Sustaining resilience

Babcock operates in three critical markets – defence, emergency services and civil nuclear – working to meet the needs of customers for whom failure is not an option.

We know that to serve our customers successfully we must understand them inside out, building close partnerships based on a deep knowledge of their operations, assets and technology.

We are trusted to find solutions that address our customers’ most demanding requirements, ensuring that they can perform at their best wherever and whenever they are needed.
Financial highlights

Key highlights from FY20

**Statutory results**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group revenue</strong></td>
<td>£4,158.4m</td>
<td>£4,359.6m</td>
<td>£4,449.5m</td>
<td>£4,474.8m</td>
<td>£4,449.5m</td>
</tr>
<tr>
<td><strong>Operating profit / (loss)</strong></td>
<td>£352.5m</td>
<td>£359.6m</td>
<td>£370.6m</td>
<td>£196.5m</td>
<td>£(164.9)m</td>
</tr>
<tr>
<td><strong>Cash from operations</strong></td>
<td>£490.3m</td>
<td>£504.0m</td>
<td>£447.9m</td>
<td>£507.9m</td>
<td>£474.2m</td>
</tr>
<tr>
<td><strong>Basic earnings per share</strong></td>
<td>£57.0p</td>
<td>£61.8p</td>
<td>£66.6p</td>
<td>£39.5p</td>
<td>£(38.6)p</td>
</tr>
</tbody>
</table>

Group revenue as defined in the income statement on page 157.
Operating profit as defined in the income statement on page 157.
Cash from operations as defined in the cash flow on page 160.
Basic earnings per share as defined in Note 10 on page 181.
The adjustments described below, collectively, are made to derive the underlying operating results of the Group. The underlying figures provide a consistent measure of business performance year to year. They are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance.

Throughout the Strategic report, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Underlying revenue, operating profit, operating margins and net finance costs also include the Group’s share of equity-accounted joint ventures and associates. Underlying operating profit and operating margin include investment income arising under IFRIC 12 which is presented as financial income in the Income statement. A reconciliation of statutory to underlying results is set out on page 57.

Underlying free cash flow is after adjusting for exceptional cash flows, see page 61 for a reconciliation.
We solve our customers' challenges of maintaining national security and saving lives, sustaining critical and complex assets, and delivering critical services. We do this by:

**Delivering critical programmes**
- Providing through-life support for our customers’ assets
- Delivering material improvements in the performance, availability and cost of supporting these assets
- Designing and manufacturing a range of equipment

**Delivering critical services**
- Providing complex engineering support
- Supporting naval and air bases
- Delivering world class emergency services
- Delivering complex nuclear services

**Delivering critical training**
- Providing training across defence forces from navies to air forces to armies
- Training police officers and firefighters
- Providing training to allow our nuclear customers to operate safely

**Sustainable business**
- Enabling our customers to increase the performance, efficiency and lifespan of their assets and services
- Driving a growth agenda through engagement with, and support of, local communities and small businesses
- Investing in engineering through our apprenticeship programmes and STEM activities
Our work is focused on three markets that account for around three quarters of our business. Around a quarter of our work is in adjacent markets.

**Defence**
- #2 UK supplier
- Substantial positions in Australia, Canada, New Zealand and France
- Export markets include USA, Spain and South Korea

See page 32 for more details on our markets >

**Emergency services**
- #1 emergency services provider in Europe
- Manage and own a fleet of over 500 aircraft
- Fleet management and technical training to UK police and firefighting forces

See page 33 for more details on our markets >

**Civil nuclear**
- Involved in all stages of nuclear lifecycle from new build to decommissioning
- Managing one of Europe's largest and most complex decommissioning projects

See page 33 for more details on our markets >

**Delivered across our sectors:**

**Marine**
- Defence 77%
- Adjacent markets 23%

See page 68 for more details >

**Nuclear**
- Defence 66%
- Civil nuclear 34%

See page 72 for more details >

**Land**
- Defence 42%
- Emergency services 5%
- Adjacent markets 53%

See page 74 for more details >

**Aviation**
- Defence 26%
- Emergency services 61%
- Adjacent markets 13%

See page 76 for more details >
I was proud and delighted to take up the role of Chair of Babcock last July. Over the year I have met a wide range of internal and external stakeholders and a common question has been, “What was it about Babcock that made you want to join?”

My initial response is always, Babcock is a company that really matters. We serve customers responsible for maintaining vital services. It’s no exaggeration to say that our critical work in national defence, in emergency services and in nuclear power saves lives and protects communities. For our customers, failure is not an option.

During the year I have been building my understanding of every aspect of the business: from its people and culture to its operations, its customers worldwide, and its strategy for the future. I have visited some of our key sites, both in the UK and internationally, and have met with employees at all levels from senior management to apprentices.

On every visit I have been struck by the customer-driven service mindset. Across the Group I have found a deep commitment to the long-term relationships we have with our customers and the communities we serve. We pride ourselves on being able to put together a team, a supply chain and a technical solution that meets our customers’ requirements, building on our deep understanding of our customers’ business and the challenges they face.

I have also met with our customers, including senior government representatives. I am pleased to confirm that their relationship with the Company is positive, and that the importance of our support is strongly recognised.

With the UK Government, over the last couple of years we have made real progress on the ways in which we work together, further strengthening and deepening our relationship. This has been driven in particular by the shared principles embodied in the Strategic Partnering Programme (SPP) of transformation, joint problem-solving and mutual trust. This programme is described in more detail in this report.

As part of my induction to the business, I have also undertaken a number of internal reviews. These included looking at senior-level talent within the business to confirm that we have the appropriate management strength and depth, underpinning our approach to succession planning. This work was undertaken as part of a wider review of talent management across the Group.

Additionally, mindful of the complexities of long-term contract accounting, I asked an external provider to undertake a review of significant contracts. They looked at a selection of our top contracts, representing around a third of annual Group revenue, and concluded as anticipated that our approach to long-term contract accounting is appropriately conservative.

**FY20 and COVID-19**

As I write, we are all living through an extraordinarily challenging period in our personal and our professional lives. You will see a number of pieces in this report on how the Group has been impacted by the pandemic so far, and how we have been contributing to the fight against the Coronavirus (COVID-19).

I would like to express my deep appreciation of our management and all our staff for the exceptional ways in which they have responded. It is precisely in times like these, through the actions of our people, that you can see the true spirit of an organisation. I have seen an extraordinary commitment and dedication from across our whole
organisation and I know our customers and partners appreciate our flexibility and our willingness to stand beside them in this most difficult period.

I’m also delighted that we have been able to contribute to the fight against the virus by developing new technology solutions.

The effective application of technology is one of our strategic priorities and we have been seeing this in action: for example, our engineers applied the hard-won experience gained in emergency services in Italy and Spain to our operations elsewhere, whilst our defence team in the UK created innovative supply-chain solutions to manufacture a new ventilator designed to meet the NHS’ requirements.

The pandemic only began to affect Babcock at the very end of the financial year on which we are reporting, so the impact on this year’s results is limited. Our financial performance in FY20 was broadly as expected except for weakness in Aviation that meant we had to take some exceptional charges and a write-down on goodwill. Including a small impact from COVID-19 in the final months of the year, we fell short of our profit and cash guidance.

We made good progress on the strategic priorities outlined below, had some encouraging contract wins, and took action in response to the pandemic to ensure the Company is in a strong and well-funded position.

As we came to the end of the financial year, the impact of the pandemic was being felt across all markets. However we continued to support to our customers by keeping critical programmes and services operating, demonstrating the underlying strength of the business.

Strategy

The medium term strategy was set out in last year’s Capital Markets Day. In this year’s annual strategy process we used external consultants to test and refine our thinking on the market opportunities we had identified.

The Board was fully involved in the detailed review, which focused on the Group’s capabilities and their linkage to opportunities, particularly in the international growth pipeline.

Last year we had some pleasing international successes including in Australia, Canada, Norway and France.

Community engagement: Anglesey

Our partnership with the communities in which we operate is at the core of Babcock’s business. It’s truly a partnership – we need each other’s support to thrive and grow.

Working to inspire the next generation is an important part of that relationship. At RAF Valley in Anglesey, we have developed strong relationships with the local schools and colleges.

We regularly attend career fairs and events to show students of all ages the breadth of opportunities available, both within the aviation industry and locally in Anglesey.

We work hard to capture each student’s attention and imagination, taking along aircraft parts and survival equipment such as pilot helmets which people are always keen to try on. These items help to start a conversation; often students are surprised when they learn about the range of opportunities within the sector and the local area.

Apprenticeship schemes are another way we invest in the future. At RAF Valley we work in partnership with local college Grŵp Llandrillo Menai, to develop a highly skilled local workforce to meet the growing demands of the RAF’s Fast Jet Training scheme.

In 2016 we launched an Aeronautical Engineering Apprenticeship scheme with Grŵp Llandrillo Menai. So far, over 20 young people have completed their training and been offered full-time positions with Babcock at RAF Valley, while another 22 are currently in training. A further 12 apprentices will join the scheme this year.
The strategy is set out in this report and we remain confident that the fundamentals of our markets and opportunities will continue to support our medium term approach despite the inevitable near-term impact of COVID-19.

The Board will continue to focus on delivery of the strategy, in particular through reviews of progress on our six strategic priorities:

- Operational excellence
- Growing our international businesses in focused markets
- Growing our market share and expanding our offering in the UK
- Developing our people, including talent management and increased diversity
- Using technology to strengthen our offering
- Focusing on value creation, with clear actions to protect margins, generate cash, reduce gearing and deliver our targets.

### Sustainable business

You will see that sustainable business is much more prominent in this year’s report. We are in no doubt that sustainability is important and becoming more so, to all of our stakeholders. It is a fundamental part of our strategy, and is an integral part of our day-to-day operations. Our customers expect nothing less.

This year we have published a new Environmental, Social and Governance (ESG) Charter, which sets out in detail our areas of focus.

In some respects our business could be said to be inherently sustainable – after all we save lives, we enable our customers to increase the performance, efficiency and lifespan of their assets, and we have long recognised the need to partner with the communities we serve. However, we believe that the clear articulation of our ESG strategy at Group level will catalyse an increased focus on driving our ESG strategy at Group level will continue to support the fundamental importance of our strategy.

From experience, I have seen how diverse teams result in better business decisions, and how an inclusive approach delivers a stronger company, better able to devise the innovative solutions for future challenges and opportunities.

In the area of gender diversity there is much to be done and I am determined to see progress across the organisation, including at the executive pipeline and mid-tier management levels, where women are particularly under-represented.

### Shareholders

Over the last year I have met with many shareholders and potential investors to hear and understand their views, and I look forward to meeting more in the coming year. Their support is vital to our success.

These conversations have been constructive and informative in identifying priorities for positioning the Company in the future. The strong fundamentals of the business, including long-term partnerships with customers, specialisation in non-discretionary work and valued technical expertise and know-how, are well recognised, as is our continued success in winning new business in the UK and internationally.

However, it is clear that over recent years we have not delivered the value for our shareholders that we set out to achieve. The most important shift to address this will be consistently to set budgets and guidance that can be delivered, and this will be our clear intention as soon as the exceptional uncertainties relating to COVID-19 have receded.

### Board

A strong Board with the right mix of skills and experience is essential to our long-term success. Since taking up my role as Chair, securing the services of new Board members to succeed long-serving members who are retiring has been a priority.

Iain Duncan and Jeff Randall intend to step down from the Board at the forthcoming AGM after nine and six years respectively, and I would like to thank them for their dedicated service. I am delighted to welcome Russ Houlden, our new Audit Committee Chair, and Carl-Peter Forster, our new Senior Independent Director, replacing Sir David Omand who has held the role for eight years. Sir David’s government experience is greatly valued, and he has kindly agreed to remain as a Director of the Group while we finalise the search for a suitable successor.

We are also progressing the search for a new CEO following Archie Bethel’s decision to retire after 16 years with the Group.

Archie has been instrumental in growing Babcock from a small cap company to a leading defence business, and his experience has been invaluable in developing the Group’s strategic direction. He is a proven and respected leader whose knowledge and understanding of the sector is second to none. I’m very pleased that he has agreed to stay on until a suitable successor is found.

For more on the Board, see page 98.

### Looking forward

Worldwide, all markets and sectors are facing deep uncertainty as to the impact of COVID-19, both in severity and duration. This means that, as for many companies, it is impossible for us to make firm projections for the future. We are therefore unable to give financial guidance for the year ahead at this stage.

Given the current level of uncertainty, the Board has also decided to defer the decision on our final dividend for the year ended 31 March 2020. We recognise the importance of our dividend to our shareholders, and the Board will keep this under review during the financial year as the impact of COVID-19 becomes clearer.

Nonetheless, what we are seeing so far underscores the strong fundamentals of the business, with our long-term contracts continuing to operate and provide critical support to our customers. We are making continual progress in fine-tuning our new ways of operating, within the new constraints of social distancing and protection of our staff, to drive improving profitability. With the measures taken to protect our funding position, we approach the year ahead with confidence.

See Section 172(1) Statement and Stakeholder engagement on page 30
HMS Portland following refit work as part of the Type 23 life extension programme.
To solve customer challenges
Across three focus markets
We apply our core strengths
Technology and expertise
Owned infrastructure
Successful operating model
Maintain national security and save lives
Sustain critical and complex assets
Deliver critical services
Delivering for stakeholders
Supported by our strategic priorities

Our purpose
We serve customers responsible for national defence, emergency services and nuclear power. We exist to meet the needs of customers for whom failure is not an option.

What we do
We are a leading provider of critical, complex engineering services across defence, emergency services and civil nuclear markets in the UK and increasingly internationally.

Read more about our three focus markets in the Market review on pages 32 to 33
Read more on how we engage with stakeholders on pages 30 to 31
Our strategic priorities

Our strategy is delivered across our four sectors: Marine, Nuclear, Land and Aviation. We have set strategic priorities to ensure a focus on delivery. These priorities follow on from the strategy outlined at our Capital Markets Day in June 2019.

Deliver operational excellence for our customer
Grow our international businesses in focus markets
Grow market share and expand offering in the UK
Develop our people
Use technology to strengthen our offering
Focus on value creation

See overleaf for more detail on our strategic priorities

To deliver our medium term financial targets

• Earnings growth of 3% to 4% CAGR
• Sustain margins at around 11%
• Increase cash flows each year in line with earnings
• Generate around £1.4 billion of free cash flow over the next five years
• Continue to reduce net debt and increase flexibility
  • Improve ROIC
  • Sustainable dividend

Given the uncertain impact of COVID-19, these medium term targets will not be achieved in the current financial year. The drivers of our strategy remain unchanged and the long term characteristics of our business remain strong. We will continually assess our medium term targets as we emerge from the pandemic and they are aiming points for us to return to.
Our strategic priorities

We focus on strategic priorities to deliver our strategy. These priorities are actioned by each sector and reviewed by the Board and Exco on a regular basis.

### Our strategic priorities

**Deliver operational excellence for our customers**
We partner with our customers to solve their challenges and delivering operational excellence for them at every stage remains our key focus across programmes.

**Grow our international businesses in focus markets**
International markets are a key growth driver for the Group, both in terms of current markets and expansion into new markets.

**Grow market share and expand our offering in the UK**
We aim to grow our market share over the medium term through expanding our product and service offering.

**Develop our people**
Our people are our main asset in delivering for our customers and we aim to increase employee engagement, improve diversity and ensure we have the best talent across the Group.

**Use technology to strengthen our offering**
Technology underpins all that we do and our strategy is to embed it across all businesses. It supports growth in our sectors and helps us sustain margins as we continue to offer customers increased value.

**Focus on value creation**
A focus on value creation sits at the heart of every decision we make, from the work we decide to bid on, through contract performance, a continuous focus on cost reduction and the efficient allocation of capital across the Group. We continually look at the balance of the portfolio to ensure it is delivering maximum value for our stakeholders.

### Medium term vision

- Embedded as a long-term, sustainable partner for our customers
- Trusted to deliver by all customers
- Key programmes delivered on time and to budget
- Anticipating and meeting customers’ emerging requirements

- Over 40% of Group revenue from international businesses
- Develop multi-sector, multi-market opportunities in Australia, Canada and France
- Deliver value-enhancing growth in other countries

- Deliver on key defence programmes for the UK
- Grow share of existing markets
- Expand our offering into new markets

- Enhanced employee engagement across the Group
- Significant improvement in diversity across the Group
- Leading talent and training programmes

- Technology embedded across all sectors
- Technology driving performance, efficiency and savings
- Babcock seen as a benchmark for technical innovation

- Allocate capital efficiently
- Continue to focus our portfolio
- Maxmise Group synergy with one IT system, greater use of our shared service centre and a continuous cost savings programme
### Progress in FY20

- Continued development of our Strategic Partnering Programme (see page 28)
- Continuous improvement in performance on major customer programmes
- Improvements in health and safety with lower total injuries rate
- Started Aviation operations in Canada and Norway
- Expanded our defence offering in France
- Started to deliver on maintaining the largest ships of the Australian Navy
- Won the contract to build Type 31 frigates for the Royal Navy
- Expanded our offering in emergency services with the award of a contract to train London’s police
- Maintained our win rates
- Re-energised employee engagement programme with focus groups across sectors
- Developed the Babcock Academy for our next generation of leaders
- Continued to reduce gender pay gap
- Became a founding signatory of the UK Women in Defence Charter
- Technology group working across all four sector teams
- Our technology offering was crucial in our award of the contract to build Type 31 frigates for the Royal Navy, the Australia LHD ships and Australian submarine programme
- High growth in technology products businesses
- Developed our capital allocation model
- Completed the sale of Context for over £100 million
- Continued our cost savings programme across the Group

### Priorities for FY21

- Continue to deliver and improve performance on major customer programmes
- Continue to develop the Strategic Partnering Programme
- Launch new Strategic Customer Management process
- Begin to deliver our ESG strategy (see page 38 for details)
- Win new contracts for defence work in Australia, Canada and France
- Expand emergency services reach in North America
- Secure key rebids
- Start to deliver on the Type 31 programme
- Secure new opportunities at target win rates
- Measure employee engagement Group-wide to help track progress
- Improve diversity across the Group
- Further reduction in our gender pay gap
- Continue high growth in products businesses
- Use technology to support Group bids
- Fix our Aviation sector by rightsizing the cost base and rationalising our fleet
- Continue to reduce net debt to provide flexibility within our capital allocation model (see page 17)
- Continued focus on our portfolio
### Business model

#### Our business model

We serve customers responsible for national defence, emergency services and nuclear power. We exist to meet the needs of customers for whom failure is not an option.

<table>
<thead>
<tr>
<th>Customer challenges</th>
<th>Our inputs</th>
<th>What we do</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our customers look to us to help solve their challenges and we work alongside them throughout delivery.</td>
<td>We apply our strengths to solve these customer challenges, with inputs from our people, our assets and our technology and know-how.</td>
<td>We apply our strengths and inputs to solve customer challenges across three main areas.</td>
</tr>
</tbody>
</table>

#### Maintain national security and save lives

Our customers across the world look to maintain national security and save lives across emergency services, from air ambulance services to firefighting.

**Our people**

We rely on our people to deliver for our customers. We have a service mindset of listening to the customer and adapting to their changing needs to solve evolving challenges.

**Our assets**

Our assets include critical national infrastructure such as the Devonport and Rosyth dockyards. We own and operate complex engineering facilities and operate over 500 aircraft.

**Deliver critical programmes**

We provide through-life support for customers’ assets to deliver improvements in performance, availability and cost. We design and build a range of equipment, from warships to weapons handling systems.

#### Sustain critical and complex assets

Our customers have complex and valuable assets that need to be available for as long as possible. Many defence assets need constant sustainment to ensure there are no gaps in capability.

**Our technology and know-how**

We have a deep understanding of our customers’ assets and are able to integrate multiple technologies.

**Deliver critical services**

We deliver critical services for all our customers, from supporting naval and air base operations through to delivering world-class emergency services and complex nuclear services.

#### Deliver critical services

Our customers need a highly trained workforce to succeed. This training can be highly complex and ever-evolving.

**Our people**

We rely on our people to deliver for our customers. We have a service mindset of listening to the customer and adapting to their changing needs to solve evolving challenges.

**Deliver critical training**

We provide training across defence forces from navies to air forces to armies. We train police officers and firefighters and we provide training to allow our nuclear customers to operate safely.

**Our assets**

Our assets include critical national infrastructure such as the Devonport and Rosyth dockyards. We own and operate complex engineering facilities and operate over 500 aircraft.

#### These challenges need to be met where:

- **Failure is not an option.**
  Whether it is maintaining the UK’s Continuous At Sea Deterrent or flying missions to save lives in southern Europe – we cannot fail.

- **Cost efficiency is key.**
  All of our customers face budget pressures and look to us to help maximise availability and outputs while minimising costs.

- **Safely and regulatory compliance underpins all work.**
  Our customers operate in environments that are heavily regulated and health and safety is the number one priority in all that they do and all that we do.

See page 30 for details on how we engage with stakeholders across our business model

Sustainability applies across the whole business model. See pages 36 to 53 for more...
How we do it

Our strategic enablers ensure we continually do things better for our customers and help us deliver our strategy.

See page 10 for our strategy >

Creating stakeholder value

Customers
Solving customer challenges without failure, at the best cost and continuously adapting approaches.

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

Employees
Creating a workplace where employees are valued and motivated at all times while ensuring the health and safety of every employee every day.

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

Supply chains
Creating jobs and nurturing investment through collaboration with our supply chain. Aligning with the Prompt Payment Code.

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

See Section 172(1) Statement and more on our stakeholders on pages 30 to 31.

People and culture
- Health and safety is our number one priority
- Active management and development of talent, including updated training programmes across the business, with senior personnel and graduates managed from the centre
- Addressing skills gaps and improving diversity across the business

Customer delivery excellence
- Customer-focused long-term collaborative relationships
- Ongoing senior customer engagement plan through the Strategic Partnering Programme, see page 28
- Group-wide sharing of customer requirements, solutions and best practice
- Sustainability strategy to align with our customers

Capability developments
- Investing in differentiating technology as a key driver of productivity, performance improvement and growth
- Sharing technology across our sectors
- Using data and digital technology to make things more effective, and adding to our capability

Operational efficiency
- Strong governance process for contract bids
- Cost saving and margin improvement plans across the business
- Deploying Group-wide shared services and a single ERP system
- Delivering procurement savings across the business

See Section 172(1) Statement and more on our stakeholders on pages 30 to 31.
Delivering across long-term contracts

The majority of our work is performed in long-term contracts which balance risk and reward. This type of work accounts for around 80% of our business, with the rest a combination of short cycle work and procurement-related activity on behalf of customers. We continually win new work to replace old work in our contract cycle.

Our contract cycle

Tracking pipeline
We continually monitor opportunities across our markets, for new and existing customers. We have a tightly controlled governance process for bids with a multi-gate review process at each stage to ensure the Group only bids on value creating work. Any contract worth more than £25 million, or lasting five years or more, requires approval from the Chief Executive and Group Finance Director.

Bidding pipeline
Our pipeline represents those bids formally in process, including new bids and rebids. Our pipeline is currently c.£17 billion and mostly represents opportunities in our three focus markets, which account for 86% of the total. International bids account for 48% of our pipeline.

Order book
Our order book represents contracts won and signed. Over the long term, we typically win over 90% of rebids and over 40% of new bids. Contract extensions and variations also add to the order book over time. This order book of £17.6 billion provides a base level of revenue for the years ahead. Further revenue comes from contract growth and short-cycle work.

Revenue
Revenue is recognised as we deliver on our contracts and performance obligations are satisfied. Once a contract is underway, it is subject to regular reviews at business unit, sector and Group level to ensure we are on track, both in terms of operational delivery and financial performance.

Profit and cash flow
Performance across contracts drives the profit we make on each contract. Cash flow varies throughout the year and depends on invoice dates, payment terms and governance gates leading to working capital variations throughout the year.

Investing each year
We invest each year to maintain our leadership positions. Investment is focused in three areas: infrastructure, assets and IT systems. Our cash generation also supports a strong balance sheet and a sustainable dividend.

