilst during the pandemic we facilitated online engagement of current employees, this is being balanced with more face-to-face communication as many of our colleagues return to the workplace. However, we know there is more to do to make sure engagement is happening on an ongoing basis throughout the business.

We want to continue to effectively engage with employees to understand their views and ensure we achieve our people goals. Today, Babcock uses a variety of focus groups and surveys to do this. Last year we committed to moving to a consistent approach to understanding and measuring employee engagement across the Group in 2022.

We are now implementing a global platform to establish a baseline of engagement (through an annual survey) and consistently measure and benchmark ourselves externally and track progress. The platform is designed to empower leaders to own and deliver engagement and take action to increase motivation and performance.

This and other insights will inform much of our people decision-making as well as our understanding of areas for improvement. They will form an important part of the conversations our leaders and managers have about our culture.

Implementing our one Babcock approach will help us to focus our effort, drive meaningful change and enable high performance.

## 4 Making a positive impact on the communities in which we operate

### Oxford Economics assessment

We have engaged Oxford Economics to conduct a comprehensive review of how Babcock delivers social value and contributes to the UK Government's objectives outlined in its Social Value Model, as well as maximising economic value from defence procurement.

### Progressing Group-wide volunteering approach

Volunteering is a rewarding and meaningful experience that supports communities and brings personal reward for our employees, enabling them to develop new skills and personal wellbeing.

We want to make a genuine difference to our communities and help them to thrive. For example, our Driving and Maintenance (D&M) instructors in the TMASS contract at Bovington are registered volunteer 'Blood Bikers' with YFW Blood Bikes. They give up their time to provide emergency courier services for blood, platelets, blood and tissue samples, medication, breast milk, documents, X-rays, CT scans, and equipment.

We have also supported teams across Babcock to take part in group voluntary activities, such as the National Beach Clean in the UK. In South Africa many of our employees worked with the Bokantsho Primary School in Viljoensdrift, Free State, to carry out extensive and much-needed renovations at the school. A play area was also built for the children in a rural area and blankets donated before the winter.

Following COVID-19, the UK businesses also supported the COVID vaccination programme by allowing employees time to train and administer vaccines with St John's Ambulance and a number of employees took up this very worthwhile challenge.

We are currently developing a Group-wide volunteering approach, supporting one of our key Principles, 'be kind', to facilitate every employee to volunteer one day per year.

### Group-wide sponsorship

During the latter part of the year we developed our internal charity and sponsorship guidelines. The current criteria have been broadened and clarified to align to our corporate Purpose 'to create a safe and secure world, together'.

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our communities and helping them rebuild following COVID-19. Our new criteria are based on supporting military charities and events and also protecting communities around the world by focusing on local charities where we have our sites or attract our employees from.

### Indigenous peoples

In Australia, we partner with Supply Nation to expand our supply chain to include Aboriginal and Torres Strait Islander-owned businesses across Australia. We have an equivalent commitment to Māori and Pasifika-owned businesses in New Zealand through the Amotai initiative.

Babcock continues to actively support Indigenous students to increase their career opportunities, through sponsorship to Engineering Aid and Yalari in Australia, and encouraging curiosity about STEM subjects in younger children in New Zealand through employee volunteering at local schools.

This year, Babcock Canada renewed our commitment to the Phase II stage of the Canadian Council for Aboriginal Business' (CCAB) Progressive Aboriginal Relations (PAR) programme. This phase centres around engagement with Indigenous communities in the areas where Babcock operates, as well as external communications to our customers, partners, and the wider business about our Indigenous engagement activities. Much of this engagement activity is currently ongoing with the First Nations in Victoria and in northern Manitoba.

In support of commitments made through the PAR programme, Babcock selected and implemented an Indigenous Cultural Awareness training programme. This programme has been added as a mandatory training requirement for all employees.