Delivering alongside our customers
Around 80% of work is carried out for government customers, with the majority of other work being for blue chip companies in highly regulated markets. We work collaboratively with all customers day in, day out as part of crucial long-term partnerships. Our work balances risk and reward through focused delivery and risk mitigation and contracts are generally target-cost contracts.

Target cost contracts, typical for many of our larger contracts, incentivise us to remove cost via a pain-share/gain-share mechanism.
Our capital allocation policy

Our business model is supported by our capital allocation policy to ensure we invest and grow the business, while delivering for our shareholders and ensuring we fund our pension schemes and safeguard our credit rating.

- Organically invest in the business
- Ensure Group liquidity
  
  Given the current challenging environment from the impact of COVID-19, our immediate focus is ensuring the Group has sufficient capital and liquidity to cope with COVID-19 and other risks. If these are met then the capital allocation policy we set out in November 2019 still applies.
  
  If the above are satisfied, then...
  
  - Fund pension schemes / safeguard credit rating
  - Sustainable ordinary dividend to shareholders
  - Highly selective bolt-on acquisitive growth
  - Capital return to shareholders

Bolt on M&A considered against hurdle rates and current Group valuation
Share buyback / special dividend
Technology

Trusted to make the difficult decisions

Our customers always need more performance, more efficiency; and they need their assets to be able to work harder for longer.

If we want to get more life out of an advanced gas reactor, we’ve got to think, what are the tools and techniques we can apply to increase its reliable lifespan? If we look at the Type 23 frigates used by the Royal Navy, we have to think about all the ways that we can get more capability on the ship.

We’ve always been good at making savings for our customers by working more effectively and helping people do their jobs more efficiently. But that only gets you so far, and data and digital enablement is allowing us to make the next step.

For Babcock, the key to data is the engineering insight we bring. You generally hear about big data – people using petabytes of data to find patterns that allow them to sell more product. But in our critical markets, the data is either not fully available or is of poor quality, so we need to find ways of putting it together with a white box model where we have a system engineering understanding of the asset. We know what’s important and what will probably affect its performance and maintainability and cost, and we can fit the right data together with that understanding. It’s not something everyone could do.

It means we can be a technical authority and be able and trusted to make difficult technical decisions about our customers’ assets and their operability and maintenance requirements. Regardless of whether they’ve been designed by us or by any OEM, we can put that understanding and capability at the service of our customer.

Engineering insight

For Babcock, it’s about being a technically intelligent and informed partner, so that when our customers need more life or more capability from their assets, we can make that happen or we can advise them on how they can make that happen.

It’s about deploying our high-integrity manufacturing capability, investing in innovative manufacturing technologies like robotic welding or bringing production tools to the component rather than the other way around.

And it’s about collaboration with others, from business technology partners to very long-term academic research partnerships. This allows us to drive the focus on innovation throughout our business and to do what, ultimately, it’s all about – meeting the needs of customers for whom failure is not an option.

Technology is changing the landscape in which we operate; and it is changing the services that we can offer our customers. That’s why using technology to strengthen our offering is a strategic priority for the Board.

Taking advantage of the opportunities to give our customer better outcomes means putting an innovative approach to data at the heart of our technology strategy.

We work with big, expensive and complicated assets with a long lifecycle. These are assets on which our customers rely – when you’re working with warships or aircraft or nuclear power stations, you need to really understand the asset.

Our customers always need more performance, more efficiency; and they need their assets to be able to work harder for longer. That’s our challenge, and meeting it is driving a significant amount of innovation throughout our business.

Our technology strategy informs all our operations – we seek to improve the effectiveness of how we manage assets, infrastructure and people so we can better meet the evolving needs of our customers.

And technology lets us add value and scope to our range of activities, enhancing and expanding our core support services or adding specialist systems or technical services around that core support.
iSupport360: a dynamic new way of interpreting information

iSupport360 is Babcock’s approach to the application of digital technologies and data analytics to drive maximum value for our customers in the way we manage and support their critical and complex assets.

It brings together cutting edge technologies and our engineering insight to support our customers, whether it’s managing their surface ships, submarines, ground fleets, critical infrastructure or even people. It’s an approach that offers us a powerful and dynamic new way of interpreting information, and it gives our customers a complete and interactive view of that intelligent support.

That’s why we’ve designed iSupport360 into the Type 31 programme from the outset; building in advanced analytics and connected sensors which will make it easier and more efficient to maintain and operate throughout its whole life.

Scaleable and flexible

iSupport360 draws on the concept of the Digital Thread, which develops with an asset through its lifecycle. It isn’t just an approach we are using in defence. To support technology growth across our markets, we have ensured it is both scaleable and flexible, enabling Babcock to:

- Use advanced analytics to lessen operational risk through predictive maintenance modelling.
- Drive efficiencies through the automation of repetitive tasks, such as business or manufacturing processes.

Digital Thread

The Digital Thread is a holistic view of an asset’s data throughout its entire lifecycle – its digital DNA. The typical lifecycle of an asset starts in design, then build and onto the operational phase, including maintenance and refits/life extension and finally disposal. So we need to create a powerful framework of digital technologies encompassing all elements: concept, design, manufacturing, operation, post-life, and retirement. All of the multiple sources of digital data need to come together to allow a seamless transition of information from one phase of a project to another.

Working at this scale, it is essential that we collaborate effectively with our partners, supply chain and industry, and the Digital Thread methodology allows us to do that. In the Type 31 programme, we are responsible for the design and build of the five frigates, while also being a key long-term partner supporting the warships through life. So a consistent Digital Thread will allow us to successfully transition from the start of the programme through to the operational phase.

Delivering value through data

During design and build, we employ Industry 4.0 practices to help provide a seamless data flow which delivers efficiencies during the construction phase. During the support and maintenance phase, we will apply our own range of digital technologies and data analytics to deliver value for our customers through our iSupport360 framework.

- Be more proactive in our support through prediction, modelling and simulation, for example, using digital twinning to simulate how the asset will perform, using data from real-time monitoring of assets and operations.
- Offer both flexibility and agility in the complex work we undertake.

iSupport360 provides a benefit to people too, whether they are a ship maintainer or data analyst in one of our training contracts. The range of digital technologies we use is designed to enhance the ability of our people, allowing them to make better informed decisions, and equipping them with the best understanding of asset performance and material condition.

From data analytics to digital twins, from AI to VR, we’re ensuring our people have the right skills. Investing in these technologies also means we can invest more in our people.

The advanced analytics that underpin iSupport360 help us simplify complex problems, reduce risk and inform the customer at every stage of the asset’s life, providing a fully immersive support service. Real-time analysis also means we can optimise maintenance and increase the asset’s efficiency and availability. We have to look at how all our technologies and capabilities can work across any of the assets we manage – be they ship, submarine, critical infrastructure, or people.

To deliver this Digital Thread, we need to invest in our people and give them the skills to embrace advances in technology. We recognise we will need new skills to support this technology growth, and so we are working closely with partners such as Strathclyde, Edinburgh and Cranfield Universities. Whatever the engineering or technology challenges, physical or digital, we know as engineers we have the ability to solve them.
Key performance indicators

Delivering on our strategy

We have identified a number of Group and sector-level financial and non-financial key performance indicators (KPIs) that reflect the internal benchmarks we use to measure the success of our business and strategy. These enable investors and other stakeholders to measure our progress.

2020 results

Underlying revenue growth (%)  
(5.6)%

Underlying operating margin (%)  
10.8%

Underlying EPS (p)  
69.1p

Underlying operating cash conversion (%)  
83%

Revenue decline was driven by the impact of step downs related to the end of QEC and Magnox contracts and exits and disposals made in the last financial year. Excluding these, underlying revenue grew by 2.7%.

The underlying margin of 10.8% includes the benefit of IFRS 16, which had a positive 0.5 percentage point impact. The majority of the decline in underlying margin related to performance in the Aviation sector.

Underlying operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit before JV operating profit and IFRIC 12 income. Refer to page 61 for a calculation.

Grow in the UK and internationally  
Focus on value creation  
Grow in the UK and internationally  
Focus on value creation

Linked 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.
**Changes to our KPIs**

We updated our KPIs this year to better reflect our strategy as outlined at the Capital Markets Day in June 2019. We now include CO₂e emissions to recognise an increased focus on ESG and sustainability, and underlying earnings per share (EPS) as it is a key way we monitor the success of our strategy and is therefore linked with our remuneration policy. We have removed two debt related KPIs as we believe the net debt to EBITDA ratio is the best measure of performance and is a key measure in our capital allocation policy set out on page 17.

<table>
<thead>
<tr>
<th>KPI</th>
<th>Definition</th>
<th>Commentary</th>
<th>Link to strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying net debt to EBITDA</td>
<td>Underlying net debt to EBITDA is calculated as net debt (excluding lease obligations) divided by underlying earnings before interest, tax, depreciation and amortisation (excluding JVs), plus JV dividends received. Refer to page 63 for a calculation. JV debt is non-recourse and is therefore excluded from net debt.</td>
<td>Net debt excluding leases payable at 31 March 2020 was £922.1 million, giving a net debt to EBITDA ratio of 1.7 times, well within our covenant levels of 3.5 times.</td>
<td>Focus on value creation</td>
</tr>
<tr>
<td>Underlying return on invested capital (ROIC) (%)</td>
<td>Underlying return on invested capital is defined as underlying operating profit divided by net debt (excluding lease obligations) and shareholder funds, excluding retirement benefit deficits or surpluses. Refer to page 64 for a calculation.</td>
<td>The return on invested capital reduction reflects the reduction in underlying operating profit. Note that JV finance costs are excluded from this measure reflecting the non-recourse nature of the debt.</td>
<td>Focus on value creation</td>
</tr>
<tr>
<td>Total injuries rate</td>
<td>Reported injuries across the entire Group for every 100,000 hours worked by Babcock employees (excluding JVs).</td>
<td>Our total injury rate has reduced by 16% compared to the previous year, reflecting efforts across the Group to improve performance. Sadly however one employee died this year following an incident involving inspections on an armoured vehicle. This tragic incident underlines the importance of our efforts to do better every year.</td>
<td>Use technology to strengthen our offering</td>
</tr>
<tr>
<td>CO₂e emissions (tCO₂e/£m)</td>
<td>Estimated tonnes of CO₂e emitted as a direct result of revenue-generating operations (excluding JVs).</td>
<td>We continue to reduce our emissions year on year, both the intensity ratio and in absolute terms. This reflects the efforts made across all sectors to reduce emissions, partly through the increased use of technology. Prior to 2018, some data associated with overseas operations was unavailable.</td>
<td></td>
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</tbody>
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**Operational performance measures**

In the operational reviews, we used the following KPIs to measure each sector’s performance:

- **Underlying revenue growth**
- **Underlying operating margin**
Critical support: defence

HMS Portland in the Frigate Support Centre dry dock during the Type 23 life-extension programme
We work collaboratively with our customer, to deliver highly capable platforms back to the Royal Navy as part of the Type 23 life-extension programme.

The work at our Devonport facilities continues at pace, with parallel programmes of deep maintenance and structural upgrade work on Type 23s happening simultaneously.”
Overview

I am immensely proud of the way our people have responded in these challenging times. At Babcock we pride ourselves on the fact that we support customers responsible for providing critical services: our work in defence and aerial emergency services saves lives, supports national defence and protects communities. As always, my priority, and the priority of the Group, is to keep our people safe whilst making sure that those vital services can continue.

We end a busy year in a strong position to deal with the current Coronavirus (COVID-19) uncertainty. We saw strong performances across our Marine, Nuclear and Land sectors and have taken action to address weaknesses in Aviation, including writing down goodwill to reflect our updated expectations of the oil and gas market. The early impact of the global COVID-19 pandemic had a limited impact on the Group in the last financial year but is creating uncertainty as we head into this new financial year.

I am also extremely grateful to HM Government and in particular the Cabinet Office and Ministry of Defence who acted quickly and decisively to ensure that contracts continue to be funded and that cash flowed effectively through the main suppliers and down into the supply chain. Also, working with us and other major suppliers, we have together quickly developed safe working solutions at site level supported by our employees, trades unions and regulators. These solutions are being widely shared to ensure that the entire sector is benefiting from the experiences of individual companies.

The majority of our work has been declared to be critical and our people designated as key workers. All of our major sites have remained open, and we have worked closely with our customers to understand and support their changing requirements and operational priorities. Whether working on site or at home, we have continued to work on major defence programmes, to design new systems, to provide emergency services and to keep nuclear power sites operational. Across Europe our emergency medical services teams have worked courageously alongside national health services in the transport by air of critically ill patients to hospital.
We have also contributed to the fight against the pandemic with new innovative technical solutions. We pioneered the introduction of biocontainment isolation stretcher units which allow virus positive patients to be transported safely, and new in-helicopter barrier systems that provide added protection to flight crews and medical staff. We have shared the experiences gained in Italy, Spain and France with our teams elsewhere, including Sweden where we refitted one of our aircraft to create a dedicated COVID-19 air ambulance.

By establishing strong safety protocols, many of our contracts have continued to operate throughout the crisis. The business impact of the virus will be felt most significantly in our short-cycle work and adjacent market businesses. We have put mitigation measures into place, including reducing and deferring non-essential operating and capital expenditure to protect the business in the short term. We continue to model a number of scenarios around the ongoing impact of the virus. We have also developed detailed plans to return to productive operating capacity in response to government guidance and customer need as the countries in which we operate begin to emerge from varied restrictions.

Looking back over last year, we made solid progress in driving our strategy forward. We achieved good revenue growth across our defence businesses and won significant opportunities, including building the next generation of UK warships, securing long term positions on major submarine projects for the USA and Australia, and expanding our aviation defence operations in France. Our expanding technology capabilities were crucial in these wins, and I am really pleased with the high level of growth seen across our technology businesses this year.

Our area of weakness was in the Oil and Gas aviation business. The global oil and gas market has become even more competitive and we have written down the value of assets in that business to reflect this and impaired Aviation goodwill to reflect how the market has changed and that we do not expect any recovery any time soon. We have also addressed the cost base of our civil aviation and civil nuclear businesses to right size them for the future given the weaker oil and gas market, price and cost pressures in our emergency services business and the smaller civil nuclear business following the end of the Magnox contract and a slowing UK civil nuclear market, exacerbated by COVID-19.

Our strategy

We outlined our strategy at our Capital Markets Days in June 2019. We are a leading provider of critical, complex engineering services for customers for whom failure is not an option. We focus on three markets where we enjoy leadership positions: defence, emergency services and civil nuclear. These markets make up around three-quarters of our business. We also operate in adjacent markets where we apply our engineering capabilities to a range of activities.

Our strategy is delivered across our four sectors and we focus on a set of strategic priorities to ensure delivery:

• Deliver operational excellence for our customers
• Grow our international businesses in focus markets
• Grow market share and expand offering in the UK
• Develop our people
• Use technology to strengthen our offering
• Focus on value creation

This will deliver our medium term financial targets:

• Earnings growth of 3% to 4% CAGR
• Sustain margins at around 11%
• Increase cash flows each year in line with earnings
• Generate around £1.4 billion of free cash flow over the next five years
• Continue to reduce net debt and increase flexibility
• Improve ROIC from FY20
• Sustainable dividend

Given the uncertain impact of COVID-19, these medium term targets will not be achieved in the current financial year. The drivers of our strategy remain unchanged and the long term characteristics of our business remain strong. We will continually assess our medium term targets as we emerge from the pandemic and they are aiming points for us to return to.

Progress in the year

We made good progress in the year on our strategy. We delivered operational excellence for customers across programmes with continuous improvement exemplified through the development of our Strategic Partnering Programme. We had some significant contract wins in the UK including the design and build of Type 31 frigates in Defence, Met Police training in Emergency Services and additional scope in our Ascent aviation contract, and we maintained our win rates for bids in the UK overall in the year.

International expansion is a key part of our strategy. This year we increased our international presence with Aviation operations starting in Norway and Canada and we won our second defence contract in France. International markets represented 31% of underlying revenue in the year and account for around 48% of our pipeline with significant opportunities in all of our focus markets.

The use of technology to strengthen our offering was crucial in many winning bids this year, most notably the Type 31 frigates. The technology products businesses in our Marine sector had a particularly strong year with very high revenue growth.

Throughout the year we kept a focus on value creation. We continue to run our adjacent markets for value and saw revenue growth in our Marine and Land adjacent markets. In March 2020, we completed the sale of Context for net proceeds of £102 million.

We have, however, seen some significant pressures on our business this year. As well as the impact of COVID-19, we saw increasingly tough trading conditions in our civil aviation and civil nuclear businesses and have taken actions to right-size these businesses to ensure we remain on track to deliver for the medium term.

Sale of Holdfast

In June 2020, we completed the sale of our 74% shareholding in Holdfast Training Services Ltd (“Holdfast”) to HICL Infrastructure PLC (“HICL”) for a cash consideration of £85 million. Holdfast was a joint venture in the Babcock Group created in 2008 to undertake a 30-year contract for the Ministry of Defence to provide training infrastructure and services for the Royal School of Military Engineering (“RSME”). Babcock will continue to provide services for RSME on its existing subcontract.
Order book and pipeline
Our combined order book and pipeline remains at the record level of around £35 billion. The Group continued to win work across all sectors in the year, with win rates in line with our targets. For new business, win rates exceeded 40% while win rates for rebids and extensions in our focus markets exceeded 90%.

Our order book is based on contracted and committed work. This order book provides a base level of revenue for the years ahead which is then complemented by contract growth and short-cycle work. The Group’s order book at 31 March 2020 was £17.6 billion with an order book intake of £5.3 billion in the year more than replenishing £4.9 billion of revenue. Over £1 billion of order intake this year came through contract growth and not through the bid pipeline.

The Group’s pipeline represents those bids formally in process, following our rigorous stage gate approvals. The Group’s pipeline at 31 March 2020 was £17 billion compared to around £14 billion at 31 March 2019. The £3 billion increase relates to a range of opportunities predominantly in UK and international defence.

Health and safety
The health and safety of our employees is of paramount importance, and we work hard to ensure all our people get home safe every day. I was therefore deeply saddened by the death of one of our colleagues in January, following an incident involving inspections on an armoured vehicle. This tragic incident serves to strengthen our focus on ensuring that we have a world class safety culture. In Spain, one of our air ambulance pilots tragically died after contracting the COVID-19 virus. He had been working with us for over 12 years, carrying out numerous flights with the utmost professionalism and commitment to service.

ESG strategy
This year we have introduced a new ESG strategy for the Group. Sustainability is at the heart of our business, and is a key part of our planning, our operational delivery and our approach to through-life support. We are committed to minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in the communities in which we operate. Full details of our ESG strategy and the progress we are making is be available on pages 36 to 53.

Looking ahead
We enter the new financial year facing uncertain times but the long term characteristics of our business remain strong. We provide some commentary on the year ahead across our sectors but are unable to provide detailed financial guidance at this time. Given this uncertainty, the Board has deferred the decision on our final dividend until there is greater certainty on the impact COVID-19 will have on our business and stakeholders.

During the year, I announced my intention to retire as Chief Executive. The search for a new CEO is progressing, and I have agreed to stay on until a new person is in place to ensure an orderly transition. It has been an honour and a privilege to have served at for Babcock for 16 years and I am proud to have helped it grow into the company it is today, providing vital services for national defence, saving lives and protecting communities. This gives me the confidence to know that, despite the current uncertainty, the Group’s strong liquidity position, robust business model, record order book and focus on critical services will allow us to continue to deliver for all our stakeholders next year and beyond.
COVID-19 impacts and mitigations

Our focus remains firmly on the health, safety and wellbeing of our employees and those we work alongside – our customers, our supply chain partners and our communities. All employees who can work from home are doing so and across our sites we are following strict safety measures in line with evolving government guidance and are working closely with our customers, governments, trade unions and regulators.

The majority of our service delivery is non-discretionary and critical to our customers’ operations. Major sites including the Devonport Royal Dockyard, Clyde Naval Base, Rosyth Royal Dockyard and many Army and RAF land and air bases have remained operational during this crisis, as well as key civil nuclear sites around the UK. Where we continue to operate sites, we comply with government guidance as it evolves and have worked with our customers, regulators, staff and trade unions to establish new flexible work patterns and procedures on a site-by-site basis. As such most of our work has continued during this crisis, including:

- Our defence businesses providing crucial support to the national defence of all the countries we operate in
- Continued work on key defence programmes such as submarine and surface ship refits and life extensions, design and build of new submarine equipment, design of the Type 31 frigates and critical defence training activities
- Our Emergency Services businesses have kept all bases open as they operate on the front line of this crisis and our aerial firefighting businesses are preparing for a new season
- Our Nuclear businesses continue to support the safe operation of nuclear power stations and decommissioned sites
- Our South African business continues to provide the maintenance and engineering support that keeps the power stations running

In the UK, many of our people are working from home, enabled by IT solutions with video and teleconferencing playing a critical role in making working from home an effective solution.

We have also helped our customers by sharing our experience from other countries and regions. In Italy, we pioneered the use of biocontainment isolation stretchers that allow infected patients to be transported to hospital by air, while at the same time protecting the flight and medical crews from infection. Once proven in Italy, similar approaches have been introduced in Spain, France, Sweden and the UK. In Spain we developed a new internal helicopter barrier arrangement that isolates aircrew from patients being transported and this has now been shared with our customers in the UK.

Babcock joined forces with a leading medical equipment company to design, manufacture and supply critical care ventilators in response to the UK Government’s urgent request for help from industry. Working round the clock, our specialists developed a brand-new design. And when the technical requirements changed, we were able to make sure that our ground-breaking Zephyr Plus ventilator was flexible enough to meet the UK’s need. Combining our engineering expertise and ability to create innovative supply chain solutions with developments in medical technology has resulted in a solution that could help medics in these extreme circumstances. We are incredibly proud of what our people, our suppliers, and everyone who has been involved in the project, has achieved in such a short space of time.

While many areas of our business continue to operate, they are experiencing lower levels of productivity due to staff absence and social distancing measures. There are some areas of our business that have been particularly affected by lower levels of demand, including:

- Many parts of our short cycle work such as our rail and power in the UK and our airports businesses are running at significantly lower levels of activity
- Lower levels of flying in our aerial emergency services business following lockdowns and lower flying hours in our Oil and Gas business
- Reduced activity at some civil nuclear sites with only essential safety works taking place
- Training activity, both defence and civil, has reduced with some programmes paused and others operating at reduced levels

This led to a small financial impact to our results for the year ended 31 March 2020. The ongoing crisis creates significant uncertainty for the year ahead and while the financial impact cannot yet be quantified, we have taken many steps to mitigate the impact to the Group to ensure a prudent approach to protect the long term health of the Group for all stakeholders. These steps include:

- Deferring non-essential operating and capital expenditure and tightening rules around spending across the business
- Accelerating restructuring plans in our Aviation and Nuclear sectors
- Limited use of furloughing staff in a few areas such as our airports and civil training businesses
- Senior executive management have taken a temporary 20% reduction in basic salary and the annual bonus and pay rise for the new financial year have been deferred
- Non-Executive Board members have taken a temporary 20% reduction in fees and will have no increase in fees for this new financial year
- Decision on final dividend deferred until there is greater certainty

We are also preparing for the gradual easing of restrictions over the next few months that will allow more of our people to return safely to their workplaces in strict accordance with evolving government guidance.
Partnering with the UK Government: a year of progress

At the end of 2018, Babcock and the UK Government signed a Joint Ways of Working Charter and launched a programme to develop collaborative relationships across the Group’s UK public sector business. Now one year on, the programme has brought renewed focus and energy across the Group.

The Babcock and UK Government Strategic Partnering Programme (SPP) has now been underway for over a year, and our relationship continues to grow in strength. We are working closely with teams from the Cabinet Office and Ministry of Defence on projects of mutual interest and value.

The Joint Ways of Working Charter underpins the deep commitment each party has to the other, and by focusing on ensuring successful operational delivery in some of our most critical contracts we are empowering our teams to achieve excellent results.

A wide range of projects are now underway across the Defence business in our Marine, Land and Nuclear sectors, and the programme is gaining excellent traction. We have been delighted to find that both customer and Babcock staff have been keen to participate in a programme that supports our joint success.

One great example of the progress we have made together is in the work going on in the Defence Support Group, where a combined team has improved the availability of critical equipment for our end user, the Army. You can see more detail on that on the next page.

Operational excellence

The SPP also enables Babcock to get feedback from across our UK Government customer base in a unique way that ensures common areas of strength and opportunity are identified. Cabinet Office-led workshops, conferences and other events allow Babcock to demonstrate the broad range of the capability we deliver. They also allow representatives across the UK Government to hear about how Babcock teams are solving complex challenges that may not be widely understood.

These events are supported by twice-yearly executive reviews that have ensured alignment around priorities at the most senior level. We have also worked closely with the Cabinet Office to deliver against its social value agenda, helping to bring greater emphasis on Diversity and Inclusion, SME supply chain involvement and the Environment.

Strong alignment

The SPP programme aligns strongly with Babcock’s aim to deliver operational excellence, and to continue to improve how we serve our customers. This includes making sure that we take the time to listen to them, to hear and understand their views. One year on, we can see that the launch of the SPP has brought renewed focus and energy to our drive to improve.

Work is now underway to ensure that the best practice developed on our UK Government contracts can be brought to bear wherever Babcock does business, with the launch of a new Strategic Customer Management process. This will use the latest technology and thinking to ensure that our customers remain at the heart of everything we do.

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Babcock has delivered the Land Equipment Service Provision and Transformation Contract for the UK Ministry of Defence (MOD) since 2015.

The contract involves Babcock’s Defence Support Group (DSG) business supplying vehicle support to the British Army across eight service categories, including Maintenance Repair & Overhaul, Inventory & Repair Management and the Training Uplift Fleet.

The UK MOD wanted DSG to provide them with a transformed equipment support environment, together with an intelligent partner who would flexibly and efficiently meet the needs of the Army.

The challenge
At the start of the contract it became apparent that there was a lack of clarity over delivery requirements. Babcock was achieving all its key performance indicators in the contract, but this wasn't meeting the customer’s real need. Several unilateral attempts were made to solve the mismatch of expectations, but these didn't address the complex and interdependent nature of the contract.

The solution
The MOD was approached by the Cabinet Office during the early rollout of the Strategic Partnering Programme. It was recognised that this would be a great opportunity to refocus and improve, and the SPP 'workstream' approach was adopted.

Joint teams were formed, consisting of the people involved in delivering the service on a day-to-day basis. Over a period of several months these teams conducted joint root cause analysis which ensured they understood each other’s issues, requirements, constraints and dependencies. From the root cause analysis, the teams were then able to develop joint solutions which were gradually refined, implemented and reflected within the contract.

As a result of the workstream approach, the Inventory & Repair Management service was able to jointly develop a complete ‘user guide’, known as the Joint Service Manual.

This 200-page manual articulates all of the interface processes for the Inventory & Repair Management service: providing process maps, detailed descriptions, and clear timelines and responsibilities for all parties.

Fundamentally, the manual has removed operational ambiguity from the service – something that wouldn’t have been possible without the customer and Babcock working together. The SPP and workstreaming approach not only enabled the teams to arrive at this output together, it also helped to ensure that the conclusions were mutually beneficial; thereby ensuring everyone was committed to embedding the improvements.

The results
The improvement work undertaken as part of the SPP has delivered service improvements and contract amendments to the transformation contract, making it much more effective. What started as a way to fix a problem has now progressed into a collaborative focus on continuous improvement, transformation and value, with all parties now working together more effectively.

The benefits have included deeper and more transparent forecasting, a new KPI to accurately measure performance and improvements in key front line metrics.

The process has resulted in a strengthening of the relationship between Babcock and the customer, and a team which is now much better placed to support the British Army’s ability to train and fight.
### s172(1) Statement and Stakeholder engagement

**Why they matter to us**

**Customers**
Babcock works with public and private customers. By focusing on their needs, we aim to improve our performance and build our relationships in order to promote the long-term success of the Group.

**Investors**
The support of our investors is vital to the long-term performance of the Company.

**Employees**
With some 35,000 employees across the globe, Babcock’s long-term success depends on the engagement of its employees.

**Regulators and industry bodies**
We manage complex assets in highly regulated sectors, for example, nuclear, defence and aviation. We have to maintain positive and constructive relationships with regulators in order to be able to operate as we do.

**Supply chains**
Our external supply chains are an important part of our performance.

**Communities**
Where we have major operations, such as at Plymouth, Faslane or Rosyth, we are often one of the largest employers in the local area. We are aware of the impact that we have on those communities.

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<tr>
<th>Their issues</th>
<th>How Babcock engages with its stakeholders</th>
</tr>
</thead>
<tbody>
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<td>• Delivery</td>
<td>• Babcock engages at all levels with its customers from the front line, where we deliver our services alongside our customers, to the Board</td>
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<td>• Safety</td>
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<td>• Regulations, policies &amp; standards</td>
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<td>• Governance &amp; transparency</td>
<td>• Participation in industry bodies</td>
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<td>• Trust &amp; ethics</td>
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<tr>
<td>• Compliance</td>
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<td>• Good working relationships</td>
<td>• Group procurement function</td>
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<td>• Health &amp; Safety</td>
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<td>• Environment</td>
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<td>• Armed Forces Reservists Support</td>
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<td>• Sponsorship</td>
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<td>• Employee volunteering</td>
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<td>• University partnerships</td>
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<td>• STEM Ambassadors</td>
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The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. We describe how they have done so in the table below. The Directors believe that stakeholder engagement remains vital to building a sustainable business. Further information can also be found in the Sustainable business section on pages 36 to 53.

How the Board fulfilled its s172 duties

The Board continually works to foster its relationships with customers. During the year, in order to understand their priorities, the Board, principally through the Chair and the Executive Directors, have had regular meetings with the Group’s key customers. The Board received briefings on these engagements at its monthly meetings. In addition, it heard the reports on the wider customer relationship from the Sector CEOs, who attend each Board meeting.

The Board considered these priorities in all its decisions. For example, during the year, the Board reviewed specific strategic bids. The Board assessed whether these bids, in particular the T31, addressed the customer’s key issues. In addition, over the year, the Board has overseen the development of the Strategic Supplier Partnership with the Group’s principal customer. This programme has enhanced the Group’s relationship with its key customer. The Board is now looking to take the lessons learnt from this programme to see if they are relevant to other customer relationships.

Acting in a way that the Board believes is most likely to promote the Group’s success for the benefit of its members as a whole is at the heart of the Board’s actions. During the year, the Board sought to understand the priorities of the Babcock shareholders through its dedicated investor relations team. At its meeting to review and decide on the strategy, performance and culture of the Group, the Board took into account the feedback it received.

For example, the Board approved the messaging in the Group’s Capital Markets Day in June 2019, including those around our strategy, our core strengths, our key markets and our medium term financial targets.

The Board is well aware that the Group’s long-term success depends on the engagement of its employees, which in turn depends on the Board taking into account their interests in its decision making process. During the year, the Board sought to understand the interests of its employees through a number of different channels.

Babcock has established a formal workforce advisory panel, the Group Employee Forum, with representatives from across Babcock’s UK and European operations. Senior management attended its meetings to listen to employee concerns and reported those concerns to the Board. The Board, particularly through the Remuneration Committee, considered these in its review of the Group’s resource strategy (please see page 124 for more information) and its remuneration structures during the year, including in its decisions on the remuneration of the senior executive team (for more information, please see page 121). During the year, the Board was keen to enhance its engagement with employees and decided to hold a number of employee focus groups to understand better its employees’ viewpoints and their priorities. The Board will receive the feedback from these sessions during the course of the year.

The sectors maintain dedicated functions in order to manage the Group’s compliance requirements. During the year, the Board received monthly updates as part of each sector’s operational review on any significant engagement with regulators. For example, the relationship between the Nuclear sector and the Office of Nuclear Regulation is of particular importance for our operations in Devonport. The Nuclear sector CEO included a status update as part of his monthly report to the Board.

Babcock has a centralised procurement function. During the year, the Board received a briefing from the Group Head of Procurement to ensure that the Board understood its supply chain risk. The Board applied its understanding of supply chain risk in its reviews during the year of the Group’s major tenders, as supply chain strategy and plans for these projects was a key factor.

Babcock aims to build positive relationships with the communities which host its businesses. In the main, the sectors hold these relationships at a local level where the most relevant knowledge is. Relevant developments in community relationships are included in the monthly sector reports to the Board. For more information, please see page 47. However, during the year, the Board was keen to bring more focus to these relationships and decided to introduce a Group-wide ESG strategy. For more information, please see page 38.
We are the market leader for defence support in the UK, and have a significant presence in many overseas markets, all of which share similar characteristics:

- Evolving threats to national security
- Budgets under consistent pressure to deliver value
- Upward budget pressure from NATO commitments
- Demand for technology to drive efficiency
- Growth in naval shipbuilding programmes
- Air forces requiring advanced training on new fleets
- Large land fleets requiring through-life support and life extensions

**UK defence**

Our primary market is UK defence, where we provide critical assets and services to all of the UK’s armed forces every day. We are the UK’s second largest defence supplier and, as part of the Strategic Partnering Programme, we are working with the UK Government and MOD across more critical programmes than any other provider, to ensure the needs of our armed forces are met as they grow in size and complexity. While we are well placed for long-term growth of the UK market, the growth in any individual year is partly dependent on the phasing of MOD spend.

Over the last year, the UK market has seen an increased budget, and milestones achieved across major programmes. The continued drive is the UK’s continued commitment to meet the objectives outlined in the Strategic Defence and Security Review (SDSR) 2015 and a renewed commitment to meet the NATO spending target of at least 2% of GDP.

**UK defence spend 2019**

£38.0bn

- Personnel: 31%
- Equipment support: 19%
- Specialist equipment: 16%
- Infrastructure: 11%
- Property: 9%
- Other: 14%

Source: UK MOD

Defence spending in the UK rose last year to £38.0 billion, £1.4 billion higher than 2018, with £16.1 billion spent on MOD equipment and support. Around 19% of the total defence spend, £7.1 billion, was designated to supporting MOD equipment, an increase of around £300 million. This is the main area of spend where Babcock operates.

In March 2020, the MOD’s equipment plan outlined a £180.7 billion available budget allocated to equipment and support over the next ten years. The MOD came under scrutiny to address last year’s deficit and has since successfully reduced the shortfall to £2.9 billion. The reduced forecast is the product of identifying and delivering efficiency initiatives and improving forecasting, rather than reductions in procurement or support programmes. In 2019, the Government uplifted the budget by an additional £2.2 billion.

The Government also identified a requirement to accelerate their pledge to mobilise, modernise and transform defence, improving productivity, reducing costs and delivering next generation capabilities. The forthcoming Integrated Review, though delayed by the impacts of COVID-19, will provide the UK with opportunities to update and validate equipment and support requirements and deliver efficiency to ensure the UK retains capabilities to defend against modern threats.

**International defence**

International markets offer significant long-term potential, both in terms of increased spend in current markets and expansion into new markets, and our bid pipeline includes many opportunities. Australia continues its major procurement of sea, land and air assets, as well as significant capability upgrades to cyber and command, control, communications, computers and intelligence (C4I) systems. In Canada, the naval marine market continues to be buoyant, with significant expenditure on both new build and in-service support. We continue to leverage our Group presence in Canada for future military aviation opportunities. In Europe, there are many significant long-term opportunities. In France, the market is seeing increasing demand for both fixed and rotary wing training, providing opportunity for us to capitalise on our successful training operations.
Babcock is a trusted partner to governments across the world delivering highly-critical emergency services.

Demand for increasingly complex and technical emergency services continues to grow across the world.

**Emergency medical services**

Markets across the world vary in structure. Regional authorities in Europe provide a source of steady demand, though market growth in each country is limited. This year saw delays in the award of new contracts in Italy and Spain, partly due to increased regulatory processes and partly due to competitor challenges. Our growth is supported by entering new markets, and this year we started services in Norway. We see other opportunities across Europe to expand our offering over the coming years.

We are actively exploring opportunities to enter the market in Canada, building from our entry into firefighting this year.

**Firefighting**

In aerial firefighting, activity levels in our markets were lower this year, with fewer fires in our countries compared to last year, given wetter weather conditions. However, the demand for aerial firefighting remains high as the global climate changes. The trend towards crossing borders in firefighting operations continues across Europe, and this year we provided support to other countries at the request of the European Union, such as flying missions across Greece, Sweden and Israel in support of their firefighting activities.

We started operations in North America this year with our entry into Manitoba, Canada. The North American market is maturing, with more outsourcing contracts coming to market as the spread of fires go beyond state and province responsibility. Our work in Manitoba has allowed us to showcase our expertise, and we hope to build on this further.

**Police**

We entered a new market this year and will be training police officers for the first time working with the London Metropolitan police force. This complements the work we do on looking after London’s fleet of police vehicles.

The civil nuclear market remains a long-term growth opportunity but is challenged in the short term.

The civil nuclear market remains a significant long-term growth opportunity both in the UK and, increasingly, overseas, as ageing power stations have their generating life extended or are brought offline, and as new power stations are built.

In the UK, however, many of the opportunities in this space continue to see delays. Political and economic factors have affected several key milestones and decisions in the UK across generation, operational support, decommissioning and, in particular, nuclear new build. Developments overseas, particularly in Canada, offer significant opportunity to expand and demonstrate internationally our unique UK experience and capability, however our exposure is currently limited.

During the year, the civil nuclear industry saw further consolidation of the supply chain across the market, changing the competitive landscape in the UK and overseas with some major acquisitions.

**Decommissioning**

The Nuclear Decommissioning Authority (NDA) budget during the year saw a modest increase to £2.2 billion, but should see a further increase to around £2.7 billion of funding next year. BEIS continues to manage the liabilities for decommissioning all nuclear sites. In 2019, these obligations were calculated at around £157 billion. Sellafield, accounting for the majority of the liabilities, continues to be an opportunity for engineering packages.

The launch of the consultation on the new NDA business plan for 2020-2023 and its implementation will likely be a focus over the short term. A key part of the business plan is focused to ensure Magnox, transferred back to NDA control in September 2019, is managed effectively.
Critical support: emergency services

Beechcraft King Air 250 air ambulance landing at Tromsø airport, Norway
Agneta Karlfeldt
COO/Chief Flight Nurse Fixed Wing, Scandinavian Air Ambulance

We work around the clock in the harshest weather conditions and most remote locations – from the Arctic Circle to the most inaccessible areas of the Mediterranean coast. The terrain often makes road travel long and circuitous.

Our air ambulance services are vital to local communities, who would otherwise not be able to access the hospital services they need. Our customers trust us because they know we have the specialist expertise required to work in these complex environments where emergencies happen.”
Sustainable business

Sustainability is at the heart of our business

Sustainability is a key part of our planning, our operational delivery and our approach to through-life support. It’s about thinking and acting for the long term – for all our stakeholders.

The health and safety of our employees is of paramount importance, and we work hard to ensure all our people get home safe every day. I was therefore deeply saddened by the death of one of our colleagues in January, following an incident involving inspections on an armoured vehicle. This tragic incident serves to strengthen our focus on ensuring that we have a world class safety culture.

Our delivery programmes are by their very nature long term, and we are committed to investing in our people throughout their careers in order to ensure we have the right people in place now and in the years to come. In support, we continue to invest in technical apprenticeships, graduate schemes, management training and talent development programmes.

We are also committed to providing a fair, equal and inclusive environment for all of our people. We run employee Diversity & Inclusion networks across our operations, and we ask for employee feedback through sector questionnaires and Group-wide focus groups to ensure we actively address questions and concerns.

Our STEM Ambassadors have been continuing their volunteer outreach activities in local schools and colleges, to engage and inspire the next generation.

Local initiatives are a key feature of the value that Babcock brings, not just to our customers and employees but to the wider community. We actively engage with communities in which we operate, to become a part of the environment and to enhance social cohesion.

Governance

Babcock has always been and will always be committed to doing business honestly and openly. We hold our leaders to account for ensuring their businesses operate according to the standards we expect.

Our Group-wide Code of Business Conduct lays out our policy of strict ethical conduct, highlighting the fundamental importance of conducting all business activities to the highest standards of honesty and integrity. A key contributor to our ability to deliver effectively is our corporate values, expressed in being babcock (see page 43), which underpin our activities so that we operate in a safe, respectful and trusted environment.

Environmental responsibility

Incorporating sustainability into our everyday operations is key to ensure successful, long-term delivery outcomes, and we have a responsibility to leave a positive impact on our environment.

We recognise the impact of CO₂ and other greenhouse gases on our environment, and we are committing to reducing the impact associated with our own energy usage.

We will continue to enhance the use of technology to reduce our current footprint. We are also addressing water and waste management activities, and are working with our supply chains to promote sustainable delivery.

Social responsibility

We rely on the support and collaboration of local communities, small businesses and our people where we live and work.

The global sustainability agenda is increasingly important to our customers, our employees and our shareholders, and we take our responsibility to operate ethically and deliver in a sustainable manner seriously.

Sustainability is an integral part of our business. We think and act for the long term, and we are a trusted partner to our customers. We also work closely with our suppliers to ensure the same standards apply throughout our supply chain.

As we display in case studies throughout this report, our businesses actively assess the impact that our operations have on our wider stakeholder base.

This year, we have enhanced our Group-wide approach by introducing a new role – Group Head of Sustainability – and I am delighted to champion the Sustainability agenda at Board level.
Non-financial information statement

Reporting on material yet non-financial measures is important in understanding the performance, opportunities and long-term sustainability of generating value for all our stakeholders. We address the disclosure of non-financial information in the following pages and throughout the Strategic report.

The content of the non-financial information disclosure has been expanded from previous years as we are providing greater transparency into our policies, standards and governance approach to operational activities. We are committed to increasing this transparency over the upcoming years and have structured the sustainable business report to provide insights based on global standardised reporting standards in three key areas: Environment, Social and Governance.

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<th>Policies and standards</th>
<th>Additional information</th>
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<td>Health, Safety and Environment Policy*</td>
<td>Clean inputs</td>
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<td>Energy Policy*</td>
<td>Responsible consumption</td>
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<td></td>
<td>Procurement Environmental Policy*</td>
<td>Health, safety and environmental risk</td>
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<td>Employees</td>
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<td>Health, Safety and Environment Policy*</td>
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<td>HR Matters Policy*</td>
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<td>being babcock (see page 43)</td>
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<td>Joint Ways of Working Charter</td>
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<td>Human rights</td>
<td>Code of Conduct**</td>
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<td>Supplier Code of Conduct**</td>
<td>Diverse and robust supply chains</td>
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<td>Modern Slavery Statement**</td>
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<tr>
<td>Social matters</td>
<td>Anti-Bribery and Corruption/ Ethical Policy**</td>
<td>People and potential</td>
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<tr>
<td></td>
<td>Code of Conduct**</td>
<td>Corporate integrity</td>
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<td></td>
<td>Diversity and Inclusion Charter*</td>
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<td>s172(1) statement</td>
</tr>
<tr>
<td>Anti-bribery and corruption</td>
<td>Anti-Bribery and Corruption/ Ethical Policy**</td>
<td>Diverse and robust supply chains</td>
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<td></td>
<td>Whistleblowing structure</td>
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<td></td>
<td>Supplier Code of Conduct**</td>
<td>Principal risks and management controls</td>
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<td>Description of principal risks and impact on business activity</td>
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<td>Deliverying on our strategy</td>
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</table>

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

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

**ESG strategy**

We are committed to delivering in a sustainable way for all our stakeholders. Saving lives and enabling our customers to increase the performance, efficiency and lifespan of their critical assets and services are inherently sustainable activities. We augment our operational delivery by minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in communities in which we operate.

This year we have introduced a new Group-wide ESG strategy. Although a significant number of activities take place within contract teams and business units, this Group-wide strategy enables us to leverage the experience and scale of the organisation, to more effectively contribute to the communities in which we operate and the environment in which we live.

We are aligning our activities to the UN Sustainable Development Goals so that we can demonstrate the ways in which our actions actively contribute toward these global objectives.

We are also seeking to enhance transparency, including providing insight into our governance, processes and metrics. These metrics are being established across each of our key Sustainability principles, and will enable us to clearly articulate the impact our activities and operations have on the environment and the people who are so crucial to our future. We aim to communicate these metrics in association with global standards and industry specific disclosures.

This strategy is championed by the Group Chief Executive and signed off by the Board. Operational metrics and key areas of focus are reviewed at Executive Committee meetings.

**Our sustainability charter**

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 fill their potential.

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

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

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

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

We believe that ethical behaviour underpins our sustainability activities. We establish robust processes and controls to identify opportunities and manage corporate risks.
<table>
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<th>Sustainability at Babcock</th>
<th>Alignment to UN SDGs</th>
<th>Focus areas</th>
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<tbody>
<tr>
<td><strong>Environmental</strong></td>
<td>Clean inputs</td>
<td>Clean electricity, alternative energy</td>
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<td></td>
<td>Responsible</td>
<td>C0₂e outputs, water consumption, waste disposal</td>
</tr>
<tr>
<td></td>
<td>consumption</td>
<td></td>
</tr>
</tbody>
</table>

| **Social**               | People and potential | Home safe everyday, employee feedback, Diversity and Inclusion, talent and development |
|                         | Community            | Volunteering, corporate sponsorship, university partnerships |
|                         | engagement           |                                         |

| **Governance**           | Diverse and robust supply chains | Due diligence, cyber essentials, modern slavery |
|                         | Commercial integrity       | Prompt payment, anti-bribery and corruption |

### Using our technology skills in the fight against COVID-19

Our engineers were proud to use their technical skills to develop new solutions in the global fight against the virus.

**Ventilator challenge**

Babcock joined forces with a leading medical equipment company to design, manufacture and supply critical care ventilators in response to the UK Government’s urgent request for help from industry.

Working round the clock, our specialists developed a brand-new design. And when the technical requirements changed, we were able to make sure that our ground-breaking Zephyr Plus ventilator was flexible enough to meet the UK’s need.

Combining our engineering expertise and ability to create innovative supply chain solutions with developments in medical technology has resulted in a solution that can help medics in these extreme circumstances.

We are incredibly proud of what our people, our suppliers, and everyone involved in the project has achieved in such a short space of time.

**Air ambulance innovations**

Babcock has been providing aerial emergency medical services throughout the crisis.

To help patients reach the hospital care they needed, we were able to create, test and certify the use of new isolation stretchers. These pods allow the safe transportation of COVID-19 patients, protecting the crew and others against exposure to the virus.

We drew on the experience and innovation of our experts to create a new framework system which enables the pods to work seamlessly with the onboard medical systems.

Our engineers in the UK and Spain also collaborated to design and develop a new on-board barrier which effectively separates the medical teams from the flight crews across our fleet of life-saving aircraft.

Projects like these would normally take several months, but working with new guidance from the European Union Aviation Safety Agency and national regulators, we were able to accelerate the process to just a few weeks.
We use innovative solutions to reduce our energy needs, while focusing on cleaner energy and other natural resources.

We recognise that working sustainably makes strategic business sense. Groupwide activities support increasing local focus on managing clean inputs. Our sectors and business units also drive this agenda through activities that directly support our customers’ needs. Sustainability is embedded throughout the organisation and is a central consideration in the decision making process.

Babcock’s Board and senior management are committed to delivering continual environmental improvements across the organisation.

Energy governance
At Group level, an energy and environmental working group meets quarterly with representatives from each sector. The working group, chaired by the Group Energy Manager, designs and reviews the energy and environmental policy and shares best practice.

Sectors and business units set KPIs appropriate to their individual businesses. Energy consumption data is collated into a central database, enabling reduction targets to be established and monitored regularly.

Babcock has held the Carbon Trust Standard for its UK operations since 2010, and will be seeking reaccreditation in 2020. The continuous monitoring of energy consumption and the attention to environmental policies ensure that the environmental impact of the Company’s operations is minimised.

Energy management and procurement
We have advanced energy management practices in place across the organisation which allow us to effectively manage our consumptions and emissions. We have implemented a Metering, Monitoring and Targeting (MM&T) strategy which allows us to easily identify and remediate any inefficiencies.