In addition to the activities directly related to the PAR programme, Babcock also continued to strengthen our internal procurement policies to identify and incorporate more Indigenous businesses. A comprehensive review of the supply

chain was undertaken to identify Indigenous business opportunities in the short, medium and long term. Through this activity, we also engaged with several potential Indigenous suppliers and partners, such as Cota Aviation in B.C., Tipi Insurance in M.B., and Makivik Corporation in Q.C.

Over the last year, Babcock has engaged in comprehensive engagement of several First Nation and Métis communities, businesses, employment and training and post-secondary institutions. Furthermore, the team continues to participate in Indigenous conferences, trade shows and networking events in order to further existing relationships and foster new engagements.

### STEM

In the last year we improved our STEM recording. Commitments to STEM and the communities in which we operate translates into 160 newly trained STEM ambassadors, bringing our total to over 738 ambassadors across the business and 30,000 students engaged in our STEM activities.

The STEM team continues to deliver virtually whilst returning to in-person events where possible, which have been extremely well received by attendees of all ages. Focus has been on developing our offering to raise awareness and increase engagement, by developing STEM activity booklets for employees' children and external use.

The Clyde STEM Coordination Team launched its first STEM activity catalogue, which is designed to help teachers successfully deliver STEM activities with their students. We have evolved the way we conduct community outreach to encourage more take-up of STEM subjects and to help address diversity disparity and improve social mobility.

Babcock now more accurately represents the communities and countries in which we operate and in so doing delivered our first Virtual Neuro Diverse Work Experience Programme at Devonport with several local schools in attendance along with two virtual work experience weeks across the UK, both focussed on STEM and accredited by the Industrial Cadets.



Our employees volunteer not only their time but write books to inspire the next generation to take small positive action to better the world. The3Engineers gifted 4,000 copies of their set of rhyming children's book to local schools and communities. They have also created a suite of free-to-download STEM resources for schools to use in the future based on the books.

In FY23 Babcock will continue to engage with young people, their parents, and teachers to ignite interest in studying STEM subjects and pursue a rewarding career in the industry by focusing on our Group-wide strategic objectives around raising awareness of STEM, increasing I&D and supporting schools that are located in deprived areas of the UK.

#### Support for Armed Forces, veterans, and reserves

Babcock is committed to honouring and supporting the Armed Forces Covenant and the Armed Forces community. We recognise the value serving personnel, both regular and reservists, veterans and military families contribute to our business and country.

As part of our continued commitment to the Armed Forces Covenant, Babcock supports employee and graduate membership of the Reserve Forces and references our support in recruitment activity. We also support the employment of service leavers, veterans, and members of the Volunteer Forces by providing a guaranteed job interview where applicants meet the minimum requirements of a role.

Members of the Armed Forces community and their families can rely on our support. We offer a degree of flexibility in granting leave for service personnel spouses and partners before, during and after a partner's deployment, and will consider special paid leave for employees who have been bereaved or whose spouse or partner has been injured.

We work closely with the Career Transition Partnership, to ensure our employment opportunities are made available to service leavers and veterans, and we participate in careers fairs for those leaving the Armed Forces. We understand that Armed Forces spouses need flexibility when their service partner is posted to a new location, and we do our best to find alternative employment within the business if our employees need to move to accompany their partner to a new posting.

We are proud to currently employ 186 service leavers and 322 veterans in the business. We support the UK's Armed Forces and reservists and continue to actively back our reservist employees. We have approximately 43 volunteer and 12 regular reserves and around 14 uniformed cadet instructors in the business. We provide a minimum of 10 days' special paid leave per year. The reserve service is actively promoted to everyone in the Group, including our new graduates and apprentices.

#### Partnership with academia

Innovation is in our people and our partnerships. Last year we announced our strategic partnership with the University of Strathclyde, one of the leading international technology universities. Babcock and Strathclyde have been working together for more than 30 years, and formalising the partnership will strengthen existing educational programmes for degree apprenticeships and industry placements and build on existing innovative research projects in nuclear, advanced manufacturing, space, and security-related technologies.