Our Group-wide energy database is key to managing our energy consumption, and provides us with a holistic view of our impact.

The procurement of electricity for our UK activities has been largely centralised for some time, providing benefits including the avoidance of costs.

Babcock has committed to purchasing its power for UK operations in a responsible manner.

Biomass, which features a carbon footprint less than 15% of coal-fired electricity, is our primary energy source.

This form of renewable energy also supports healthy, sustainably managed working forests which help to fight climate change.

We also benefit from local alternative energy solutions as demonstrated at Devonport Dockyard. Under a Power Purchase Agreement (PPA), Devonport Dockyard purchases 100% of its power and a major percentage of its steam requirements from the adjacent MVV, energy from waste, CHP plant.

The facility takes in waste from the local area and converts it into electrical and steam energy. This bespoke arrangement reduces the carbon footprint and environmental impacts of our operations.

In our Aviation business, we are working with our customers and supply chain to identify opportunities to add OEM-approved bio-jet fuel in order to use Sustainable Aviation Fuel (SAF) in our Emergency Medical Service, Aerial Firefighting and Oil and Gas-related activities.

Energy improvements in civil nuclear
This year we introduced a range of energy improvements at our sites in Chester and Whetstone.

In Chester, we installed new air compressors which require less power to run and produce a higher capacity of compressed air. As well as LED lighting in the high bay workshop, we've installed new gas-fired warm air heaters with timers, winter/summer modes and an automatic roller shutter door in the main workshop area.

Using more efficient heaters together with new doors to keep the heat in resulted in our using 33% less electricity and 41% less gas than the previous year.

In Whetstone, we have installed a new boiler and immersion heater and new electric heaters. We've also made some repairs to reduce heat loss, and now control both lighting and heating with timers.

As a result, in 2019/20 we used 14% less electricity and 12% less gas than in 2018/19.
Environmental Responsible consumption

We take our responsibility for managing the impact of our operations and those of our supply chain on the environment seriously.

We are currently working to implement standards for good practice across the Group: on reducing waste and on increasing recycling and the use of recycled, low-impact and recovered materials.

We are also focused on improving efficiency in our energy use across all of the Group’s operations. We are pleased that our actions in managing local demand have improved our energy consumption and emissions figures. These also reflect reductions in business travel due to COVID-19.

We have a diverse range of operations, some of which are within highly regulated arenas where the potential for environmental harm is significant. To ensure risks are appropriately managed and impacts minimised, we operate Environmental Management Systems across the organisation. We currently have 23 business units operating ISO 14001 accredited EMS. Our management systems allow us to understand, monitor and manage our environmental impacts, while delivering continual improvements.

Climate change impact

We recognise that climate change will result in consequences, not just to our business but to the environment in which we operate. Issues that might affect Babcock include floods, hurricanes, fires and droughts. We identify the risks of climate change on our operations at a contract level and this is reviewed at business unit and sector Board level. We then communicate any material risks to the Audit and Risk Committee on a bi-annual basis.

Having reviewed climate-related risks, we do not believe that there will be direct material adverse impact on our operations over the short or medium term. We will continue to assess emerging climate-related risks and will identify appropriate mitigation activities. Our improvement plans for 2020/21 include performing long-term risk assessments on the assumption of an increase in CO₂.

We also recognise that climate change could result in an increased demand for our services and products in response to climate-related challenges. For example, in our LGE business which provides optimised solutions for the transportation of liquefied gas as an alternative to more polluting fuels and in our aerial emergency services (medical transportation and firefighting activities in Europe, Australia and North America).

Supply chain

Our supply chain has an important part to play in supporting our efforts to reduce emissions. This year, we introduced a Group-wide procurement policy that requires environmental aspects to be taken into account as part of the competitive tender process. We are working closely with our suppliers to reduce packaging where feasible. We have also implemented more recycling and re-use initiatives in order to minimise waste.

Carbon emissions

We recognise the impact that greenhouse gas emissions have on our environment. We are committed to reducing our impact and will review appropriate, accredited targets over the coming year.

### Babcock Group Energy Consumption and Emissions

#### UK/UK offshore

<table>
<thead>
<tr>
<th>Scope</th>
<th>tCO₂e</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1: Direct emissions from owned/controlled operations</td>
<td>tCO₂e</td>
<td>76,614.3</td>
<td>70,515.9</td>
<td>62,754.5</td>
</tr>
<tr>
<td>Scope 2: Indirect emissions from the use of electricity and steam</td>
<td>tCO₂e</td>
<td>96,251.5</td>
<td>73,416.0</td>
<td>59,721.3</td>
</tr>
<tr>
<td>Scope 3: Emissions – business travel, electric transmission and distribution</td>
<td>tCO₂e</td>
<td>20,790.8</td>
<td>17,723.2</td>
<td>13,304.4</td>
</tr>
<tr>
<td>Total emissions</td>
<td>tCO₂e</td>
<td>193,656.5</td>
<td>161,655.2</td>
<td>135,780.2</td>
</tr>
<tr>
<td>Underlying energy consumption used to calculate emissions</td>
<td>kWh</td>
<td>644,939,237.2</td>
<td>595,419,932.2</td>
<td>530,000,509.8</td>
</tr>
</tbody>
</table>

#### Global (excluding UK/UK offshore)

<table>
<thead>
<tr>
<th>Scope</th>
<th>tCO₂e</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1: Direct emissions from owned/controlled operations</td>
<td>tCO₂e</td>
<td>105,010.5</td>
<td>94,405.1</td>
<td>107,205.4</td>
</tr>
<tr>
<td>Scope 2: Indirect emissions from the use of electricity and steam</td>
<td>tCO₂e</td>
<td>8,144.8</td>
<td>7,314.3</td>
<td>4,572.7</td>
</tr>
<tr>
<td>Scope 3: Emissions – business travel, electric transmission and distribution</td>
<td>tCO₂e</td>
<td>850.1</td>
<td>319.9</td>
<td>361.2</td>
</tr>
<tr>
<td>Total emissions</td>
<td>tCO₂e</td>
<td>114,005.4</td>
<td>102,039.2</td>
<td>112,139.3</td>
</tr>
<tr>
<td>Underlying energy consumption used to calculate emissions</td>
<td>kWh</td>
<td>446,044,504.7</td>
<td>401,624,794.3</td>
<td>450,404,800.4</td>
</tr>
</tbody>
</table>

#### Babcock Group Total (UK/UK offshore and Global)

<table>
<thead>
<tr>
<th>Scope</th>
<th>tCO₂e</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1: Direct emissions from owned/controlled operations</td>
<td>tCO₂e</td>
<td>181,624.8</td>
<td>164,921.0</td>
<td>169,959.9</td>
</tr>
<tr>
<td>Scope 2: Indirect emissions from the use of electricity and steam</td>
<td>tCO₂e</td>
<td>104,396.3</td>
<td>80,730.4</td>
<td>64,294.0</td>
</tr>
<tr>
<td>Scope 3: Emissions – business travel, electric transmission and distribution</td>
<td>tCO₂e</td>
<td>21,640.8</td>
<td>18,043.1</td>
<td>13,665.6</td>
</tr>
<tr>
<td>Total emissions</td>
<td>tCO₂e</td>
<td>307,661.9</td>
<td>263,694.5</td>
<td>247,919.5</td>
</tr>
<tr>
<td>Underlying energy consumption used to calculate emissions</td>
<td>kWh</td>
<td>1,090,983,741.9</td>
<td>997,044,726.4</td>
<td>980,404,800.4</td>
</tr>
</tbody>
</table>

#### Financial statements

<table>
<thead>
<tr>
<th>Revenue</th>
<th>£m</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>4,659.6</td>
<td>4,474.8</td>
<td>4,449.5</td>
<td></td>
</tr>
<tr>
<td>Intensity Ratio</td>
<td>tCO₂e/£m</td>
<td>66.0</td>
<td>58.9</td>
<td>55.7</td>
</tr>
</tbody>
</table>

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting & Reporting Standard under the ‘Operational Control’ approach. Figures for UK operations follow conversion factors published by BEIS. Non-UK operations use emission factors applicable to the fuel source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Scope 1, 2 and 3 have been divided by the annual revenue to provide the intensity ratio (tCO₂e per £m). Figures for 2019/20 have been adjusted to include data unavailable last year, and figures for this year include an element of estimated data. Certain data, estimated to be immaterial to the Group’s emissions, has been omitted as it has not been practical to obtain (operations in Oman, South Korea, Canada and Australia). Metering and monitoring improvements are being implemented to capture these data streams.
Sustainable buildings
Across the organisation we continue to develop and improve our built estate and we strive to achieve excellent sustainability credentials with all developments. Sustainability considerations are at the core of the design and decision making process. We aim to deliver high quality assets which meet the current and future needs of our staff and customers whilst minimising our environmental impacts.

In 2019 we opened the Babcock Technology Centre in Bristol, which houses 850 people and is home to staff from across all four of our sectors. The accommodation is over five floors and the facilities include a gym and canteen. The building was designed and built to Building Research Establishment Environmental Assessment Method (BREEAM) Excellent standard, as were the recent new buildings at our sites in Devonport and Rosyth.

This year RAF Valley and RAF Cranwell also achieved Defence Related Environmental Assessment Method (DREAM) accreditations for construction.

Zero to landfill
All Babcock businesses are committed to minimising waste across their operations. For example, our dockyard in Rosyth has been zero to landfill for a number of years now.

Last year our power business in the UK, Babcock Networks Limited, achieved 100% diversion of construction waste from landfill across all overhead line projects, equating to 39,462 tonnes.

Over the coming year, we will improve our recycling and re-use activities. We will also assess the opportunity to attain zero to landfill in other business areas.

Waste management
We also actively help our customers meet their waste management targets.

Babcock manages the rental leases for the UK MOD’s white fleet, and is supporting the MOD and the UK Government in the transition to ‘Road to Zero’, which includes a commitment to convert 25 per cent of combustion engines to ultra-low emission by 2022, and 100 per cent by 2030.

Protecting biodiversity
Babcock’s work to refurbish the overhead power line from Landulph to Exeter involved going through a number of Sites of Special Scientific Interest.

The area included the habitats of wildlife such as great crested newts, dormice and protected birds, and even a goshawk nest.

Our environmental advisor identified at an early stage that the ecological surveys provided to us lacked scope and detail, and so we took a proactive approach to make sure we could protect the habitats without incurring undue delays.

We deployed a specialist ecologist who conducted additional surveys and consulted with key stakeholders like Natural England.

An example of effective management of emissions can be seen in our Type 31 build work, where we are transporting steel, rebar and concrete to Rosyth by sea instead of by road. This reduces the number of lorries on our roads by approximately 3,500 over the three month-period it would have taken to deliver the material, thereby reducing CO2 emissions, noise impact and enhancing road and site safety.

At RAF Brize Norton, we challenged well-established processes to make significant environmental improvements to our use of water. Demonstrating that we were able to use waste potable water to conduct hyper-sterilisation tasks has reduced water wastage by almost 500,000 litres per year.

Protocols have been developed and validated which reduce the fluid used in testing and preparing the anti-icing delivery vehicle used by AirTanker from an average of 80,000 litres a year to around 30,000 litres.

These improvements have had a direct impact on our local environment, as previously all applied de-icing fluid and unused water went into the RAF Brize Norton ground water system.

We used the latest methodology – Environmental DNA surveys – and additional dormice surveys, and used these to plan our work, calculating the permanent and temporary habitat impact at the design stage.

We even liaised with a goshawk specialist and with the agreement of the Forestry Commission we were able to do the essential work safely and without any impact to the birds of Haldon Forest.
The eight principles that make up being babcock aren’t new. In fact, they may seem rather obvious. That’s because they already live and breathe within our business. They’re what we do when we’re working at our best, and they are a key contributor to building trust with our customers.
Sustainable business continued

Social

People and potential

We recognise that our people are critical to our ability to deliver our strategic goals. We need to ensure that their workplace is safe, is inclusive, welcomes diversity and offers everyone the chance to develop to their full potential.

In order to serve our customers effectively, we need to have the right people, with the right skills, and the right behaviours, in the right place.

Safety at Babcock

Home safe every day

Safety is, without question, our number one priority. We are committed to continuing our efforts to make sure that every one of our people, and the people whom we work alongside, goes Home safe every day. Safety is at the heart of our drive to deliver operational excellence for our customers. We believe that focusing on safety is essential to having a high-performing, open and constructive safety culture, where our people can speak up, be heard, invested in and trusted.

Governance

The Group’s Board and Executive Committee review safety commentary and performance reports on a monthly basis. The Board additionally receives half-yearly reports on our safety performance and initiatives.

Our Corporate Safety Steering Group (CSSG) is the highest level of professional, collective management of health and safety issues within the Group. Its role is to:

- Recommend and set Group safety strategy, policy and standards for all matters relevant to the protection of the environment and the health and safety of the Group’s employees and any other persons affected by our undertakings
- Assure the Group Executive Committee and the Board of Directors of the delivery of these policies and standards

Safety review

In January, an incident involving inspections on an armoured vehicle resulted in the tragic death of one of our long-serving colleagues. This is currently under investigation by the appropriate authorities. In Spain, whilst we have recorded zero work-related fatalities an EMS captain from our Ciudad Real base died after contracting the COVID-19 virus. He had been working with us for over 12 years, carrying out numerous flights with the utmost professionalism and commitment to the service.

Our incident reductions this year demonstrate Babcock’s refocused safety culture and the continual improvement from our people. The number of injuries in the period has reduced by 21%, and the more serious “Babcock riddor” injuries have reduced by 24% compared to the previous year. Similarly, our total injury rate (injuries per 100,000 hours worked) has reduced by 16% and the Babcock riddor injury rate by 22%.

While we continue to strive for further improvements, the Group’s performance continues to be better than industry norms, with an injury rate of 1.24 per 100,000 hours compared to 2.44 for the manufacturing sector, including shipbuilding and repairs, as reported in the 2019 Health and Safety Executive statistics.

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</thead>
<tbody>
<tr>
<td>Total number of injuries</td>
<td>2,084</td>
<td>1,720</td>
<td>1,389</td>
<td>1,452</td>
<td>1,141</td>
</tr>
<tr>
<td>Fatalities</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Major injuries</td>
<td>38</td>
<td>27</td>
<td>12</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>Over-three-day injuries</td>
<td>164</td>
<td>107</td>
<td>101</td>
<td>145</td>
<td>111</td>
</tr>
<tr>
<td>Babcock riddor¹ totals</td>
<td>202</td>
<td>141</td>
<td>115</td>
<td>173</td>
<td>132</td>
</tr>
</tbody>
</table>

Total injury rates per 100,000 hours worked

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>1.92</td>
</tr>
<tr>
<td>2016/17</td>
<td>1.81</td>
</tr>
<tr>
<td>2017/18</td>
<td>1.35</td>
</tr>
<tr>
<td>2018/19</td>
<td>1.47</td>
</tr>
<tr>
<td>2019/20</td>
<td>1.24</td>
</tr>
</tbody>
</table>

Babcock riddor¹ rate per 100,000 hours worked

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>0.19</td>
</tr>
<tr>
<td>2016/17</td>
<td>0.13</td>
</tr>
<tr>
<td>2017/18</td>
<td>0.11</td>
</tr>
<tr>
<td>2018/19</td>
<td>0.18</td>
</tr>
<tr>
<td>2019/20</td>
<td>0.14</td>
</tr>
</tbody>
</table>

¹. In 2012, the UK Health and Safety Executive changed RIDDOR reporting from time lost through injury from three days to seven days. We have, however, continued to monitor and report on the lower three-day threshold and record this as ‘Babcock riddor’.

Our internal safety audit programme aims to ensure:

- Alignment of business safety policy with the Group safety policy and capability to discharge duties therein
- Compliance with Babcock’s Safety Behaviours and Expectations
- Safety improvement plans are implemented, based on a balanced assessment of safety performance that delivers the commitment to continuous improvement
- Business unit learning across the Group, supporting continual improvement
- A consistent Babcock approach to safety and a sharing best practice.
Apprentices at Rosyth

This year saw Modern Apprentices Luke Day and Caitlin Thompson join us at Rosyth.

Electrical apprentice Luke has been fascinated by all things electrical since he was a young boy.

“Working on-site has definitely been the highlight of my time here to date. The skills that people have at Rosyth are unbelievable, and the level of engineering which went into building the site itself is phenomenal.”

Electrical Technical Design apprentice Caitlin is following in her family’s footsteps, joining both her father and uncle at the site. Caitlin has known she wanted to be an engineer since primary school.

“I did a Foundation Apprenticeship in Manufacturing Engineering when I was at school. It has really helped with my current Modern Apprenticeship, as it gave me a much better idea of what engineering entailed.”

Diversity & Inclusion

At Babcock we believe diversity is about embracing the advantages people with different experiences, skills and outlooks can bring to our teams.

Respect, Women in Babcock and Family Friendly Working

Our initiative, ‘All together different’, continues to drive our diversity agenda, led by our cross-business Diversity Steering Group, chaired by senior executives. This year we focused on three diversity initiatives: Respect, Women in Babcock and Family Friendly Working.

The Respect initiative sets to drive cultural change to deliver the respect element of being babcock.

Women in Babcock focuses on reducing the gender balance disparity in the workplace by improving gender equity.

The global Family Friendly Working initiative aims to recognise the evolution of the working day and family life and explore how technology can be utilised to adapt our way of working.

In Nuclear, the Cavendish Gateway Scheme, a work experience programme, delivered over 150 work placements, including placements for young women from disadvantaged areas. In Aviation, a sector-wide Respect survey was undertaken to assess employee views. The results from the survey will be used to inform future policy. Our Marine and Land sectors conducted reviews of their family friendly policies.
Sustainable business continued

Social
People and potential continued

Employee networks
Babcock has a range of employee networks in place across the business. This year saw the development of the Neuro-diversity and Young Professionals Network. The Company is affiliated with Stonewall and our Pride in Babcock network continues to be very active, undertaking awareness-raising activities, as well as celebrating Pride month. During our Dialogue Week, we held events across the Group, which this year included a presentation to our Devonport workforce on unconscious bias from retired footballer John Barnes. We encourage our employees to engage with these networks as a way of promoting momentum around diversity and inclusion. For the organisation, it is not only crucial that we are able to recruit from the widest pool of talent but also to ensure that we can retain and reward those most suitable for the job. This will allow us to deliver our best for our customers and to safeguard the future of Babcock.

Gender diversity and pay gap
Like others in the defence, engineering and aviation industry, recruiting female employees with Science, Technology, Engineering and Maths (STEM) qualifications and experience can be a challenge, because of the relatively low numbers of women who choose careers in STEM. This, coupled with a low staff turnover, affects our ability to improve our gender mix. We are working hard to change this: 18.8% (6,155) of our total workforce is female, (male: 26,664) with 26% (23) female senior managers (male: 64), and, we have 4 (33.3%) female Board Directors (male: 8).

We have continued to work to improve the environment for women within our organisation, and are implementing a series of actions and development programmes across the organisation to address this.

We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2020, 22% of those employed on our graduate scheme were female. We are encouraged that we have managed to reduce the gender pay gap compared to last year, with a mean pay gap of 13.4% (2018: 14.1%) and a median pay gap of 15.8% (2018: 16.0%). This compares to a UK average of 17.3%.

Whilst this is a step in the right direction, we are committed to grow our talent pipeline in the longer term through our STEM engagement programme and to attract the best diverse talent available. We will also focus on helping all our employees to fulfil their potential. More details can be found in our 2019 Gender Pay Gap report, available on our website.

Training and education
We have found our existing employees to be great advocates for our organisation, and so we have used their experiences to give colour to our recruitment campaigns, particularly for graduates. Working with our recruitment partners, a variety of routes are used to ensure vacancies are marketed to the widest possible audience. Our aim is that candidates experience a professional, efficient and friendly recruitment and ‘on-boarding’ procedure.

Sectors and business units place significant emphasis on the retention and development of talent, with processes in place to identify potential for the future. In addition to local development programmes, we have a number of Group-wide management development resources.

We offer executive development opportunities to our high-potential employees. To date, 50 employees have completed our accredited MBA programme with Strathclyde University and a further 18 have been nominated for development programmes with Harvard. A further cohort started studying for the Babcock MBA this year.

We continue to invest in the capability of our leaders and managers through a variety of programmes such as our First Line Leader Development Programme, which is designed to develop our leadership capability and maximise the potential in our teams.

Babcock has always been a strong supporter of apprenticeships and is making increasing use of higher and degree apprenticeships, both to retain existing employees and to invest in future talent. We currently offer around 50 apprenticeship routes across all levels, from two to seven, although our focus remains on creating opportunities for those seeking to join the workforce and, as such, 80% of our apprentices study at levels two and three.

We have further developed our degree apprenticeship programmes with our framework of university partners. Last year we launched degree-level programmes in digital, engineering, business and commercial disciplines.

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<table>
<thead>
<tr>
<th>Diversity</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total workforce diversity</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Senior manager diversity*</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>Board diversity</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Graduate diversity</td>
<td>78%</td>
<td>22%</td>
</tr>
</tbody>
</table>

* Executive Committee and direct reports.
Social
Community engagement

Our partnership with the communities in which we operate is at the core of Babcock’s business. It’s truly a partnership – we need each other’s support to thrive and grow.

University engagement
We partner with a broad range of academic establishments to support funded research, PhDs or their advisory boards. Examples of current partnerships include Strathclyde University Advanced Nuclear Research Centre, Cranfield University Through-life Engineering Services Centre, Bristol University South West Nuclear Hub, University of Exeter, University of Valencia and Centrum Research and Technology. Key areas that we are working on include digitally enabled asset management; advanced manufacturing and maintenance techniques; digital twins and analytics; and artificial intelligence.

STEM
Babcock supports its employees to become trained STEM Ambassadors so they can support our extensive schools engagement programme. Over the past 12 months, we have conducted over 500 employee days of STEM activity, with 270 events engaging nearly 30,000 students. We have delivered activities in schools such as ‘guess my job’, hosted work experience weeks, attended careers fairs, judged awards such as the F1 in Schools National Finals, and supported cross-school programmes such as the Tomorrow’s Engineers EEP Robotics Challenge, and the Big Brick Build.

We also support STEM-focused educational initiatives and charities through the year. We supported the UK’s Year of Engineering and participated in larger events like the Plymouth Armed Forces day and the Big Bang UK Young Scientists and Engineers Fair, showcasing technology and engineering activities from across the Group. Our exhibits included demonstration of nuclear safety, a miniature wind tunnel showing how air forces act on aircraft and a LEGO submarine.

We also supported National Storytelling Week, attended various local events such as the Devon County show and participated in the STEM event hosted on board the new Prince of Wales aircraft carrier.

Our Marine sector has successfully worked with the Royal Navy to deliver joint STEM events to around 600 pupils, and 3,220 students have attended activities hosted by our Plymouth-based STEM Ambassadors.

Indigenous activities
We have specific policies and approaches designed to meet local community needs, especially in Canada, South Africa and Australasia.

Babcock is committed to strengthening the relationship with indigenous peoples, building partnerships with them through a framework which focuses on skills development, workforce inclusion and procurement.

We consult with indigenous peoples when we undertake activities, to ensure that our projects are carried out in a way that respects their rights and traditions.

In Canada, Babcock works with the Canadian Council for Aboriginal Business (CCAB) to further strengthen its involvement with Indigenous communities. We donated to the First Nations Technical Institute (FNTI), which is an Indigenous-owned and governed post-secondary institute located on the Tyendinaga Mohawk Territory.

Collaboration in the Caithness Community
The Cavendish Dounreay Partnership is responsible for delivering the safe and secure clean-up of the Dounreay nuclear site on behalf of the Nuclear Decommissioning Authority. As part of the parent body team (PBO), Cavendish Nuclear is actively engaged in supporting key initiatives in the local area, working as part of the Caithness and North Sunderland Regeneration Programme, established to combat the job losses that will result from the Dounreay’s decommissioning.