Our recently opened state-of-the-art Additive Manufacturing Centre is part of an innovative partnership with Plymouth Science Park. The partnership builds on our strong relationship with the academic and technology community across the south west and the local community around our Devonport dockyard.

Last year we also launched an exciting new project management degree apprenticeship programme at our Devonport facility in partnership with the University of Plymouth.

#### Talent and development

To enable us to take on the challenges of today and the future, it is important for us to build and maintain the capability and skills of our workforce. In FY22 work was carried out on the kind of leader required to drive the future success of the business and focused on understanding the profiles of the leaders we have today.

We measured drivers, personality traits and competencies through a self-report tool – things that are our natural tendencies and capabilities which we can learn and develop. Seventy of our most senior leaders were assessed by evaluating their technical and behavioural skills and then compared to our future leader profile as well as a FTSE100 leader benchmark.

As a result, we were able to develop our leadership capability by clarifying and resetting the expectation of what it takes to be a successful high-performing leader in Babcock and understanding what is needed to deliver our strategy.

Babcock's leadership group has a wide spread of capabilities and styles and we enable them to inspire, motivate and empower their teams to make sure we deliver on our contractual and operational commitments so together we can build a stronger, more sustainable Babcock.

#### Early careers

Last year saw the implementation and introduction of a dedicated one Babcock Early Careers Team responsible for the development of our early careers talent nationally as well as globally.

We recruited 263 apprentices globally during FY22, bringing the total number of apprentices to 1,024 across the business. Previously, most of our new starters have entered on level two and three programmes. However, emphasis has been on expanding the apprenticeship offering with the intent to offer programmes starting from level two all the way to level seven.

One of our very own apprentices was awarded the title of Shipyard Apprentice of the Year and won the Queen's Silver Medal 2021: a prestigious award for final-year apprentices from the maritime sector, which has been running since 1944. Simultaneously, the Devonport Apprentice Team won the Best Apprenticeship Programme in Plymouth in 2021.

One hundred and thirty five graduates entered onto our graduate development programme this year and have been assigned a buddy and formal mentor to accelerate their learning throughout the programme – which in many cases lead to professional registration such as charter-ship.

We will continue to run these successful, comprehensive apprenticeship and graduate development programmes to bring more young people into the business.

## BUSINESS INTERRUPTION

Failure to withstand the impact of an event or a combination of events may significantly disrupt all or a substantial part of the Group's business.

Probability **3** ↔ Impact **4** ↔

### Potential impact

A range of events – for example, extreme weather, natural hazards (such as floods or earthquakes), political events, financial insolvency of a critical supplier, scarcity of materials, loss of data or corruption of our IT estate, fire or infectious disease – could cause business interruption. The consequences of these events could have an adverse impact on our people, our facilities, our supply chains, or our ability to meet our contractual obligations.

The COVID-19 pandemic is an example of such an event. The pandemic has had a significant impact on our business and the markets that we served over the last two financial years. For our customers, the pandemic may reduce their current or future budgets or cause them to deploy their budgets in different ways, changing our markets. For our employees, the pandemic has changed the ways that we work. These measures may create inefficiencies in some of our businesses, adding time and cost to our programmes or even leading to loss of contracts due to KPI default. The pandemic may also affect our suppliers and lead to failures in the supply chain, which may adversely affect our ability to deliver our programmes.

An outbreak of another contagious disease or a new variant of COVID-19 may have an adverse effect on the Company's business, financial condition and prospects.

### Mitigation

Throughout the pandemic, we have looked to prioritise the key programmes of our customers and to demonstrate the mission-critical nature of our services.

For employees, our priority has been their wellbeing and safety. We have adapted working practices and facilities, including introducing social distancing, PPE requirements, improved cleaning regimes and increased remote working, to seek to keep our people safe and well throughout this crisis.

We continue to manage the situation closely and follow government and health authority advice to help prevent the spread of the virus. For general business continuity, we have in place IT disaster recovery and business continuity processes. We also maintain relevant and appropriate insurance.