Since 2015, through its socio-economic programme, Cavendish Nuclear has been actively involved in the Wick Harbour project, one of the key enabling projects on the CNSRP programme. Wick Harbour Authority (WHA) identified the potential to secure the Operations and Maintenance base for the Beatrice Offshore Windfarm (BOWL). As the Board of WHA is voluntary, they recognised that to turn this into a reality they would require a project manager and so Cavendish Nuclear funded the secondment of a project manager. In 2017, WHA & BOWL signed an initial 25-year contract which has seen the creation of around 150 jobs. Our project manager continues to support WHA on future opportunities.
Sustainable business continued

Social
Community engagement continued

FNTI started the Aviation programme for indigenous people in 1990 in response to an absence of indigenous pilots in northern communities. Today they have over 150 graduates in various positions in the aviation industry and a current enrolment of 40% indigenous women.

UK Whole Force by Design
Babcock is committed to supporting the MOD and our Armed Forces in the implementation of Whole Force By Design.

We hold the Gold award from Defence Relationship Management in recognition of our support to Reserves, Service Leavers and Veterans. With over 150 Volunteer Reserves, we employ one of the largest bodies of reserves of any commercial organisation.

We have active Sponsored Reserve forces supporting the Army (REME) and, through our Joint Venture AirTanker, the RAF.

We have provided Contractors on Deployment and have contracted to support future requirements.

Porty’s Whizzing Recovery
Senior Support Engineer, Katherine Terris, who works on HMS Bulwark in Plymouth, has written a children’s picture book about Devonport Royal Dockyard. Entitled ‘Porty’s Whizzing Recovery’, it is illustrated by local student April Howard. The story focuses on marine-themed characters, from young ship Porty, to Simon the seagull and Trevor the submarine. It aims to take young readers on a journey of discovery about some of the work that takes place on the Devonport site.

Katherine, who is also a STEM ambassador and advocate for encouraging women into STEM-based careers, felt inspired to share her experience of working at Devonport. “The idea of writing a children’s book to raise awareness about what we do in an age-appropriate way really appealed to me. It is important that more young people learn about STEM-based careers, and that is what I’ve tried to introduce, recognising that readers are of primary school age.

“There are also a large number of children around the Plymouth area whose parents work for Babcock, and the book helps them to learn more about what happens when they head off to work.”

Support for the Armed Forces community
We are proud to be a major employer of service leavers, veterans and reserves.

As part of our commitment to the Armed Forces Covenant, all service leavers, veterans and members of a volunteer reserve are guaranteed a job interview if they meet the minimum requirement for an advertised role at Babcock.

Members of the Armed Forces community and their families can rely on our support and understanding. We offer a degree of flexibility in granting leave for service 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. We also 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.

Support for the Reserve Forces
We actively support our reservist employees, providing a minimum of ten days special paid leave per year for reserves or uniformed cadet instructors with a full training commitment.

We promote reserve service to all those in the Group, including all our new graduates and apprentices.
We are committed to conducting business honestly and openly, and with integrity. As well as being the right and proper way to behave, this supports our long-term success.

We understand that our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected unethical behaviour.

To ensure good governance and ethical behaviour across our Group, we have developed a series of Group policies to guide our actions and those of our employees, suppliers and partners. An outline of our controls can be found on page 82.

**Code of Business Conduct**

To protect the Company and reduce these risks, we have set out a policy on how we should conduct business, which we summarise in the form of the Babcock Code of Business Conduct.

Compliance with this policy is compulsory for our employees, business advisors and business partners (or, in the case of business advisors and partners, they must have equivalent standards and procedures in their own businesses).

The Code of Business Conduct comprises a detailed manual, available on the Group’s intranet, that contains guidelines, authorisation and other procedures aimed at identifying and reducing ethical risks. The controls that we have in place form an integral part of our risk management arrangements and include the training of employees, regular risk assessments throughout the business and whistleblowing hotlines.

We implement and observe appropriate training and procedures designed to ensure that we and others working for us understand what our Code of Business Conduct and our Suppliers’ Code of Business Conduct means for them in practice. We treat seriously breaches of our Codes or associated guidance.

Employees can raise (confidentially if they wish) without fear of unfavourable consequences for themselves, any concerns they have that our Code or its associated guidance is not being followed.

More details of our risk management procedures can be found on pages 80 to 92 and the Ethics Policy and Code of Business Conduct and Suppliers’ Code of Conduct can be found on our website. Further information about the whistleblowing process can be found on page 82.

**Human rights**

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we deal in our operations around the world. While we continue to believe that our exposure to the risks of human rights abuses and modern slavery is low within our own business and supply chain, we welcome the opportunity we have to contribute positively to global efforts to ensure that human rights are understood and observed.

We believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do.

Our Modern Slavery Transparency Statement is reviewed and approved annually by the Board. It is available on our website.

**Cyber security**

Our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information is critical for our customers. Babcock’s Group Security Board meets quarterly to provide governance covering cyber and other security and informational assurance risks, issues and threats facing the Group.

Babcock is a key member of the joint MOD and industry Defence Cyber Protection Partnership which is an initiative to ensure the defence supply chain understands the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and DCPP Executive committee. Babcock’s core IT Services are certified to ISO27001 (Information Security) and ISO22301 (Business Continuity).
Sustainable business continued

Diverse and robust supply chains enable us to provide quality and timely delivery. We work closely with our suppliers to develop and deliver innovative solutions that drive value to our customers.

External expenditure via third-party suppliers, including Original Equipment Manufacturers (OEMs), accounts for approximately 50% of our turnover and our approach and ability to manage these relationships impacts our ability to deliver performance and margin.

Our procurement and supply chain function develops and delivers optimal supply chain solutions which enable us to return value to our customers, shareholders and communities.

We buy a wide range of goods and services and need reliable, high performing suppliers across our supply chain.

We work with over 10,000 suppliers. These range from OEMs to Small and Mid-size Enterprises (SMEs). Of these suppliers, 300 are strategic, and are key partners in our ability to deliver continuous improvement and innovative quality outputs.

Small and Mid-size Enterprises
We recognise the value that SMEs play in the wider economy and we actively encourage them to engage with us. Working closely with SMEs ensures that we have access to optimal solutions and provides enhanced flexibility and agility. See case study below for further examples of our engagement with SMEs.

Governance
The development and execution of our supply strategy is aligned with the overall business requirements, for both short and longer term.

To ensure a robust supply chain, we have developed a series of procedures that guide our Group-wide procurement activity. In addition, each sector has supporting policies which outline their operating principles and ways of working.

Our supply base design is balanced to meet our customer, regulatory and financial performance requirements. It considers supply chain risk and addresses appropriate mitigating actions.

Business critical suppliers are reviewed with the Audit and Risk Committee on an annual basis to address any risks or concerns.

Effective engagement
Our activities ensure that we continue to deliver value through working effectively with our supply chains.

By improving upstream supply chain involvement in bid processes, we have been able to engage earlier with potential suppliers.

This enables our suppliers to actively support the design and implementation stages with innovative solutions and deliver enhanced productivity and increased quality.

We use our business intelligence tools, which include ratings agencies, ERP systems and spend analytics, to enable us to work collaboratively with our suppliers and focus on innovation and other value-add initiatives.

The e-procurement tools that we are implementing will embed and in some cases improve our robust processes that enable us to ensures sustainable relationships with our suppliers.

Supporting Small and Mid-size Enterprises
We recognise the value that working with SME suppliers can bring, and we actively engage with SMEs as part of our supply chain design activities.

Procurement teams lead market-warming activities before letting contracts. This enables SMEs to understand the opportunities available and also allows us to offer guidance on the bidding process. We run industry supplier days to maintain and develop a strong working relationship with SMEs which identifies their capabilities for current and future opportunities. “Lunch and learn” sessions have been held with SMEs to share best practice across a range of topics.

Our procurement teams attend national and local conferences and exhibitions, including DPRTE, DSEI and Farnborough to seek out new suppliers and discuss opportunities during ‘meet the buyer’ events.
Supplier code of conduct

Our Group-wide Suppliers’ Code of Conduct (available on the Group’s website) is designed to provide clarity about our expectations of suppliers, including compliance with all applicable laws.

While we recognise that our suppliers operate in different geographic and economic environments, we expect that products and services are delivered in a way that support Babcock’s high standards and contribute to the reputation of Babcock and our customers.

The Code reflects the same standards that we hold ourselves and enables a consistent approach to our customers in delivering to the highest ethical standards.

Suppliers and the extended supply chain are expected to meet these standards at all times, and should either be willing to subscribe to our Code or have equivalent standards and procedures in their own businesses.

Our intention is to be a good partner and to work with suppliers to support necessary improvements, but we will not accept any behaviour which is contrary to our ethical codes or health, safety and environmental working practices.

Supplier due diligence

Before engaging with suppliers, we assess their ability to demonstrate that they are ‘fit for business’, with financial, commercial, safety and governance capability. We also look for potential suppliers to support our social purpose and sustainability agenda.

Suppliers also demonstrate they are ‘fit for purpose’, with technical, health and safety capability and security compliance to meet our contractual requirements.

Businesses use appropriate processes to qualify, on-board and periodically revalidate suppliers to ensure compliance with commercial, regulatory and legal requirements.

Protecting the information and physical assets of our customers is an important part of what we do. We always expect high standards of commercial confidentiality. For certain types of supply we have and continue to develop exacting standards of security compliance.

In the UK, we use the JOSCAR due diligence tool, which is a shared industry-wide management system for defence contractors that collects standardised information about individual suppliers across the UK supply chain.

Certain suppliers will be selected for an audit based on risk assessment. These checks will assess suppliers’ approach to human rights, data protection, modern slavery, health, safety and environmental issues. If risks are identified, we work with suppliers to address them.

Prompt payment

We understand the importance of predictable payments when running a business and encourage good practice across the Group. Twenty-one legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. Average payment for these entities over the past six months is 34.5 days.

We support the Prompt Payment code and encourage our suppliers to adopt the code themselves and promote adoption of the code throughout their own supply chains.

COVID-19 supply risk

We are working closely with our supply chain to determine the impact of COVID-19 lockdown on their business and the deeper supply chain. At this time, we have not identified material supply chain risk, however, we maintain an open channel of communication with our suppliers.

Modern Slavery training: supply chain

An important part of our vigilance regarding Modern Slavery relates to scrutiny of our supply chain.

This year, we have developed bespoke e-Learning modules for key procurement and supply chain employees. This aims to ensure staff are alert to any potential for modern slavery in the supply chain and to provide advice on how they can address concerns, including by contacting an independent whistleblowing hotline.

Employees involved in supplier selection and engagement are now required to complete the awareness training programme.
Women in Defence

Babcock was proud to be one of the founder signatories to the Women in Defence Charter in 2019. Launched by the UK’s Minister for Defence Procurement and the Charter’s Patron, Babcock Chair Ruth Cairnie, the Charter commits defence companies, the MOD and the Armed Forces to drive diversity and inclusivity within their organisations and provide opportunities for women to succeed at all levels.

The Charter aims to enable women to thrive in the sector, enhancing the individual and collective impact of women across defence, and in doing so, improve the overall output of defence. Each signatory has pledged to report on their progress in improving gender balance in the defence community.

Women in Babcock

Like others in the engineering sector, we face challenges recruiting female employees with STEM qualifications and experience, not least because fewer women study these subjects than men. This, coupled with a low turnover of staff, means it will take time to close the gender gap – but we are committed and focused on doing just that.
Women in Nuclear
We are part of the industry initiative to achieve a target of having 40% of the nuclear sector’s workforce being made up of women by 2030. Currently 29% of Cavendish Nuclear’s Board of Directors are women, well above the industry average.

In January, Cavendish Nuclear’s Strategy Director Lynsey Valentine took up the role of President of Women in Nuclear UK, demonstrating our continued commitment to drive and lead change to maintain an inclusive workforce culture.

Women in Aviation
Babcock has joined over 100 organisations in signing the Women in Aviation and Aerospace Charter, a Government-supported initiative to make aviation a fairer and more gender-balanced sector.

Since signing, Babcock has attended numerous workshops and events linked to the Charter, including at the House of Commons, and is supporting the work to mature benchmarking and initiative targets which will help organisations in the industry achieve gender equity.

Our membership of the Charter complements our internal ‘Fly High’ initiative, which works to increase applications from women to our Aviation graduate schemes.
Critical support: defence
I develop new submarine concepts which demonstrate our design capability and help us deliver for customers globally.

Our team works across key defence partnerships, and we use events and conferences to showcase our depth of expertise in design, engineering practice and submarine upkeep.”
Overview

Underlying revenue and underlying operating profit were in line with our expectations set out in our April trading update after a small impact from COVID-19 and exchange rates in the final months of the year. Performance in our Marine sector was particularly strong and exceeded our expectations at the start of the year, with growth across every business area. Our Land sector delivered solid results while our defence businesses in Nuclear and Aviation had strong years.

We saw increasing challenges in parts of the business during the year. The oil and gas aviation market has deteriorated while we saw delays and increased cost pressures in aerial emergency services. Because of these pressures we have taken action to further reduce our Oil and Gas fleet and restructure our Aviation sector. We have also recognised a significant goodwill impairment charge to reflect our current expectations of the oil and gas market and the deterioration in the business since the acquisition of Avincis in 2014. A slowing in the UK civil nuclear market combined with a smaller business following the end of the Magnox contract has also led us to restructure our Nuclear sector, including closer integration of our civil and naval nuclear activities under a single management team.

We continue to generate significant free cash flow however the impact of COVID-19 resulted in free cash flow below our expectations for the year. COVID-19 impacted customer receipts and invoicing in the final month of the year and also stopped some asset sales completing in March which led to higher than expected net capital expenditure.

Net debt excluding lease obligations was £922 million, after paying our ordinary dividend last year, and we end the year well-placed for the future with a net debt to EBITDA of 1.7 times.

COVID-19 and outlook for next year

The impact of the Coronavirus (COVID-19) pandemic creates uncertainty as we enter the year ahead. However, the very nature of Babcock’s business – supporting non-discretionary defence, emergency services and nuclear power programmes and services – has ensured that the majority of our work has continued throughout the pandemic, with our employees designated as critical workers by governments in the UK and internationally.
All our major sites have remained operational throughout, and our aerial emergency medical services business in particular has played a vital role in the response to the pandemic, particularly in Italy, Spain and France.

As a critical supplier to governments in the UK and internationally, we are working very closely with our customers to ensure we continue to support them as countries start to ease lock-down measures. Looking ahead, we will continue to deliver critical services across all three markets, although we expect to see lower productivity levels as our customers prioritise their critical programmes. Work in our short cycle businesses and our adjacent markets is more uncertain and is likely to see a greater impact.

Given the uncertain impact of COVID-19, our medium term targets, outlined on page 27 will not be achieved in the current financial year. The drivers of our strategy remain unchanged and the long term characteristics of our business remain strong. We will continually assess our medium term targets as we emerge from the pandemic and they are aiming points for us to return to.

We enter the new financial year faced with uncertain times. We provide some commentary on the year ahead across our sector operational reviews, set out on pages 68 to 77, but we are unable to provide detailed financial guidance at this time. Given the current uncertainty, the Board has deferred the decision on our final dividend until there is greater certainty on the impact COVID-19 will have on our business and stakeholders. We will provide an update in our AGM trading statement on 4 August 2020.

Adjustments between statutory and underlying

Our underlying results include some adjustments to our statutory results that we make to provide a consistent measure of business performance year to year. Underlying results are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance. The adjustments made are:

- Underlying revenue, underlying operating profit and underlying net finance costs include the Group’s share of equity-accounted joint ventures and associates. These are included as they are a key part of our business and the way work is conducted in the markets in which we operate, with joint venture structures common in the defence industry. Our bidding pipeline includes the potential for more joint ventures to be added to the Group in the future and they remain a key part of our strategy.
- Underlying operating profit includes investment income arising under IFRIC 12 which is presented as financial income in the Income Statement. Like joint ventures, the income we receive under IFRIC 12 relates to key parts of our business and its contribution is dependent on the performance of the business.
- Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it is a non-cash item that does not change each year based on the performance of the business.
- Underlying operating profit excludes exceptional items. Details of these items are included on the following page.

Adjustments between statutory and underlying reconciliation

Our underlying results include some adjustments to our statutory results that we make to provide a consistent measure of business performance year to year. Underlying results are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance. The adjustments made are:

<table>
<thead>
<tr>
<th>Statutory</th>
<th>Joint ventures and associates</th>
<th>IFRIC 12 income</th>
<th>Amortisation of acquired intangibles</th>
<th>Exceptional items</th>
<th>Change in tax rate</th>
<th>Underlying</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>31 March 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>4,449.5</td>
<td>422.2</td>
<td></td>
<td></td>
<td></td>
<td>4,871.7</td>
</tr>
<tr>
<td>Operating (loss)/profit</td>
<td>(164.9)</td>
<td>79.8</td>
<td>27.0</td>
<td>81.5</td>
<td>500.8</td>
<td>524.2</td>
</tr>
<tr>
<td>Share of profit from JV</td>
<td>58.6</td>
<td>(79.8)</td>
<td>22.8</td>
<td>16.4</td>
<td>(25.9)</td>
<td>5.8</td>
</tr>
<tr>
<td>Investment income</td>
<td>1.1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(73.0)</td>
<td>(22.8)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>(Loss)/Profit before tax</td>
<td>(178.2)</td>
<td>–</td>
<td>–</td>
<td>16.4</td>
<td>–</td>
<td>87.3</td>
</tr>
<tr>
<td>Tax</td>
<td>(15.0)</td>
<td>–</td>
<td>–</td>
<td>(16.4)</td>
<td>(18.4)</td>
<td>(26.1)</td>
</tr>
<tr>
<td>(Loss)/Profit after tax</td>
<td>(193.2)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>68.9</td>
</tr>
<tr>
<td>Return on revenue</td>
<td>(3.7)%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

31 March 2019 |
| Revenue   | 4,474.8                       | 685.8          |                                    |                 |                 | 5,160.6    |
| Operating profit | 196.5 | 106.8 | 29.1 | 95.2 | 160.8 | 588.4 |
| Share of profit from JV | 83.8 | (106.8) | 24.1 | 20.9 | (27.8) | 5.8 | – |
| Investment income | 1.3 | – | – | – | – | – |
| Net finance costs | (46.4) | (24.1) | – | – | – | – |
| Profit before tax | 235.2 | – | – | 20.9 | – | 101.0 | 160.8 | 517.9 |
| Tax | (35.4) | – | – | (20.9) | (21.5) | (16.7) | 1.3 | (93.2) |
| Profit after tax | 199.8 | – | – | – | – | 79.5 | 144.1 | 1.3 | 424.7 |
| Return on revenue | 4.4% | – | – | – | – | – | – | 11.4% |
Income statement

Statutory performance
Statutory revenue was £4,449.5 million (2019: £4,474.8 million) and reflects the step downs in our QEC contract as well as the impact of exits and disposals in the last financial year. Statutory operating loss was £(164.9) million (2019 profit: £196.5 million) and statutory loss before tax was £(178.2) million (2019 profit: £235.2 million), reflecting higher exceptional charges in the current year compared to the prior year. Basic earnings per share, as defined by IAS 33, was 38.6 pence (2019: 39.5 pence) per share.

Underlying revenue performance
Underlying revenue for the year was £4,871.7 million (2019: £5,160.6 million), down £288.9 million. This reduction reflects the impact of £428.4 million of step downs including foreign exchange movements. Excluding these, underlying revenue grew by 2.7%.

Underlying operating profit performance
The Group’s underlying operating profit performance reflects strong trading in our Marine sector offset by weakness in our Aviation sector and a small impact from COVID-19.

Underlying profit includes a £23.6 million benefit from the adoption of IFRS 16. Excluding this, underlying operating profit of £500.6 million was down £87.8 million on last year. This reduction includes a combined £60.0 million impact of step downs as detailed below. These step downs relate to:

• The end of our contract for design and build of the Queen Elizabeth Class (QEC) aircraft carriers and the step down in revenue and profit year-on-year
• The end of our Magnox contract and the step down in revenue
• The impact of exits and disposals with the step down being the absence of revenue and profit contribution in the FY20 year

Excluding IFRS 16, step downs and exchange rates, underlying operating profit was down 4.7%, mainly due to performance in our Aviation sector and a small impact from COVID-19.

FY20 step downs

<table>
<thead>
<tr>
<th>Revenue £m</th>
<th>Operating profit £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>QEC</td>
<td>(50.4)</td>
</tr>
<tr>
<td>Magnox</td>
<td>(270.8)</td>
</tr>
<tr>
<td>Exits and disposals</td>
<td>(70.8)</td>
</tr>
<tr>
<td>Normalisation of Holdfast profit contribution</td>
<td>–</td>
</tr>
<tr>
<td>Brexit-related Aviation restructuring</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total impact of step downs</strong></td>
<td>(392.0)</td>
</tr>
<tr>
<td>Impact of foreign exchange movements</td>
<td>(36.4)</td>
</tr>
<tr>
<td><strong>Total impact of step downs including foreign exchange movements</strong></td>
<td>(428.4)</td>
</tr>
</tbody>
</table>

Exceptional items

<table>
<thead>
<tr>
<th>Income statement charge / (credit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation</td>
</tr>
<tr>
<td>• Goodwill impairment</td>
</tr>
<tr>
<td>• Asset impairment (Oil and Gas)</td>
</tr>
<tr>
<td>• Right of use asset impairment and onerous customer contracts (Oil and Gas)</td>
</tr>
<tr>
<td>• Exit of Ghana and Congo (Oil and Gas)</td>
</tr>
<tr>
<td>• Aviation restructuring</td>
</tr>
<tr>
<td>• Aviation other (including Italy anti-trust fine)</td>
</tr>
<tr>
<td><strong>Total Aviation</strong></td>
</tr>
<tr>
<td>Capacity restructuring (Nuclear and Rail)</td>
</tr>
<tr>
<td>Exits and disposals</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Tax</td>
</tr>
<tr>
<td><strong>Net</strong></td>
</tr>
</tbody>
</table>

In response to the further deterioration in the oil and gas aviation market and business challenges in our Aviation and Nuclear sectors, we have taken action this year to stabilise the business for the medium and long term. These actions have incurred exceptional charges which were partly offset by the gain on the sale of Context in March 2020.
Aviation market
Our Aviation sector operates in the defence, emergency services and oil and gas markets. While the defence market has remained robust, and the emergency services market remains attractive in the medium term, the oil and gas market deteriorated significantly during the year. Two of the three large providers of helicopter services who operate worldwide in oil and gas emerged from Chapter 11 bankruptcy protection with reduced debt and written-down assets. This effectively reset global market pricing levels and forced us to respond quickly to remain competitive. Furthermore, with a significant fall in the price of oil, we do not expect any recovery in this market any time soon.

Aviation: Goodwill impairment
The further deterioration in the oil and gas market contributed significantly to our review of goodwill in the Aviation sector, which relates to the acquisition of Avincis in 2014. As a result of this review, we have taken an impairment charge of £395.0 million to reflect revised estimates of the future performance of the sector given the change in market conditions.

Aviation: Oil and Gas
We have written down assets in our Oil and Gas business by £22.2 million and recognised costs of £31.2 million in relation to the impairment of right of use assets and onerous customer contracts. We also exited our oil and gas businesses in Ghana and Congo and incurred charges of £7.1 million in relation to this.

Aviation: Restructuring
The impact of trading in our Oil and Gas aviation business combined with the impact of delays in our aerial emergency services business led us to take action to reduce the cost base as a whole for the Aviation sector, creating a simplified European structure to create an agile business competitive for the medium term. The Aviation restructuring charge was £26.5 million and primarily relates to redundancy costs.

Aviation: Other (including Italy anti-trust fine)
Other charges in our Aviation sector relate to a fine in Italy and associated legal costs, plus additional costs from our Brexit-related restructure in addition to those recognised in the prior financial year.

We have recognised a provision of £46 million in respect of a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia S.p.A ("BMCS Italy") following an unsuccessful first instance court decision. This matter was previously a contingent liability to the Group. The fine relates to a publicly available “tariff list,” dating back to 2001 produced by a trade association of which BMCS Italy was a member. BMCS Italy does not accept the basis of this decision. In particular, BMCS Italy is convinced that the tariff list never related to the helicopter emergency medical services ("HEMS") and, indeed, this lack of relevance was explicitly stated on the front of the list from 2012, two years prior to the acquisition of BMCS Italy by Babcock in 2014. BMCS Italy will appeal this decision.