## OPERATIONAL RESILIENCE

We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new People strategy, as well as undertaking the alignment of both the business portfolio and our property portfolio. Additionally there are several new material opportunities that the Group may pursue – some in new geographies – that may further stretch management bandwidth.

Probability **3** ↔ Impact **4** ↔

### Potential impact

All these programmes are underway concurrently, in addition to the delivery of the Group's services to its customers. This may put pressure on management bandwidth to oversee all the change programmes, as well as the regular running of the business. This could lead to an elevated risk of mistakes or missed opportunities.

If we fail to deliver the change programmes, we will not be able to achieve our strategic goals. Failure to deliver the change programmes may also undermine the confidence of key stakeholders in our future growth and plans.

### Mitigation

Management is experienced in delivering programmes of this nature. There is regular monitoring of progress across all the programmes to ensure that they remain on track, along with regular dialogue with customers at a senior level to ensure that delivery of our contracts is in no way compromised. The Board receives a monthly report with a status update on the key change programmes and major new opportunities.

Probability	Impact	Change from last year
1 Very unlikely	1 Insignificant	↑ Up from last year
2 Unlikely	2 Minor	↔ Same as last year
3 Possible	3 Moderate	↓ Down from last year
4 Likely	4 Major	
5 Very likely	5 Severe	

## HEALTH, SAFETY AND ENVIRONMENT

Our operations entail the potential risk of significant harm to people, property or the environment, wherever we operate across the world.

Probability **2** ↓ Impact **5** ↑

### Potential impact

Parts of our business (for example, our nuclear operations) involve working in potentially hazardous operations or environments, which we must manage and control to minimise the risk of injury or damage. Others, for example our aerial emergency services operations, involve an inherent degree of risk that is compounded by the nature of the services provided (firefighting, search and rescue, air ambulance and emergency services) or the environments in which they operate (low-altitude flying in adverse weather, terrain or operational conditions).

Serious accidents have a major impact on the lives of those directly involved and on their families, friends, colleagues and community, as can serious environmental incidents. These accidents may arise from: inadequate hazard control or training or management supervision; the failure to implement changes or learning from previous accidents; poor safety leadership and culture; equipment failure; or human or organisational factors.

If we cause or contribute to an incident because of failings on our part, or because as a matter of law we are strictly liable without fault, we may have to pay substantial damages, not all of which may be insured, as well as potentially being subject to criminal proceedings, which could result in substantial penalties. We could also suffer contract penalties due to an inability to deliver the contract or a loss of productivity.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously damage our reputation (whether justifiably or not), which could lead to a significant loss of business or future business opportunities.

An incident may also disrupt our business if it prevents our employees from working.

### Mitigation

Our goal is for everyone to go 'Home Safe Every Day'.

Accordingly, health, safety and environmental performance receives close and continuous attention and oversight from the senior management team.

We have specific health, safety and environmental governance structures in place as well as education and training programmes for staff. Safety leadership teams in each sector and the Corporate Safety Leadership Team oversee the implementation of policy, strategy and initiatives across all our businesses.

The Board receives reviews of health and safety performance.

Nuclear risks: We hold indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD, to protect against risk of liability for injury or damage caused by nuclear contamination or incidents, but a reputational risk because of any serious incident would remain.

In respect of the current COVID-19 pandemic, we have taken a number of measures across the Group. Our first priority is the safety of our employees. Our employees deliver essential services on which our customers and the wider community rely. The continuation of these services is key. We have reviewed our methods of working across the Group to institute the appropriate protective measures, including issuing new work guidelines, asking employees to work from home where they can, changing shift schedules, instituting infection control at work sites and ordering the wearing of protective equipment.

We believe we have appropriate insurance cover against civil liability exposures.