Capacity restructuring
This relates to restructuring programmes outside the Aviation section. The end of the Magnox contract in our civil nuclear business and the ongoing trading environment in the UK civil nuclear market has led us to take action to reduce the cost base of our civil nuclear business. The Nuclear restructuring charge was £16.5 million. We have also further restructured our Rail business. The total restructuring cost of £24.3 million primarily relates to redundancy costs.

Exits and disposals
The total net credit related to exits and disposals was £59.2 million, consisting of a £74.7 million gain on the sale of Context partially offset by additional costs from exits in the last financial year and the costs of exiting areas of our nuclear manufacturing business.

Cash costs of exceptional items
The net exceptional cash inflow in the year ended 31 March 2020 was £23.1 million, consisting of £37.8 million of costs from exceptional items identified in the 2019 financial year and a net cash inflow of £60.9 million from the 2020 financial year exceptional, which included net cash proceeds from the sale of Context of £102 million.

Looking ahead, we expect net exceptional cash costs for the 2021 financial year of around £100 million, consisting of around £50 million of cash costs from restructuring programmes, the payment of the Italy anti-trust fine and other smaller cash costs partly offset by a saving in cash tax. This is before the £85 million proceeds from the sale of Holdfast.

We expect a small exceptional cash inflow in the 2022 financial year as cash tax savings offset small cash costs. In addition to this, we expect to make additional payments into the Rosyth pension scheme of around £90 million over the next two financial years. These payments will be treated as exceptional cash flows.

Finance costs
Total net finance costs increased to £95.8 million (2019: £70.5 million), mainly reflecting the impact of adoption of IFRS 16 and the group refinancing in September 2019, which increased group costs, partly offset by lower JV finance costs.

The Group’s share of joint venture net interest expense decreased to £22.8 million (2019: £24.1 million), following the pay down of joint venture debt. The IAS 19 pension finance charge was £0.1 million (2019: £0.3 million credit).

The refinancing in 2019 increased group finance costs by around £5 million year-on-year and is expected to increase finance costs further in the 2021 financial year by around £2 million.
Financial review continued

Underlying organic growth

<table>
<thead>
<tr>
<th>Marine</th>
<th>Nuclear</th>
<th>Land</th>
<th>Aviation</th>
<th>Unallocated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>31 March 2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying revenue</td>
<td>1,086.0</td>
<td>1,318.9</td>
<td>1,620.2</td>
<td>1,135.5</td>
<td>5,160.6</td>
</tr>
<tr>
<td>Exchange adjustment</td>
<td>(0.1)</td>
<td>-</td>
<td>(24.0)</td>
<td>(12.3)</td>
<td>(36.4)</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(37.9)</td>
<td>(8.7)</td>
<td>(46.6)</td>
</tr>
<tr>
<td>Step downs excl. disposals</td>
<td>(51.4)</td>
<td>(270.8)</td>
<td>(23.2)</td>
<td>-</td>
<td>(345.4)</td>
</tr>
<tr>
<td>Organic growth excl. step downs</td>
<td>172.4</td>
<td>62.8</td>
<td>18.5</td>
<td>(114.2)</td>
<td>139.5</td>
</tr>
<tr>
<td><strong>31 March 2020</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying revenue</td>
<td>1,206.9</td>
<td>1,110.9</td>
<td>1,553.6</td>
<td>1,000.3</td>
<td>4,871.7</td>
</tr>
<tr>
<td>Underlying revenue growth</td>
<td>11.1%</td>
<td>-</td>
<td>15.8%</td>
<td>-</td>
<td>11.9%</td>
</tr>
<tr>
<td>Organic growth at constant exchange rates</td>
<td>11.1%</td>
<td>-</td>
<td>15.8%</td>
<td>-</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

Underlying operating profit

<table>
<thead>
<tr>
<th>Marine</th>
<th>Nuclear</th>
<th>Land</th>
<th>Aviation</th>
<th>Unallocated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>31 March 2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>141.2</td>
<td>143.5</td>
<td>146.0</td>
<td>160.5</td>
<td>(2.8)</td>
</tr>
<tr>
<td>IFRS 16 impact</td>
<td>2.2</td>
<td>0.8</td>
<td>2.6</td>
<td>17.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Exchange adjustment</td>
<td>(0.1)</td>
<td>-</td>
<td>(1.6)</td>
<td>(1.5)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(4.3)</td>
<td>(3.0)</td>
<td>-</td>
</tr>
<tr>
<td>Step downs excl. disposals</td>
<td>(2.0)</td>
<td>(25.0)</td>
<td>(12.5)</td>
<td>(10.0)</td>
<td>-</td>
</tr>
<tr>
<td>Organic growth excl. step downs</td>
<td>2.7</td>
<td>7.0</td>
<td>3.7</td>
<td>(42.9)</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>31 March 2020</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying operating profit growth (pre-IFRS 16)</td>
<td>0.4%</td>
<td>-12.5%</td>
<td>-10.1%</td>
<td>-35.8%</td>
<td>-57.1%</td>
</tr>
<tr>
<td>Organic growth at constant exchange rates (pre-IFRS 16)</td>
<td>0.5%</td>
<td>-12.5%</td>
<td>-6.0%</td>
<td>-33.0%</td>
<td>-13.1%</td>
</tr>
<tr>
<td>Organic growth excl. step downs at constant exchange rates (pre-IFRS 16)</td>
<td>1.9%</td>
<td>4.9%</td>
<td>2.5%</td>
<td>-26.7%</td>
<td>-4.7%</td>
</tr>
</tbody>
</table>

Tax charge

The underlying tax charge, including the Group’s share of joint venture tax of £16.4 million (2019: £20.9 million), totalled £77.1 million (2019: £93.2 million), representing an effective underlying tax rate of 18.0% (2019: 18.0%). The effective tax rate is calculated by using the Group’s underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles, together with the tax credit in respect of exceptional items.

The underlying tax rate for the year ending 31 March 2021 will be dependent on country mix post COVID-19 but is not expected to exceed 19%.

Pensions

The Group’s net pension position moved to a surplus of £145.2 million (2019: £28.0 million deficit), with the movement due to slightly higher discount rates and significantly lower inflation rate assumptions.

Amortisation of acquired intangibles

Amortisation of acquired intangibles was £81.5 million (2019: £95.2 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual).

Exchange rates

The impact of foreign currency movements over the year resulted in a decrease in underlying revenue of £36.4 million and a corresponding £3.2 million decrease in underlying operating profit. The main currencies that have impacted our results are the South African Rand and the Euro. The currencies with the greatest potential to impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect underlying revenue by around £39 million and underlying operating profit by around £3 million
- A 10% movement in the South African Rand against Sterling would affect underlying revenue by around £33 million and underlying operating profit by around £4 million
- A 10% movement in the Canadian Dollar against Sterling would affect underlying revenue by around £15 million and underlying operating profit by around £2 million

Earnings per share

Underlying earnings per share for the year was 69.1 pence (2019: 84.0 pence), reflecting the lower underlying operating profit. The adoption of IFRS 16 had a minimal impact on underlying EPS, with higher operating profit offset by higher finance charges.

Basic continuing earnings per share, as defined by IAS 33, was (38.6) pence (2019: 39.5 pence) reflecting statutory earnings which included exceptional items.

Dividend

Given the current level of uncertainty over the impact of COVID-19, the Board has decided to defer the decision on our final dividend for the year ended 31 March 2020. We recognise the importance of the dividend to our shareholders and the Board will keep this under review during the financial year as the impact of COVID-19 becomes clearer.
**Cash flow and net debt**

The table below compares our underlying and statutory cash flows. Our underlying cash flows are used by management to measure operating performance as they provide a more consistent measure of business performance year to year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying Adjustments* £m</th>
<th>Statutory £m</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td>417.4</td>
<td>(582.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(164.9)</td>
<td>452.5</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td>452.5</td>
<td>291.7</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td>108.6</td>
<td>137.9</td>
</tr>
</tbody>
</table>

**Operating profit before amortisation of acquired intangibles**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>417.4</td>
<td>(582.3)</td>
</tr>
<tr>
<td>2019</td>
<td>(164.9)</td>
<td>452.5</td>
</tr>
</tbody>
</table>

**Amortisation, depreciation and impairments**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>95.7</td>
<td>490.0</td>
</tr>
<tr>
<td>2019</td>
<td>585.7</td>
<td>108.6</td>
</tr>
</tbody>
</table>

**Depreciation of right of use asset – IFRS 16**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>129.4</td>
<td>14.2</td>
</tr>
<tr>
<td>2019</td>
<td>143.6</td>
<td>–</td>
</tr>
</tbody>
</table>

**Profit on disposal of subsidiaries**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>– (74.7)</td>
<td>(74.7)</td>
</tr>
<tr>
<td>2019</td>
<td>–</td>
<td>86.8</td>
</tr>
</tbody>
</table>

**Other non-cash items**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>5.4</td>
<td>2.1</td>
</tr>
<tr>
<td>2019</td>
<td>7.5</td>
<td>(1.4)</td>
</tr>
</tbody>
</table>

**Working capital (excluding excess retirement benefits)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(26.8)</td>
<td>14.9</td>
</tr>
<tr>
<td>2019</td>
<td>(11.9)</td>
<td>86.8</td>
</tr>
</tbody>
</table>

**Provisions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(19.4)</td>
<td>81.8</td>
</tr>
<tr>
<td>2019</td>
<td>62.4</td>
<td>(28.7)</td>
</tr>
</tbody>
</table>

**Operating cash flow**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>601.7</td>
<td>(54.0)</td>
</tr>
<tr>
<td>2019</td>
<td>617.8</td>
<td>533.0</td>
</tr>
</tbody>
</table>

**Capital expenditure (net)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(147.5)</td>
<td>3.0</td>
</tr>
<tr>
<td>2019</td>
<td>(144.5)</td>
<td>(148.5)</td>
</tr>
</tbody>
</table>

**IFRS 16 additions less exceptional payments**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(109.8)</td>
<td>(18.3)</td>
</tr>
<tr>
<td>2019</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**Operating cash flow after capital expenditure**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>344.4</td>
<td>275.1</td>
</tr>
<tr>
<td>2019</td>
<td>463.9</td>
<td>384.5</td>
</tr>
</tbody>
</table>

**Cash conversion % – after capital expenditure**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying %</th>
<th>Statutory %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>83%</td>
<td>– (167)%</td>
</tr>
<tr>
<td>2019</td>
<td>104%</td>
<td>132%</td>
</tr>
</tbody>
</table>

**Interest paid (net)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(46.7)</td>
<td>(47.5)</td>
</tr>
<tr>
<td>2019</td>
<td>(47.5)</td>
<td>(47.5)</td>
</tr>
</tbody>
</table>

**Interest paid – IFRS 16**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(24.7)</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**Taxation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(62.6)</td>
<td>(86.9)</td>
</tr>
<tr>
<td>2019</td>
<td>(74.0)</td>
<td>(74.0)</td>
</tr>
</tbody>
</table>

**Dividends from joint ventures**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>52.0</td>
<td>52.0</td>
</tr>
<tr>
<td>2019</td>
<td>44.6</td>
<td>44.6</td>
</tr>
</tbody>
</table>

**Free cash flow before pension contribution in excess of income statement**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>262.4</td>
<td>183.3</td>
</tr>
<tr>
<td>2019</td>
<td>379.5</td>
<td>307.6</td>
</tr>
</tbody>
</table>

**Retirement benefit contributions in excess of income statement**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(70.2)</td>
<td>(73.5)</td>
</tr>
<tr>
<td>2019</td>
<td>(55.8)</td>
<td>(25.1)</td>
</tr>
</tbody>
</table>

**Free cash flow after pension contribution in excess of income statement**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>192.2</td>
<td>109.8</td>
</tr>
<tr>
<td>2019</td>
<td>323.7</td>
<td>282.5</td>
</tr>
</tbody>
</table>

**Acquisitions and disposals net of cash/debt acquired**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(0.8)</td>
<td>105.5</td>
</tr>
<tr>
<td>2019</td>
<td>104.7</td>
<td>(0.8)</td>
</tr>
</tbody>
</table>

**Investments in joint ventures**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(0.3)</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>–</td>
<td>0.1</td>
</tr>
</tbody>
</table>

**Movement in own shares**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(2.9)</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>–</td>
<td>0.1</td>
</tr>
</tbody>
</table>

**Dividends paid**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(153.9)</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>(153.3)</td>
<td>(153.3)</td>
</tr>
</tbody>
</table>

**Exceptional cash movement**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>23.1</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>(11.4)</td>
<td>(0.5)</td>
</tr>
</tbody>
</table>

**Movement in net debt excluding exchange rates**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>57.4</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>158.3</td>
<td>158.3</td>
</tr>
</tbody>
</table>

**Net debt reconciliation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(957.7)</td>
<td>(1,115.0)</td>
</tr>
<tr>
<td>2019</td>
<td>(640.8)</td>
<td>–</td>
</tr>
</tbody>
</table>

**Closing net debt**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>(1,594.9)</td>
<td>(957.7)</td>
</tr>
</tbody>
</table>

* Adjustments for exceptional cash flows (including lease payments) and acquired intangible amortisation.

** Additional leases entered into during the year less exceptional payments which we include in underlying cash flow for the purpose of explaining net debt movement.

Our underlying free cash flow excludes exceptional lease cash payments. Cash flows relating to onerous leases before the adoption of IFRS 16 continue to be considered exceptional cash flows. The IFRS 16 additions line has been adjusted by the amount of exceptional lease payments; being defined as the net increase to lease obligations (additions) after underlying lease principal payments and foreign exchange impact are removed. The table below provides the reconciliation between the statutory cash flow and trading cash flow table above.

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>531.5</td>
<td>474.2</td>
</tr>
<tr>
<td>2019</td>
<td>562.0</td>
<td>507.9</td>
</tr>
</tbody>
</table>

**Cash generated from operations**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>70.2</td>
<td>73.5</td>
</tr>
<tr>
<td>2019</td>
<td>55.8</td>
<td>25.1</td>
</tr>
</tbody>
</table>

**Operating cash flow**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying £m</th>
<th>Statutory £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>601.7</td>
<td>547.7</td>
</tr>
<tr>
<td>2019</td>
<td>617.8</td>
<td>533.0</td>
</tr>
</tbody>
</table>
Financial review continued

IFRS 16 impact
IFRS 16 impacts various cash flows. There was an additional £23.6 million of operating profit, a £129.4 million depreciation charge of the right of use assets, £109.8 million of IFRS 16 additions less exceptional payments and £24.7 million interest on the lease liabilities. The PPE depreciation charge excludes £10.3 million related to leases designated as finance leases prior to the adoption of IFRS 16. This is now included in the depreciation of right of use assets. The net impact of these was to increase free cash flow by £8.2 million.

Operating cash flow
Underlying operating cash flow in the period was £601.7 million which includes a benefit of £129.4 million of right of use asset depreciation this year. Underlying operating cash flow after capital expenditure was £344.4 million, representing cash conversion of 83%. This compares to underlying operating cash flow after capital expenditure of £469.3 million last year, which included a significant contribution of over £50 million from working capital inflows related to our Fomedec contract.

Working capital
Total underlying working capital cash outflows for the period, excluding excess retirement benefits, were £268.8 million compared to a £86.8 million inflow last year, which benefited from the Fomedec working capital unwind. The working capital outflow this year represents a £23.0 million outflow in receivables and a £10.9 million outflow in inventories partly offset by a £7.4 million inflow in payables.

Within receivables, we saw increased capitalised contract costs related to Norway, Canada and the Type 31 frigate programme and VAT timing differences partly related to COVID-19. We made good progress this year on reducing amounts due for contract work but the reduction was less than expected as COVID-19 impacted invoicing to customers in the final month of the year. Trade receivables were slightly higher year-on-year as COVID-19 led to delays in customer receipts at the end of the year. The Group factors receivables in its Southern European Aviation operations. At 31 March 2020, the level of factoring was similar to last year at around £100 million. Within payables, lower activity levels were partly offset by higher contract cost accruals, due to the Type 31 programme, and an increase in advanced customer payments in our LGE business. The outflow in inventory primarily relates to increased stock levels in our South African business reflecting the expected higher activity levels.

Provisions
Underlying operating cash flow includes a £19.4 million outflow due to underlying provision movements (2019: £28.7 million outflow) relating to contracts, onerous leases, personnel (taxation and reorganisation) and property. During the year £1.0 million of net underlying provisions were credited to the income statement. The level of non-exceptional provision outflow in the next financial year is expected to be around £10 million.

Capital expenditure
Excluding IFRS 16, net capital expenditure was £147.5 million in the year (2019: £148.5 million) comprised of gross capital expenditure of £174.6 million (2019: £227.0 million) and asset disposals, mainly related to the sale and leaseback of new aircraft of £27.1 million (2019: £78.5 million). Net capital expenditure of 1.5 times depreciation was slightly higher than last year and higher than the 1.0 times depreciation we had expected. This was due to lower assets disposals as COVID-19 led to some asset sales on delayed contracts in Southern Europe not completing as both lessors and customers experienced difficulties. In addition to net capital expenditure, £128.1 million of additional operating leases were entered into in the period. This, less £18.3 million of onerous lease payments, led to £109.8 million of other IFRS 16 cash flows included within our underlying free cash flow. Onerous lease payments are not included in our underlying free cash flow as cash flows relating to what would have been onerous leases before the adoption of IFRS 16 continue to be considered exceptional.

Cash interest paid
Net Group cash interest paid, excluding that paid by joint ventures, was £71.4 million (2019: £47.5 million).

Taxation
Underlying cash tax payments of £62.6 million (2019: £86.9 million) decreased, reflecting lower underlying profit before tax and comparison to higher tax payments last year following the settlement of a tax dispute in Spain relating to pre-acquisition activity. In addition to this, we saw an increase in R&D tax credits received.

Pensions
Pension cash outflow in excess of the income statement charge excluding exceptional was £70.2 million (2019: £55.8 million).

The uneven distribution of funding deficits between our three large schemes, will result in more volatility in pensions funding over the coming years. An estimate of the current technical provisions actuarial deficit for the three main schemes is around £500 million, predominantly reflecting discount rates based on UK gilts. This differs from the accounting valuation which is based on discounting using corporate bond yields where credit spreads have increased. This resulted in an IAS 19 position of a £145.2 million net surplus at 31 March 2020.

We expect to make additional pension payments into the Rosyth scheme of around £90 million over two years, with the starting point yet to be determined. For the next financial year the cash outflow in excess of the income statement charge is expected to be around £75 million excluding the Rosyth additional payments, which will be treated as exceptional cash items.

Dividends
During the period the Group received £52.0 million in dividends from its joint ventures (2019: £44.6 million). Cash dividends (including to minorities of £1.8 million) paid out in the year totalled £153.9 million (2019: £153.3 million).

We expect dividends from joint ventures to be around £30 million in the next financial year before increasing in the following year.
Free cash flow
Free cash flow was £192.2 million compared to £323.7 million last year, primarily reflecting the lower operating profit and the movement in working capital described above.

Exceptional cash movement
There was a cash inflow of £23.1 million in the year with the proceeds from the sale of Context partly offset by exceptional cash costs relates to 2019 and 2020 exceptional charges.

Net debt
The Group’s net cash inflow was £57.4 million (2019: £158.3 million). Net debt at 31 March 2020 was £1,594.9 million. Net debt excluding lease obligations was £922.1 million. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.

Looking ahead at our forecasts for next year, we expect average net debt to be around £300 million higher than the year end position, reflecting the normal phasing of our business.

Net debt to EBITDA
We have redefined our net debt to EBITDA on a basis comparable to that used in the covenants for some of our debt. This gearing measure compares net debt (excluding non-recourse JV debt and all leases) to Group EBITDA (excluding our share of JV’s EBITDA) plus joint venture dividends. The tables below show the calculation as well as the calculation on an IFRS 16 basis.

Net debt to EBITDA saw a small increase to 1.7 times this year with the reduction in EBITDA partially offset by higher joint venture dividends and lower net debt. This level remains below our covenant level of 3.5 times. On an IFRS 16 basis, net debt to EBITDA was 2.3 times.

Interest cover

Pre-IFRS 16 (per debt covenants):

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020 £m</th>
<th>31 March 2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying operating profit excl. JVs (pre-IFRS 16)</td>
<td>393.8</td>
<td>452.5</td>
</tr>
<tr>
<td>Depreciation (pre-IFRS 16)</td>
<td>80.7</td>
<td>93.8</td>
</tr>
<tr>
<td>Amortisation of software and development costs</td>
<td>15.0</td>
<td>14.6</td>
</tr>
<tr>
<td>Group IFRIC 12 income</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>490.6</td>
<td>562.2</td>
</tr>
<tr>
<td>JV dividends</td>
<td>52.0</td>
<td>44.6</td>
</tr>
<tr>
<td>EBITDA + JV dividends</td>
<td>542.6</td>
<td>606.8</td>
</tr>
<tr>
<td>Net debt excl. lease obligations</td>
<td>922.1</td>
<td>957.7</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>1.7x</td>
<td>1.6x</td>
</tr>
</tbody>
</table>

Post-IFRS 16:

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA + JV dividends (pre-IFRS 16)</td>
<td>542.6</td>
</tr>
<tr>
<td>IFRS 16 EBITDA adjustment</td>
<td>153.0</td>
</tr>
<tr>
<td>EBITDA + JV dividends (post-IFRS 16)</td>
<td>695.6</td>
</tr>
<tr>
<td>Net debt excl. leases payable</td>
<td>922.0</td>
</tr>
<tr>
<td>Leases payable</td>
<td>672.8</td>
</tr>
<tr>
<td>Net debt (post-IFRS 16)</td>
<td>1,594.9</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>2.3x</td>
</tr>
</tbody>
</table>

Interest cover

Pre-IFRS 16 (per debt covenants):

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020 £m</th>
<th>31 March 2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA + JV dividends (pre-IFRS 16) (as above)</td>
<td>542.6</td>
<td>606.8</td>
</tr>
<tr>
<td>Finance costs (pre-IFRS 16)</td>
<td>61.2</td>
<td>62.7</td>
</tr>
<tr>
<td>Finance income</td>
<td>(13.0)</td>
<td>(16.0)</td>
</tr>
<tr>
<td>Net group finance costs (pre-IFRS 16)</td>
<td>48.2</td>
<td>46.7</td>
</tr>
<tr>
<td>Interest cover</td>
<td>11.3x</td>
<td>13.0x</td>
</tr>
</tbody>
</table>

Interest cover pre-IFRS 16 is another metric used in the covenants for some of our debt. This year interest cover was 11.3 times, lower than last year due to lower profits and a small increase in net finance costs following our refinancing in September 2019. The interest cover in the debt covenants is four times.
Return on invested capital (ROIC)

Pre IFRS 16:

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020 £m</th>
<th>31 March 2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying operating profit</td>
<td>500.6</td>
<td>588.4</td>
</tr>
<tr>
<td>Tax at 18.0%</td>
<td>(90.1)</td>
<td>(105.9)</td>
</tr>
<tr>
<td>Underlying operating profit post tax</td>
<td>410.5</td>
<td>482.5</td>
</tr>
<tr>
<td>Net debt excl. lease obligations</td>
<td>922.1</td>
<td>957.7</td>
</tr>
<tr>
<td>Shareholder funds</td>
<td>2,550.0</td>
<td>2,884.9</td>
</tr>
<tr>
<td>Retirement deficit / (surplus)</td>
<td>(145.2)</td>
<td>28.0</td>
</tr>
<tr>
<td>Invested capital</td>
<td>3,326.9</td>
<td>3,870.6</td>
</tr>
<tr>
<td>ROIC (pre-tax)</td>
<td>15.0%</td>
<td>15.2%</td>
</tr>
<tr>
<td>ROIC (post-tax)</td>
<td>12.3%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

Post-IFRS 16:

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying operating profit</td>
<td>524.2</td>
</tr>
<tr>
<td>Tax at 18.0%</td>
<td>(94.4)</td>
</tr>
<tr>
<td>Underlying operating profit post tax</td>
<td>429.8</td>
</tr>
<tr>
<td>Net debt excl. lease obligations</td>
<td>922.1</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>672.8</td>
</tr>
<tr>
<td>Shareholder funds</td>
<td>2,550.0</td>
</tr>
<tr>
<td>Retirement deficit</td>
<td>(145.2)</td>
</tr>
<tr>
<td>Invested capital</td>
<td>3,999.7</td>
</tr>
<tr>
<td>ROIC (pre-tax)</td>
<td>13.1%</td>
</tr>
<tr>
<td>ROIC (post-tax)</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Return on invested capital (ROIC) is defined as underlying operating profit divided by net debt and shareholder funds excluding retirement deficits or surpluses. Post tax, ROIC for the year was 12.3%, a slight decrease from 12.5% last year. This small decrease primarily reflects lower underlying operating profit this year offset by the impairment of assets.

Available financial capital

The Company defines available financial capital (AFC) as shareholder equity, net debt plus undrawn committed borrowing facilities. Available financial capital also includes surplus cash held on deposit as a result of fully drawing the revolving credit facility in March 2020.

Objective

To ensure an appropriate level of AFC to:

i. provide sufficient liquidity to see the Group through any periods of tightened liquidity in the market
ii. maintain operational flexibility and meet financial obligations
iii. fund the Group’s organic and acquisitive growth
iv. maintain necessary headroom to cover the peaks and troughs in the Group’s working capital cycle

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group’s cost of carry whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. During the current COVID-19 crisis the Group has fully drawn its revolving credit facility to ensure availability of funds. The Group, in considering its capital structure and financial capital, views net debt to EBITDA between 1.0 and 1.5 times as our target range and sustainable in normal market and economic conditions, while providing financial flexibility to the Group.

Performance

The Group’s gearing, used by the Group to monitor capital, was at 1.7 times net debt to EBITDA (see KPIs on page 21) in 2019/20 (2019: 1.6 times), slightly outside our target range. Debt ratios continue to be well below covenanted levels, ensuring sufficient headroom. The Company believes that capital markets remain accessible if or when required, even with the current economic uncertainty.

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,411.3 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,266.1 million. The net accounting position, pre-tax, of the Group's combined defined benefit pension schemes moved from a deficit to a surplus of £145.2 million (31 March 2019: deficit of £28.0 million).

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.4%</td>
</tr>
<tr>
<td>(31 March 2019: 2.4%)</td>
<td></td>
</tr>
<tr>
<td>Inflation rate (RPI)</td>
<td>2.6%</td>
</tr>
<tr>
<td>(31 March 2019: 3.2%)</td>
<td></td>
</tr>
</tbody>
</table>
Treasury
Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes. The Group only enters into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence to the principal treasury policies and guidelines. The Group’s treasury policies in respect of the management of debt, interest rates, liquidity and currency are outlined below. The Group’s treasury policies are kept under close review, given the current economic and market uncertainty.

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

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

Updates this year
The Group continues to keep its capital structure under review to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the financial year, the Group was able to take advantage of favourable market conditions to refinance and term out the maturity of some of its debt at attractive terms. The Group amended its committed Revolving Credit Facility (RCF), increasing the facility’s size to £775 million and extended the facility’s maturity for another five years to August 2024. The Group also issued a €550 million Eurobond (hedged at £493m), maturing in September 2027, and used the proceeds to fully repay a £100 million Term Debt Facility and a £40 million loan note and repay its RCF facility.

The Group’s other main corporate debt comprise of the following: a £300m Sterling bond, maturing October 2026, a €550 million Eurobond, maturing October 2022, and US$500 million of US private placement notes (hedged at £307m), maturing March 2021. Taken together, these debt facilities provide the Group with a total of around £2.4 billion of available committed banking facilities and loan notes. For further information see note 2 of the Group financial statements.

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

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

Performance
As at 31 March 2020, the Group had 60% fixed rate debt (2019: 74%) and 40% floating rate debt (2019: 26%) based on gross debt including derivatives of £3,019.1 million (2019: £1,336.4 million). The percentages for this year include the fully drawn down revolving credit facility which if excluded would result in 80% fixed rate debt and 20% floating rate debt.

Liquidity
Objective
i. To maintain adequate committed borrowing facilities
ii. To diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of Group contracts, commitments and risk profile
iii. To monitor and manage bank credit risk, and credit capacity utilisation
The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar, South African Rand and increasingly the Australian Dollar, Canadian Dollar, Norwegian Krone and Swedish Krona.

**Policy — Transaction risk**

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group’s policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IFRS 9 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.

**Policy — Translation risk**

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

**Performance**

There was a net foreign exchange loss of £12.7 million in the income statement for the year ending 31 March 2020 (2019: £5.9 million gain). For further information see note 2 to the Group financial statements.

**Pensions**

The Group provides a number of defined benefit and defined contribution pension schemes for its employees. The largest schemes are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme, whose combined assets are £4.2 billion, representing 90% of the total assets of the Group’s defined benefit pension schemes. It also has employees in two industry-wide pension schemes, the Railways Pension Scheme and the Cavendish Nuclear section of the Magnox Group of the Electricity Supply Pension Scheme, as well as employees in other smaller occupational defined benefit schemes and local and central government schemes. All the occupational defined benefit pension schemes have been closed to new members for some years. The Group continues to review its options to reduce the risks inherent in such schemes. In the last financial year, it closed the Babcock International Group Pension Scheme to future accrual for some employees, and is consulting with employees who are in the Rosyth Royal Dockyard Pension Scheme with regard to closing the scheme to future accrual. The Group also provides an occupational defined contribution scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit scheme. Over 75% of its UK employees are members of the defined contribution scheme. The Group pays contributions to these schemes based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk in the defined contribution pension scheme is borne by the employees.

**Investment strategy**

The Group has previously agreed long-term investment strategies with trustees across the three largest schemes designed to generate sufficient assets by April 2037 to be fully self-sufficient, although the expectation is that this target will be met significantly earlier. In the last financial year the Group agreed a revised strategy with the trustees of the Babcock International Group Pension Scheme designed to target the scheme being self-sufficient by 2026. It also operates within an agreed risk budget to ensure the level of risk taken is appropriate.
To implement the investment strategies, each of the three largest schemes’ Investment Committees has divided its scheme’s assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category differing by scheme reflecting the schemes’ different characteristics. The growth assets are de-risked over time by comparing and equating the expected and required returns each month, as at 31 March 2020 growth assets were 22% of the total assets held across the three largest schemes. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self-sufficiency measure increases, and this approach has protected the schemes against adverse changes in interest rates and inflation.

Actuarial valuations
Actuarial valuations are carried out every three years in order to determine the Group’s cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. The valuation of the Babcock International Group Pension Scheme as at 31 March 2019 was completed, work continues on the valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2018, and work has commenced on the valuation of the Devonport Royal Dockyard Pension Scheme as at 31 March 2020.

### Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,411.3 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,266.1 million. The total net accounting surplus, pre deferred tax, at 31 March 2020, was £145.2 million (2019: deficit of £28.0 million), representing a 104.3% funding level. A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the risk of increasing allowances for longevity.

#### Governance
The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. It has appointed independent trustees in each of the largest schemes, and in addition has appointed professional trustees with specialist investment expertise.

<table>
<thead>
<tr>
<th></th>
<th>Devonport</th>
<th>Babcock</th>
<th>Rosyth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate %</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Inflation rate (RPI)</td>
<td>2.6</td>
<td>3.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Inflation rate (CPI)</td>
<td>1.8</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Rate of increase in pensions in payment %</td>
<td>2.0</td>
<td>2.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Life expectancy of male currently aged 65 years</td>
<td>20.7</td>
<td>20.6</td>
<td>22.1</td>
</tr>
</tbody>
</table>

### Cash contributions

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future service contributions</td>
<td>26.0</td>
<td>48.4</td>
</tr>
<tr>
<td>Deficit recovery</td>
<td>47.3</td>
<td>36.4</td>
</tr>
<tr>
<td>Longevity swap</td>
<td>15.3</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Total cash contributions — employer</strong></td>
<td><strong>88.6</strong></td>
<td><strong>95.5</strong></td>
</tr>
</tbody>
</table>

Cash contributions made by the Group into the defined benefit pension schemes during the year are set out in the table above. In the 2020/21 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £102.4 million. £9.3 million of this is for salary sacrifice contributions, £26.3 million is in respect of the cost of future service accrual substantially reduced as sections of the Babcock group scheme were closed to future accrual during the year, £51.6 million is to recover deficits over periods of time agreed with the Trustee and £15.3 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity. The total cash cost in excess of the charge within the income statement is not expected to increase significantly over the medium term except for possible top up payments for the Rosyth Royal Dockyard Pension Scheme of around £90m expected to be paid over two years. The current level of bond yields and inflation expectations has increased cash service costs for pension schemes.
Operational review

Marine

HMS Queen Elizabeth aircraft carrier (UK MOD Crown Copyright)
Our Marine sector had a very strong year and exceeded our expectations. Strong revenue growth of 11.1% was led by strong growth in our technology businesses, increased warship support activity and the start of work on the Type 31 frigate programme. The increase in joint venture revenue reflects the start of work supporting Australia’s LHD ships. The strong revenue growth in the year was despite a step down in revenue related to the QEC programme of £50.4 million.

There was no material trading impact from COVID-19 in the financial year.

Underlying operating profit of £144.0 million includes a small uplift from IFRS 16. Excluding this, underlying operating profit increased by £0.6 million with the total underlying margin falling year-on-year as expected, from 13.0% to 11.9%. This mainly reflects comparison to some contract outperformances last year and some lower profit take in the early stages of contracts this year, both for Group and joint ventures.

We ensure the UK Royal Navy goes to sea safely by supporting their ships and crews around the world.

We support navies around the world through the delivery of complex ship and submarine sustainment programmes.

We deliver marine technology solutions to improve our customers’ complex, safety-critical operations.

2020 underlying performance highlights

<table>
<thead>
<tr>
<th>Revenue as % of Group</th>
<th>Operating margin</th>
<th>Revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>11.9%</td>
<td>+11.1%</td>
</tr>
</tbody>
</table>

The adoption of IFRS 16 increases operating profit by £2.2 million in the year. JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue.

Financial review

Our Marine sector had a very strong year and exceeded our expectations. Strong revenue growth of 11.1% was led by strong growth in our technology businesses, increased warship support activity and the start of work on the Type 31 frigate programme. The increase in joint venture revenue reflects the start of work supporting Australia’s LHD ships. The strong revenue growth in the year was despite a step down in revenue related to the QEC programme of £50.4 million.

There was no material trading impact from COVID-19 in the financial year.

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Operational review

UK Defence

Revenue across our businesses in UK Defence was higher in the year as increased warship support activity, higher volumes of technology products and the start of Type 31 work offset the step down in QEC revenues and the end of our Irish OPV contract, which was completed in the previous financial year.

The Queen Elizabeth Class (QEC) build programme completed this year with HMS Prince of Wales leaving our Rosyth facility in September 2019 for sea trials. Work on the QEC ships will continue into the future and in April 2019 HMS Queen Elizabeth returned to Rosyth for a planned six-week dry docking and inspection work package.

The Type 23 frigate life-extension programme at our Devonport facilities continues with a number of vessels undergoing deep maintenance and structural upgrade work simultaneously. During the year, HMS Lancaster was successfully returned to the fleet following her life extension package, HMS Richmond completed a power generation and machinery controls upgrade. HMS Portland is in the final stages of her refit. Our iFrigate support product underwent pioneering trials in the year on HMS Sutherland. iFrigate is an innovative smart technology used to predict and support future maintenance and through-life support decisions. We have also continued refit work for the UK’s minehunter vessels during the year.
We continue to deliver training support to the Royal Navy under our FOAP contract and we are one of two parties down-selected for Project Selborne, which will consolidate the majority of Royal Navy training contracts into a single contract for the next 10-12 years.

We saw strong revenue growth across our defence technology businesses with increased activity on weapons handling systems and higher volumes on our MSSP contract, which supports the Type 45 and QEC platforms.

The US/UK Common Missile Compartment programme has continued well and in the year additional orders have been received to take our total contract to supply missile tube assemblies to over £250 million. This includes an award of a further 18 tubes placed in March 2020.

We see many opportunities for further growth in our technology businesses with some large opportunities in our pipeline. This includes a bid for the Maritime Electronic Warfare Programme and the Skynet 6 Service Delivery Wrap contract that will support the next generation of UK military satellite communications. We are also engaged with a range of partners bidding on opportunities on the £3.2 billion Morpheus programme which aims to deliver the next generation of land environment Tactical Communication and Information Systems (TacCIS) for the UK Armed Forces.

**International Defence**

We saw good revenue growth across our international businesses this year, helped by the start of the LHD contract in Australia and higher activity levels in Canada.

In Australia, our Naval Ship Management joint venture started work in July 2019 on the contract to sustain and support the largest vessels in the Royal Australian Navy: two flagship Canberra Class Landing Helicopter Docks (LHD) and their twelve associated amphibious landing craft. We have also secured the weapons handling and launch systems contract for the Australian Attack class submarines. The initial design phase will be completed in Bristol, UK while the latter design phase and manufacture will be done in Osborne, Australia. Revenue from this programme will be small in the early years but we expect work to be over £1 billion over the decades-long lifetime of the programme.

In New Zealand, we won a 20-year contract with the Ministry of Defence to procure, deliver and support the country's high frequency communications network. High frequency communications represents a great opportunity for the sector and we have large bids in place in the UK and Australia.

In Canada, work continues on the HMCS Corner Brook extended docking work period as part of the Victoria Class in Service Support Contract (VISSC) and we have been pre-qualified for the VISSC II re-bid competition that starts in 2022.

In South Korea, we will now be providing our weapons handling and launch systems for the fourth boat in the Jangbogo-III Submarine programme. We have built up our Korea office and have invested in an in-service support facility in Busan from where we will continue to develop our presence and in country capability.

Looking ahead we see opportunities for export orders for our Arrowhead 140 frigate design used for the Type 31 programme and we are working with a cross UK Government General Purpose Frigate Export Working Group to explore opportunities around the world.

**Adjacent markets: Energy and Marine**

Revenue growth was strong across our Energy and Marine businesses in the year led by high demand for complex liquid gas transportation systems.

We continue to win contracts across our LGE business, with both LPG and ecoSMRT® systems, with orders of over £200 million in the year. We have now sold seventeen of our patented ecoSMRT® systems, bringing the total sold to date to 39. In the year we sold 23 reliquefaction systems for liquefied petroleum gas (LPG) ships.

**Outlook for the year ending 31 March 2021**

Around 75% of the work we do in the Marine sector relates to defence, mostly delivered through long term contracts, and this work continues throughout the COVID-19 pandemic. The defence support we provide in the UK, Australia and Canada is vital to national defence as are the defence programmes we are involved with across the world. Work on the Type 31 frigate programme will continue to ramp up. We expect our Energy and Marine business to see a greater impact from COVID-19 due to weaker demand.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels.
Babcock Team 31 has been contracted by the UK Ministry of Defence to deliver five Type 31 Frigates, with the first ship scheduled to be in the water in 2023. The contract was awarded in November 2019, kick-starting another decade of ship-build activity for the historic dockyard at Rosyth.

Babcock is the prime contractor and the programme lead, working with major suppliers like Thales, Lloyds Register, TYCO and Raytheon to meet the challenging Type 31 programme, and potential international customer needs. We have a fully integrated project team based in Bristol, Rosyth and Crawley with extensive ship design and build experience.

The ship is based on the design of the Iver-Huitfeldt class currently in service with the Danish Navy, and will leverage the skills of an existing and experienced workforce at Rosyth and around the UK. Its smart build credentials means it is designed for pre-outfitting, enabling rapid assembly and supporting time and cost efficiencies. We have developed a dynamic and flexible build strategy that will enable the concurrent assembly of different modules and on-time delivery capability

Our Arrowhead 140 solution provides the Royal Navy a new class of ship with proven ability to deliver a range of peacekeeping, humanitarian and warfighting capabilities whilst offering communities and supplies chains throughout the UK a wide range of economic and employment opportunities.

We are committed to a programme of investments to deliver prosperity in line with the UK’s National Shipbuilding Strategy. At its height, the programme will use a workforce of around 1,250 highly skilled roles, and support an additional 1,250 roles within the wider supply chain.

Build
Over the past decade Babcock has invested substantially in its Rosyth facility transforming the dockyard into one of the UK’s most modern maritime support facilities. Building on the knowledge and expertise developed during the Aircraft Carrier programme, we have begun construction works for a new Module Assembly Hall, capable of housing two Type 31 Frigates for parallel build and assembly activity.

The building will enable productivity gains from improved access, digital connectivity and a dry benign environment.

Digital transformation is at the heart of the site’s growth. We are investing in facilities and advanced manufacturing equipment to support the integration of technology and new working practices, creating a dynamic, effective and efficient digitally enabled facility.

A new ‘pulse line’ will be installed, providing a state-of-the-art automated panel manufacturing line. This is a cornerstone of the digital transformation on-site, creating a paradigm shift in the manufacturing process.

Key Platform Characteristics:
- Length overall: 138.7m
- Beam, maximum: 19.8m
- Design draft: 5.0m
- Displacement: 6,095t
- Main engine power: 32.8 - 40MW
- Speed: 28+ Knots

Type 31: a proven platform design

At 36 metres from keel to mast, each frigate will be roughly six times the height of a giraffe

There are 26,000 metres of pipe on each vessel; three times the height of Everest

At 139m long, each frigate will be seven times as long as a cricket pitch
Financial review
Underlying revenue in our Nuclear sector was down 15.8% due to the £270.8 million step down in revenue from our Magnox JV which ended in August 2019. Excluding Magnox, revenue grew by 6.0% with a small decline in civil nuclear offset by good growth across the defence business. There was a small impact from COVID-19 in the period as activity levels across our civil nuclear business were reduced.

Underlying operating profit of £126.3 million includes a small uplift from IFRS 16. Excluding this, underlying operating profit was £18.0 million lower than last year with a strong performance in Defence offsetting a £25.0 million step down in Magnox. The sector total margin increased to 11.4% reflecting a stable Group margin and a mix impact from lower joint venture revenue.

Due to the ongoing challenges across the UK civil nuclear market and to right-size our business following the end of the Magnox contract, we have implemented a restructuring programme across the Nuclear sector. This is focused on reducing overheads and simplifying our structure.

Operational review
Defence
The Defence business saw strong growth in the year supported by higher levels of activity in submarine support, design work for the Dreadnought Class and the start of work on the strategic infrastructure programme.

Our performance on our key contract, the Maritime Support Delivery Framework (MSDF) remains in line with expectations, with efficiencies and cost reductions being delivered. The replacement Future Maritime Support Programme (FMSP) contract is being developed and will be within our Terms of Business Agreement (TOBA) that runs to 2025.

We support the UK’s submarine fleet at both HMNB Clyde and HMNB Devonport. Activity levels in Clyde have been higher throughout the year as we work closely with the customer across three submarine classes. In Devonport, we continue to work on the Revalidation Assisted Maintenance Period (RAMP) programmes for the Trafalgar Class and the first life-extension of the Vanguard Class.

Work started this year on the infrastructure design for the deep maintenance of the Astute Class of submarines in Devonport in the mid-2020s and we are engaging with the customer on further infrastructure upgrades at HMNB Clyde and HMNB Devonport.

We have supported the Continuous At Sea Deterrent for 50 years
We sustain the entirety of the UK’s submarine fleet
We take a leading role in all civil nuclear: from new build, to operational support, to decommissioning
2020 underlying performance highlights

<table>
<thead>
<tr>
<th></th>
<th>Revenue as % of Group</th>
<th>Operating margin</th>
<th>Revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23%</td>
<td>11.4%</td>
<td>-15.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 March 2020 IFRS 16 basis</th>
<th>31 March 2019 pre-IFRS 16 basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying revenue</td>
<td>Group £898.4m</td>
<td>£853.2m</td>
</tr>
<tr>
<td></td>
<td>Total £1,110.9m</td>
<td>£1,318.9m</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>Group £114.1m</td>
<td>£106.5m</td>
</tr>
<tr>
<td></td>
<td>Total £126.3m</td>
<td>£143.5m</td>
</tr>
<tr>
<td>Underlying operating margin</td>
<td>Group 12.7%</td>
<td>12.5%</td>
</tr>
<tr>
<td></td>
<td>Total 11.4%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

The adoption of IFRS 16 increases operating profit by £0.8 million in the year. JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue.

Civil Nuclear
Excluding Magnox, revenue across our Civil Nuclear businesses was lower this year reflecting lower levels of customer funding as the civil nuclear market in the UK remains tough.

In decommissioning, all Magnox sites were handed back to the customer as planned at the end of August 2019 while work at Dounreay continues to deliver on its revised scope. The scope of our Dounreay joint venture continues to reduce each year as decommissioning work progresses.

We saw lower levels of activity in our nuclear services business in the period with lower levels of customer funding and some project delays at Sellafield. We continued to support EDF power stations through a challenging year of extended outages which impacted our levels of work activity.

Work on new build nuclear power stations is a small but strategically significant part of our business for the long term. In August 2019, the MEH Alliance was launched. This alliance will work across the Hinkley Point C site to integrate and coordinate the delivery of all the main MEH (Mechanical, Electrical and HVAC) activity. Our share of this work will be around £300 million over a five to six year period starting in 2022.

Civil nuclear work for our UK defence customer is a significant opportunity for the medium term and during the year we were selected as the Nuclear Technical Service Provider for HMNB Clyde.

We continued to make progress in building a presence in international markets this year. We secured a small contract in Japan and have won a series of small consultancy contracts in Canada.

Outlook for the year ending 31 March 2021
Defence accounts for the significant majority of the work we do in nuclear and is delivered through long term contracts. The support we provide to the Royal Navy’s submarine fleet is critical to the UK’s national defence and has been prioritised. Design work on new submarine classes and work on the strategic infrastructure programme will continue. The outlook for our civil nuclear business is tougher as a slowing UK market combined with the impacts of COVID-19 are expected to impact revenue. Year on year comparison will also be impacted by the completion of our Magnox contract in the year ended 31 March 2020.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels.
Financial review

Underlying revenue was slightly lower in the year due to a £61.1 million impact from exits and disposals and a £24.0 million negative impact from foreign exchange movements. Excluding these, underlying revenue grew by 1.2% with stronger trading in South Africa and higher defence procurement revenues partly offset by a lower contribution from JVs following the end of our ABC JV.

There was a small impact to revenue in the final month of the year from COVID-19 as training activities were suspended and we saw lower activity in our short-cycle areas including Airports and UK rail and power. We also saw lower procurement-related revenue.

Underlying operating profit of £133.9 million was slightly ahead of our expectations and includes the impact of £18.4 million of step downs. These relate to foreign exchange movements, exits and disposals, and a £10.2 million reduction in profits from our Holdfast (RSME) JV. Excluding these step downs and the benefit of IFRS 16, underlying operating profit increased by £3.7 million. This increase represents the strong performance of South Africa and an improved performance in our ALC JV.

The step down in the Holdfast (RSME) profit contribution was less than originally expected as we were able to realise more lifecycle operating cost savings in the year.

The increase in the JV margin in the year reflects the absence of ABC JV revenue, which ended in the last financial year, and an improved performance in our ALC JV. Revenue from the Holdfast (RSME) JV is not included in JV revenue, as it is already included in Group revenue as the work is performed by Babcock Group on behalf of the JV. The operating profit is included in JV operating profit and this leads to the high JV margin for Land.

Operational review

Defence

We saw a strong performance across our defence businesses in the year with revenue growth led by higher defence procurement revenues, although these fell in the final month of the year.

We made great progress in our Defence Support Group (DSG) business, helped by working collaboratively with the MOD as part of the Cabinet Office’s Strategic Partnering Programme. We continue to invest in a new ERP system to drive further efficiencies in our vehicle maintenance and spares procurement activities. During the year, we secured new orders worth around £80 million in equipment support activities, including additional Warrior platforms and we continue to discuss further initiatives for fleet support for future years.