# Board of Directors



## 1. RUTH CAIRNIE Chair

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D

**Appointed:** April 2019

**Skills and experience:** Ruth brings extensive experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc. She has experience advising government departments on strategic development and capability building. She has been a Non-Executive Director of Rolls-Royce Holdings plc, ContourGlobal plc and Keller Group PLC, and a member of the finance committee of the University of Cambridge. She is a fellow of the Energy Institute and previously Chair of POWERful Women. Ruth is a Master of Advanced Studies in Mathematics from the University of Cambridge and holds a BSc Joint Honours in Mathematics and Physics from the University of Bristol.

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

## 2. DAVID LOCKWOOD OBE Chief Executive Officer

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D

**Appointed:** September 2020

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

**Current external appointments:** None

## 3. DAVID MELLORS Chief Financial Officer

E  
D

**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

## 4. CARL-PETER FORSTER Senior Independent Director

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R

**Appointed:** June 2020

**Skills and experience:** Carl-Peter, a German national, brings extensive manufacturing and international experience. Carl-Peter has held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). He was also previously a Non-Executive Director of Rexam PLC and Rolls-Royce plc. Carl-Peter holds a diploma in Economics from Bonn University and a diploma in Aeronautical Engineering from the Technical University in Munich.

**Current external appointments:** Carl-Peter is currently the Chair of Chemring Group PLC and Senior Independent Director of IMI plc. He will be Chair of Vesuvius plc from December 2022.

## 5. JOHN RAMSAY Independent Non-Executive Director

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**Appointed:** January 2022

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

**Current external appointments:** John is a member of the Supervisory Board at Koninklijke DSM N.V. and is a Non-Executive Director of Croda International PLC and RHI Magnesita N.V. He is Audit Committee Chair at each of these companies.

## 6. LUCY DIMES Independent Non-Executive Director

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N

**Appointed:** April 2018

**Skills and experience:** Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships, having been the Chief Strategy and Transformation Officer of Virgin Money UK Plc, the CEO of UBM EMEA and Chief Executive Officer, UK & Ireland, of Fujitsu. She has also held senior roles at Equiniti Group, Alcatel Lucent (now Nokia) and BT. Lucy was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

**Current external appointments:** Lucy is a Strategic Advisor to Intellegenz and Transformation Strategy Consultant to Fidelity International.



## 7. THE RIGHT HONOURABLE THE LORD PARKER OF MINSMERE, GCVO, KCB Independent Non-Executive Director

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**Appointed:** November 2020

**Skills and experience:** Lord Parker brings extensive experience of working at the highest level of public service including a focus on new technology-centred change and championing inclusion. Lord Parker has had a long career in a wide range of national security and intelligence roles in the UK, which culminated in him becoming the Director General of MI5, the UK Government's national security agency, in 2013. He retired from this role in 2020. Lord Parker is a graduate of Natural Sciences from Cambridge University.

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

## 8. KJERSTI WIKLUND Independent Non-Executive Director

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**Appointed:** April 2018. Kjersti will retire from the Board at the 2022 AGM.

**Skills and experience:** Kjersti, a Norwegian national, brings broad technology and business experience gained across Europe, Eastern Europe and Asia. She has held senior roles at Vodafone, VimpelCom in Russia, Kyivstar in Ukraine, Digi Telecommunications in Malaysia, and Telenor in Norway. Kjersti was also a Non-Executive Director of Cxense ASA and Fast Search & Transfer ASA in Norway, Telesience 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 Electrical Engineering from Chalmers University of Technology, Sweden.

**Current external appointments:** Kjersti is a Non-Executive Director of Trainline plc, Spectris PLC, Zegona Communications PLC and, since March 2022, Nordea.

## 9. RUSS HOULDEN Independent Non-Executive Director

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**Appointed:** April 2020. Russ will retire from the Board in July 2022.

**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 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, an Operating Partner of Corsair Infrastructure and Non-Executive Director of Kelda Holdings and Yorkshire Water.

## 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.

# Executive Committee

Biographies for CEO David Lockwood and CFO David Mellors are on page 94.

## WILL ERITH Chief Executive, Marine

**Appointed:** December 2020

**Skills and experience:** Will joined Babcock in 2017 and in 2018 became MD Surface Ships, responsible for the entirety of our Warship support business (including the successful Type 23 LIFEX programme). In addition he was responsible for the critical phases of our overall bid activity for FMSP (Future Maritime Support Programme), representing the next five years of our Surface Ship and Submarine support for the Royal Navy. Prior to this he had a successful 20-year career with Rolls-Royce, where he held senior leadership positions in engineering, programme management, business development and general management. This included three years based in Tokyo, significantly growing the Asia Pacific Naval business. Will has a first-class honours degree in Mechanical Engineering from the University of London. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers.

## DOMINIC KIERAN Chief Executive, Nuclear

**Appointed:** September 2021

**Skills and experience:** Dominic is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock as Managing Director of Cavendish Nuclear, and has led the business through a series of key milestones and changes as we exited key programmes, and has developed a new operating model to ensure it is ready for the future as we focus on new market opportunities. Prior to joining Babcock, he was Chief Commercial Officer at Urenco and before that held various roles including working extensively overseas, on the delivery of complex technical solutions to customers. Dominic has a Chemical Engineering degree from Imperial College London, an MBA, and is a Fellow of the Institute of Chemical Engineers.

## TOM NEWMAN Chief Executive, Land

**Appointed:** December 2020

**Skills and experience:** Tom joined Babcock through the VT acquisition in 2010 and brings a broad range of experience from senior management positions held in industrial sectors including shipbuilding, broadcast and communications, aviation, defence and emergency services. Most recently Tom has been responsible for our relationship with the UK Cabinet Office through the Strategic Partnering Programme and as Chief of Staff for the design and implementation of our new operating model. Prior to that he was Managing Director of the Emergency Services and Training business unit in the Land sector. Tom has a degree in Naval Architecture from UCL and an MBA from Warwick Business School.

## NEAL MISELL Chief Executive, Aviation

**Appointed:** April 2020

**Skills and experience:** Neal joined Babcock following the acquisition of VT Group in 2010. Neal worked initially as Integration Director bringing together the Babcock and VT Group non-defence businesses. In 2011, he was appointed Managing Director of the Critical Services business, which covered Babcock's vehicle and asset management contracts in Emergency Services and Airports. In February 2016, Neal was appointed Managing Director of the Military Aviation business focused on the RAF, French Air Force and Royal Navy. Neal is also a board director of the Ascent and AirTanker joint ventures.

## NIKKI FOX Chief Human Resources Officer

**Appointed:** January 2021

**Skills and experience:** Nikki was previously Organisation & Development Director, Nuclear, responsible for delivery of HR across the sector and a member of the Group's Organisation & Development Leadership team. Nikki led the development of the Cavendish Nuclear people strategy and the subsequent review of the Cavendish Nuclear operating model. She joined Babcock in 2017 following a successful 20-year career within the oil and gas industry, which included BG Group/Shell where she held various senior leadership positions in HR and general management, based in the UK and overseas including Houston and Moscow.

## JOHN HOWIE MBE Chief Corporate Affairs Officer

**Appointed:** April 2016

**Skills and experience:** John was appointed as Chief Corporate Affairs Officer in October 2020 with a remit to further develop Babcock's relationships with its key governmental customers in the UK and internationally, as well as leading Group strategy, corporate communications, sustainability and international development. Prior to that, John was CEO Marine with responsibility for Babcock's warship operations as well as the commercial and international marine operations. John is a Visiting Professor at Strathclyde University, a Director of the Society of Maritime Industries, a member of the Glasgow Economic Leadership Board and Acting Chair of Maritime Research & Innovation UK. John joined Babcock in April 2001.

## DR RICHARD DRAKE Chief Technology Officer

**Appointed:** July 2022

**Skills and experience:** Richard joined Babcock in 2007 as a Chief Engineer, and subsequently became Engineering Director of Mission Systems. He was appointed Managing Director of the Mission Systems business unit in 2018, leading the business through a significant growth period. He brings with him extensive industrial experience across defence, aerospace and nuclear alongside transformation, cultural change and business growth. Prior to joining Babcock, Richard has worked at Airbus and Weir Strachan & Henshaw.

## JACK BORRETT Group Company Secretary and General Counsel

**Appointed:** July 2016

**Skills and experience:** Jack joined Babcock in 2004 and from 2010 was Deputy Group General Counsel, until his appointment as Group General Counsel and Company Secretary in April 2016. He is Secretary to the Board and to the Remuneration, Audit, Nominations and Disclosure Committees. Prior to joining Babcock, Jack was a solicitor at law firm Clifford Chance.

## COLLETTE MCMULLEN Chief of Staff

**Appointed:** June 2021

**Skills and experience:** Collette was appointed as Chief of Staff in June 2021 to support the CEO on a day-to-day basis. Collette has a broad understanding of the business and deep experience of the Chief of Staff role, having previously held this position for a number of years in the Nuclear and Aviation sectors. She joined Babcock in 2009 following a commercial career in the nuclear industry with the UKAEA.

## 7.2. Our consideration of the control environment

We have performed detailed walkthroughs of the processes associated with each of the Group's business cycles, identifying relevant controls and evaluating those controls. We also identified relevant IT applications, infrastructure and operating systems used in the operation of the Group's relevant controls, and performed testing of the general IT controls over those systems identified as key.

As outlined in section 5.1 the results of these procedures meant that we were unable to adopt a controls reliance audit approach.

## 7.3. Our consideration of climate-related risks

As a part of our audit procedures we have held discussions with the Directors to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no material impact arising from climate change on the judgements and estimates made in the financial statements as at 31 March 2022. In particular, as disclosed in Note 12 (Goodwill), management have considered the impact of climate change on the useful economic lives of assets, disruption to key operating sites and supply chain, and potential asset impairments. These considerations did not have a material impact on the goodwill impairment assessment. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any additional risks of material misstatement.

## 7.4. Working with other auditors

Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as the supervising the execution of their audit work.

We issued detailed instructions to the component auditors, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose. Additionally, all teams were involved in our global planning and fraud meeting, which was led by the Group audit team. Visits to meet with certain component teams in the UK, Spain, France, Norway, Sweden and Italy were conducted, where we did not visit components in person, we maintained an ongoing dialogue virtually and reviewed files remotely.

The Company is located in the United Kingdom and the UK components were audited directly by the Group audit team.

We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been extensive and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group financial statements as a whole.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of Directors

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

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

## 10. Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



## 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 Going concern and viability statement on page 88. The Board considered the period from 31 July 2022 to 30 September 2023 in its assessment of going concern. The financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standards, which has not differed from the previously EU-adopted International Financial Reporting Standards (IFRS), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in England, UK.

#### New and amended standards adopted by the Group

##### The Group applied the following standards and amendments for the first time for the year beginning on 1 April 2021:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the consolidated financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a Software-as-a-service arrangement. As a result of this decision the Group has revised its accounting policy and will not capitalise costs associated with Software-as-a-service arrangements where it does not control the underlying software and will no longer capitalise configuration or customisation costs associated with Software-as-a-service arrangements unless those costs result in the creation of an asset controlled by the Company. Where amounts are paid to a Software-as-a-service supplier for implementation services and those services are determined not to be distinct from the underlying Software-as-a-service arrangement, a prepayment asset is initially recognised then amortised to expense as the services are received. This policy has been retrospectively applied and all costs capitalised in relation to Software-as-a-service arrangements have been reviewed. This has not had a material impact on the consolidated financial statements. The Group will continue to apply this accounting policy to new Software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Group's cash flows.
- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

#### New IFRS accounting standards, amendments and interpretations not yet adopted

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

- IFRS 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.
- 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 review to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IAS 16, 'Property, plant and equipment'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
- IFRS 17 'Insurance Contracts'. Amendment effective from 1 January 2023.

#### Basis of consolidation

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

##### (a) Subsidiaries

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

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

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