We had a good year across Defence training, where we support the British Army in delivering training to around 20,000 service personnel. We continued to drive efficiencies in training for the Royal School of Mechanical Engineers (RSME) though our Holdfast IV and we were able to realise more lifecycle operating cost savings. We secured a two-year extension to our Defence College of Technical Training contract and a three-year extension to our Training, Maintenance and Support Services contract. We continue to work closely with our customer as they develop their Collective Training Transformation Programme, including mobilising Project Hannibal to develop a dynamic opposing force for the Army to train against in a realistic synthetic environment.

Additionally, we secured a two-year extension to our contract to support the British Army in Germany and have successfully pre-qualified for the
2020 underlying performance highlights

<table>
<thead>
<tr>
<th>Revenue as % of Group</th>
<th>Operating margin</th>
<th>Revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>8.6%</td>
<td>-4.1%</td>
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</table>

National Training Estate opportunity, which will come to market later in FY21.

Our ALC JV continued to perform well in the period but we were unsuccessful in the bid for Project Miter, the replacement contract for ALC. As such, our work supporting the Army’s C vehicles will end in May 2021.

Emergency Services
Trading across our Emergency Services businesses was strong over the period with good revenue growth and a significant new contract win.

Our fleet support and training contracts for the London Fire Brigade (LFB) continue to perform well and during the year we acquired and introduced a number of new vehicles into the LFB fleet to help them meet their low carbon initiatives.

Our fleet support contract for London’s Metropolitan Police Service (MPS) also performed well in the year and we completed the move to a dedicated new workshop facility to support further improvements in contract delivery. In November 2019, we won a new contract worth around £300 million to act as the MPS’s learning partner. This partnership to support the UK’s largest police service with its new training recruits will last at least eight years and starts during FY21.

Adjacent markets
The Land sector operates a range of contracts across markets adjacent to our key markets, all benefiting from our engineering capabilities.

In line with our strategy, we continue to exit non-strategic areas of our business. In June 2019 we concluded our services for British Airways ground support and in December 2019 we exited our final aggregates and cement fleet management contract. These exits are in addition to the set of exits and disposals made in the 2019 financial year.

In Rail, work has now started on the new ten-year CP6/7 contract for track works in Scotland, a contract worth up to £1 billion over its life. We were also awarded a signals and telecoms framework contract by Network Rail worth £65 million over five years.

Our Airports business had a solid year of contract performance and was successful in the rebid of the Schiphol Baggage Maintenance contract. Our rebid for Heathrow baggage handling was unsuccessful, with the existing contract ending in October 2020.

Our business in South Africa delivered a record year with good revenue growth, record margins and significant improvements in health and safety. However, the devaluation of the rand, particularly in the final months of the year, reduced the Group pound sterling benefit. Revenue growth came from the energy business which saw increased work with Eskom. The construction and mining equipment supply business saw lower revenue reflecting overall market demand but we were able to grow our market share.

Outlook for the year ending 31 March 2021
Work on defence programmes, which make up around 40% of work in our Land sector, continues during the COVID-19 pandemic and is delivered across long term contracts. Work across our South African energy business and emergency services businesses also continues with relatively little disruption. The impact from COVID-19 will be greater across our adjacent markets, particularly in civil training, rail, power, airports and our South African equipment business. Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels. Operating profit will also reflect only two months of contribution from our Holdfast (RSME) JV following the sale of our interest in June 2020.
Post-flight checks on a UK Royal Air Force Hawk T1 at RAF Valley

We save lives with our aerial emergency medical and search and rescue services

We protect communities with our firefighting operations

We support the defence of nations by supporting air forces in the UK and overseas

Financial review
Underlying revenue of £1,000.3 million was £135.2 million lower than last year, which included around £125 million of asset sales in our Fomedec contract, plus revenue from the Helidax joint venture which was disposed of in March 2019. Excluding Fomedec and Helidax, revenue for the sector was broadly flat over the year following a stronger second half of trading in our defence and aerial emergency services businesses.

There was a small impact from COVID-19 in the final two months of the year as we saw reduced flying hours and increased costs in our aerial medical services businesses.

Underlying operating profit of £121.0 million includes a £17.9 million benefit from the adoption of IFRS 16. Excluding this, operating profit is £57.4 million lower than last year. The reduction in operating profit reflects the lower revenue across the sector combined with a fall in margin, with the sector margin falling to 12.1%, or 7.5% excluding joint ventures. These lower margins reflect the pressures in our Oil and Gas business, the impact of contract delays both in pricing and costs in aerial medical emergency services in Italy and Spain and a comparison to some contract outperformances in the sector in the last financial year. The profit contribution from joint ventures was slightly higher with an improved contract performance in Ascent and better than expected contract performance in AirTanker offsetting the end of contributions from Helidax.

To address the lower margins in the sector this year we have reduced our fleet in Oil and Gas and implemented a restructuring programme across the sector. We have impaired the value of goodwill to reflect changes to market conditions.

Operational review
Defence
As expected, revenue in our Defence business was lower given the impact of Fomedec equipment sales last year. Our defence business across the UK had a good year. Our HADES contract, which provides technical support at 17 RAF air bases, has now been fully operational for over a year and we signed a three-year extension to our existing Light Aircraft Flying Task contract to provide our Babcock-owned Grob 115 aircraft through to March 2022.

Our Ascent joint venture performed well in the period with key milestones met and it was awarded a contract uplift, with our share worth around £100 million, to provide additional helicopter flight training. Work will start in the March 2022 financial year.

Expanding our services across international defence markets remains a key part of our strategy. In France, our Fomedec contract has performed well and we are exploring opportunities to expand the scope of work. In December 2019 we won our second defence contract in France. We will provide four H160 helicopters to the French Navy for search and rescue operations and be responsible for modifications and through-life support over the ten-year contract worth at least £100 million. International opportunities remain a significant part of our pipeline, including defence flying training opportunities in Canada and France.
Revenue across our aerial emergency services was flat over the year as the positive impact of the start of operations in Norway and Canada were offset by the impact of delayed contracts in Southern Europe and lower flying hours in the final months of the year as COVID-19 lockdowns led to fewer primary emergency missions in Italy, Spain and France. We have, however, continued to provide aerial emergency services in all geographies, introducing new safety measures to keep crew and patients safe. 

Across Italy and Spain we saw delays this year in the award of new aerial medical emergency services contracts. These delays were a mix of rebids and new regions and were caused by customer decisions and appeals from other bidders. In addition, we are increasingly seeing customers demand additional and more complex services without full budgets. We are addressing the impact this has on profitability with the restructuring programme across the sector.

Our firefighting operations in Europe had a successful year of operations though total flying hours were lower than last year. We have expanded our market presence in Spain with a contract expansion in the Andalucía region. As part of efforts to help countries outside our operations this year we flew operations in Greece and Israel to assist with their fire season. We entered two new countries in the year. The Norwegian fixed wing contract began operations in July 2019 with 11 aircraft providing aerial medical emergency services. We also entered the Canadian market, with the start of our firefighting contract in April 2019 in Manitoba. We manage, maintain and operate Manitoba’s fleet of seven firefighting amphibious aircraft and provide three of our own aircraft.

**Adjacnet markets: Oil and Gas**

Our Oil and Gas business continues to face challenging market conditions and revenue was down significantly this year following the loss of some key contracts, lower pricing and lower flying activity. We are addressing the difficult trading environment through the restructuring actions we are taking. We have significantly rationalised our fleet, removing many heavy helicopters. We have returned seven S92s and five EC225 leased assets. This rationalisation programme has enabled us to significantly improve our fleet utilisation across all bases. In March 2020 we won a five year contract in the North Sea with three operators starting in July, albeit at pricing reflective of the tough environment and current lease rates.

**Outlook for the year ending 31 March 2021**

Defence accounts for around 30% of the work we do in our Aviation sector and work continues throughout the COVID-19 pandemic. Lower productivity is expected to impact operating profit however. Despite directly contributing to the fight against COVID-19, our Emergency Services business is seeing lower flying hours. The response to COVID-19 has created additional costs on top of the pressures on our cost base from contract delays in Southern Europe. The market for oil and gas aviation is expected to remain weak and revenue will be lower next year due to contracts lost in the last financial year, plus some impact from COVID-19.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels. We will look to accelerate fleet rationalisation to drive cash generation and future cost reduction.
Critical support: emergency services
Laura Molyneux
Head of Curriculum, Police Education Qualifications Framework contract

"Working in close collaboration with the Metropolitan Police Service and our Higher Education Institute partners, we designed two unique education programmes that will equip the growing number of new officers for the challenges of policing London.

These programmes will deliver a highly trained, skilled and diverse workforce who are passionate about making a difference to London’s communities and keeping the city safe.”
Our principal risks and how we manage them

Babcock has an established process that aims to identify, evaluate and manage risk. Internal control processes are in place as part of the risk management regime.

The Board, principally through the Audit and Risk Committee, keeps under review the risks facing the Group, including the appropriateness of the level of risk the Group may accept in order to achieve its strategic objectives. The Board controls the risk appetite of the Group through its delegated authorities, which impose strict controls. For example, the Board must approve all acquisitions and disposals, all material capital expenditure, all material non-ordinary course tenders (material ordinary course tenders are approved by the Chief Executive and the Group Finance Director, although they are reviewed by the whole Board prior to submission) and all financing arrangements (unless delegated to the Board’s Finance Committee).

The Board reviews the controls and mitigation plans in place; these are intended to manage and reduce the potential impact of the risks the Company takes to ensure, so far as possible, that the assets and reputation of the Group are protected. The Group’s risk management and internal control systems can, however, only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Babcock is, however, a large and developing group of businesses. Factual circumstances, business and operating environments will change. On an ongoing basis, the Group might identify new risks or better understand the significance of existing risks or a change in a risk.

This means that the risks identified on pages 83 to 92 are not and cannot be an exhaustive list of all the principal risks that could affect the Group.

Risks and uncertainties which might affect businesses in general or which are not specific to the Group are not included, but Babcock, of course, faces such risks as well.

Principal and emerging risks, risk mitigation and controls

The Board has identified the risks and uncertainties that it currently considers to be of greatest significance to Babcock and these are described overleaf from page 83 to page 92. These risks have the potential to affect materially and adversely Babcock’s business, the delivery of its strategy and/or its financial results, condition or prospects. For each risk there is a short description of the Company’s view of the possible impact of the risk on the Group were it to occur, and the mitigation and control processes in place to manage the risk (which should be read in conjunction with the information opposite and overleaf about our risk management approach and general controls). The Board has identified these principal risks, having reviewed the Group’s risk register, a process that combines a bottom-up review, starting at business unit level, with challenge and review by senior management, as well as a top-down strategic review by Group management. These reviews include, as a matter of course, emerging risks, which are “new” risks that may challenge the Group in the future. They may begin to evolve rapidly or simply not materialise. The Group’s risk reviews include a scan of the horizon to identify any such emerging risks.

COVID-19 is an example of such an emerging risk. This pandemic presents a number of different risks across our business – it impacts our employees and the way we work; it impacts our customers and their priorities. We describe on page 27, and the pages following, those impacts and their effect on our principal risks. We also describe our responses to these impacts. However, the full scale of the disruption caused by COVID-19 is still evolving. While it does, we will continue with our approach of protecting the Group and its key stakeholders and will prioritise the health and safety of our employees, the needs of our customers, financial discipline and business continuity.
The Group Risk and Insurance Manager (who reports to the Group Finance Director), working with senior operational management teams, is responsible for the risk register and seeks to ensure a coherent and consistent Group best practice approach to risk assessment and risk management. We build the risk register through both bottom-up and top-down reviews. Each business unit and then each sector identifies the risks, including emerging risks, relevant to their specific area, along with the controls and assurance activities in place to mitigate those risks. These risk assessments are subject to regular review and challenge by Group senior management that overlays on the bottom-up review an assessment of the strategic risks facing the Group, for example, technology, disruptors and change in government policy, to create the risk register. The Audit and Risk Committee reviews the risk register at least once every year.

The Audit and Risk Committee reviews aspects of the risk management and control system at its meetings and at least once a year formally reviews the system’s effectiveness as a whole on behalf of the Board (see the effectiveness review statement on page 142). It also receives in-depth presentations on individual major risks throughout the year.

The Audit and Risk Committee receives regular reports from the internal audit function provider, which was Ernst & Young in the financial year to 31 March 2020, as well as management reports relating to internal control and risk issues.

Babcock has a Group Security Committee made up of senior functional and operational managers with responsibility for security and information assurance with the Group Finance Director is Chair of the Committee, and the Group’s Chief Information Officer and Chief Information Security Officer attend each meeting. The Board receives regular reports on security and information assurance matters.

Employees undertake a selection of compulsory risk management training programmes (for example: security, data protection, and anti-bribery and corruption training) appropriate to their roles in order to increase awareness of potential risks.
Our internal controls include:

<table>
<thead>
<tr>
<th>Our internal controls include:</th>
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<tbody>
<tr>
<td><strong>Budget process</strong></td>
<td>Group management review annual budgets and medium-term financial plans before submission to the Board for approval. Management prepare updated forecasts for the year at least quarterly.</td>
</tr>
<tr>
<td><strong>Management and financial reporting</strong></td>
<td>The Board receives details of monthly actual financial performance compared against budget, forecast and the prior year, with a written commentary on significant variances from approved plans. The Chief Executive, Group Finance Director and sector chief executives report to each Board meeting on operating performance and matters of potential strategic significance. Group senior management receives a monthly narrative operating report from all business units.</td>
</tr>
<tr>
<td><strong>Security and information governance structure</strong></td>
<td>There is a security and information assurance governance structure in place to oversee and manage security and similar risks.</td>
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<tr>
<td><strong>Clear delegation and limits of authority</strong></td>
<td>The Board regularly reviews and approves a schedule of delegated authorities setting out levels of specific financial decision-making authority delegated by it.</td>
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<tr>
<td><strong>Insurance</strong></td>
<td>The Group has a large and comprehensive insurance programme, preferring to place risk in the insurance market, where available on acceptable terms, rather than to self-insure or make significant use of captive insurance. The Group has a full-time Risk and Insurance Manager who reports annually to the Board on the strategic approach to insurance and on the placing of the programme.</td>
</tr>
<tr>
<td><strong>Claims and litigation reporting</strong></td>
<td>The Board and the Group Executive Committee receive monthly summaries of material actual or potential disputes, their progress and potential outcomes. The Group has an internal legal service.</td>
</tr>
<tr>
<td><strong>Credit controls</strong></td>
<td>Group Finance and an Executive Director review all significant credit risks and take appropriate risk limitation actions.</td>
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<tr>
<td><strong>Code of Conduct and ethical, anti-bribery and corruption policies and procedures</strong></td>
<td>The Group has a Code of Conduct, summarising ethical and anti-bribery and corruption policies, making clear its commitment to the highest ethical standards and the ethical standards it demands from its employees and with whom it does business. In addition, there is an anti-bribery and corruption governance structure in place with detailed policy and procedures (available on the Babcock website), supported by training programmes, which the Company believes meet the requirements of ‘adequate procedures’ under the Bribery Act 2010. Due diligence is carried out on actual or potential business partners as appropriate. We require those working on our behalf or in consortium with us to abide by our Code of Conduct (or an equivalent) and to undertake not to behave corruptly.</td>
</tr>
<tr>
<td><strong>Group policies and procedures</strong></td>
<td>The Group has written policies and procedures, which are kept under review, covering a range of matters intended to reduce or mitigate risk, such as health, safety and environmental policies, security and information assurance, export controls, contracting requirements and guidelines, as well as legal, financial and accounting matters. These policies and procedures are available to employees on the Group intranet. The sectors supplement these by further business unit-specific policies and procedures.</td>
</tr>
<tr>
<td><strong>Whistleblowing hotline</strong></td>
<td>All employees have access to a confidential whistleblowing hotline. They may call, email or write a letter detailing any area of concern (whether financial irregularities, non-compliance with laws, breaches of our Code of Business Conduct, threats to health and safety, conflicts of interest or improper practices). The hotline sends all reports received to the Company Secretary, who is responsible for ensuring the Group investigates them. He submits a report to the Board of all the investigations and their result. See page 110.</td>
</tr>
<tr>
<td><strong>Critical supplier reviews</strong></td>
<td>Sectors regularly review the vulnerability of their key supply chain partners whose continued ability to supply the Group the sector considers critical to its business performance. The sectors also consider fall-back plans when first deciding to appoint such suppliers.</td>
</tr>
<tr>
<td><strong>Business continuity and disaster recovery plans</strong></td>
<td>All sectors, business units and Group functions are required to consider the need for, and put in place, appropriate plans to minimise the risk of interruption to business and contract performance in the event of a major disruption to normal functioning arrangements.</td>
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</tbody>
</table>
Principal risks, risk mitigation and controls

Our customer profile

We rely heavily on winning and retaining large contracts with a relatively limited number of major customers, whether in the UK or overseas. Many of our major customers are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded. Our single biggest customer is currently the UK Ministry of Defence (MOD).

These customers are affected by political and public spending decisions. Commercial customers are also affected by conditions in their market sector which affect their levels of, and priorities for, spending. It follows that the responses of our customers to the COVID-19 outbreak in the territories we operate in may have a significant financial or operational impact on us.

<table>
<thead>
<tr>
<th>Risk description</th>
<th>Potential impact</th>
<th>Mitigation</th>
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<tbody>
<tr>
<td>Policy changes (following a change of political administration or otherwise) and spending constraints on customers are material factors for the Group’s business and outlook.</td>
<td>Whether caused by COVID-19 or not, periods of uncertainty or changes as to the course of customer policy and spending can result in the delay, suspension or withdrawal of tendering processes and the award of contracts as well as a reduction in spend.</td>
<td>In the ordinary course of our business, we have extensive and regular dialogue with key customers, involving, as appropriate, our Chief Executive, sector Chief Executives and/or other members of the senior management team.</td>
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<tr>
<td>Whilst the Board believes that policy changes, spending reviews and restraints can offer significant opportunities to the Group, to assist in the delivery of services to customers more efficiently and at lower cost, these factors inevitably also carry risk.</td>
<td>Whilst customer policy changes or spending constraints can potentially offer more outsourcing opportunities for us to pursue, they can also be a risk in that they could lead to changes in customer outsourcing strategy and spend, which could include:</td>
<td>Following the COVID-19 outbreak, we have worked even more closely with our customers in order to understand their priorities in response to the pandemic. All our regions have their business continuity plans in place to help us manage the disruption. We have implemented those plans in consultation with our key customers. The Board will continue to monitor the impact and disruption caused by COVID-19 and will continue to implement a range of measures to mitigate the operational, financial and commercial impacts as they emerge.</td>
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<td>Large customers, whether public or private sector, have significant bargaining power and the ability (contractual or otherwise) to cancel contracts without, or on short, notice, often without cause, or they can exert pressure to renegotiate them in their favour.</td>
<td>• reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities</td>
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<td>The consequences for the Group’s business of the UK’s exit from the European Union are difficult to predict, as there is likely to be a period of uncertainty over the effects on the nature, timing and scope of the policies and procurement plans of both our current and potential customers in the UK and overseas.</td>
<td>• in the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer’s favour</td>
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<td>In addition, the counter measures adopted by governments and our other customers around the world as they seek to manage the disruption caused by the COVID-19 outbreak will impact our operations and may decrease revenues whilst increasing costs, causing a negative impact on profits and cash flows.</td>
<td>• favouring the retention or return of in-house service provision, either generally or in the sectors in which we operate</td>
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<td>• favouring of small or medium-sized suppliers or adopting a more transactional rather than a co-operative, partnering approach to customer/supplier relationships</td>
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<td></td>
<td>• imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with, or that might involve significant extra costs, thereby impacting the profitability of doing business with them.</td>
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</tbody>
</table>
The nature of our contracts, bid processes and markets

We seek to win and operate long-term high-value contracts for the provision of complex and integrated services to our customers. This has a number of key risks. Bidding for these contracts typically involves a protracted and detailed tendering process, often under public procurement rules. There are usually only a relatively limited number of customers in each of our market sectors. Failure to realise the pipeline of opportunities and to secure rebids can mean missed opportunities for growth and loss of revenue. The contracts we bid for often entail a substantial transfer of risk from the customer to the supplier. Mobilisation of contracts may be difficult and the transitioning from mobilisation to business as usual may not be effective. We may not deliver the contractual requirements due to ineffective contract change management or the failure to manage our supply chain. COVID-19 may increase the likelihood of each of these key risks arising.

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<th>Risk description</th>
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<th>Mitigation</th>
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<td>Bidding requires a substantial investment in terms of resource and is very expensive. Bids can be subject to cancellation, delays or changes in scope. Contract award decisions made under public procurement rules can be subject to legal challenge by losing bidders. Given the size and often long-term nature of the contracts we bid for and the relatively limited numbers of customers in our markets, significant contracting opportunities tend not to arise on a regular or frequent basis. When we are bidding for such contracts we have to price for the long term and for risk transfer. The scope for later price adjustment may be limited or not exist. Our contracts typically impose strict performance conditions and use key performance indicators (KPIs) that if not complied with trigger compensation for the customer and/or may result in loss of the contract. Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained.</td>
<td>If we lose a bid or the customer aborts a bid process or we withdraw due to scope changes as it progresses, this is a significant waste of limited resource with substantial expenditure written off. If we win a public procurement bid and a losing bidder challenges the award, this could lead to delay in contract award, expensive legal proceedings or the competition having to be re-run. Not winning a new bid can be a significant missed opportunity for growth, which we may not replace soon with another. Not winning rebids could mean the loss of significant existing revenue and profit streams. If we underestimate or under-price actual risk exposure or the cost of performance, whether by us or by our supply chain, this could significantly and adversely affect our future profitability, cash generation and growth. Compensation to the customer for poor KPI performance could significantly impair profitability under the contract and damages following termination could be substantial. Unsuccessful bids or rebids may adversely impact the strategic development and growth plans of the Group. A lack of success in exporting the Group’s business model outside the UK and its current core markets could adversely impact the growth prospects and strategic development of the Group.</td>
<td>We have a clear business strategy to target a large bid pipeline, both in the UK and internationally. We tender bids for contracts we consider have a clear alignment with the Group strategy and where we believe we stand a realistic chance of success, both in the UK and overseas. We are maintaining our dialogue with our customers to understand their intentions regarding their pipeline. We are also maintaining our formal and rigorous reviews and gating processes at key stages of each material bid to reduce the risk of underestimating risks and costs and to ensure that we target limited bid resources at opportunities where we consider that we have the best prospects of winning or retaining business. Group policies and procedures continue to set a commercial, financial and legal framework for all bids. Contractual performance is continuously under review (at a business unit, sector and/or senior Group executive level as appropriate) with a view to highlighting at an early stage risks to delivery and profitability. These reviews also consider the performance of our supply chain. In the current circumstances, a particular focus is the impact of COVID-19 on it.</td>
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Risk description
We have a relatively limited number of customers and potential customers in our market sectors and they typically have high public profiles.

We are involved in the direct delivery to the public on behalf of our customers of high-profile and sensitive services. We also provide services, which are critical to our customers’ ability to discharge their own public responsibilities or deliver critical services to their customers.

Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally. The same would be true of high-profile incidents or accidents.

Attitudes to the outsourcing of services generally or in a particular sector can also be adversely affected by the poor performance or behaviour of other service providers or incidents in which we are not involved.

As well as our reputation for service delivery, our ethical reputation is key.

Potential impact
Given our dependence on individual major customers and the relatively narrow customer base in our markets, loss of our reputation (whether justified or not) with a major customer or more generally could put at risk substantial existing business streams and the prospect of securing future business from that or other customers in that or other sectors.

Non-compliance with anti-bribery and corruption laws could result in debarment from bidding as well as criminal penalties.

Mitigation
Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere on pages 36 to 51. (See also health, safety and environmental risks on page 87.)

We seek to reinforce to all employees through a number of different processes our values, for example, our induction training and our “being babcock” programme. We encourage all our employees to use our whistleblowing reporting lines where they see evidence of behaviour which is not in keeping with our values. The Board monitors and reviews all reports and their investigations.
Principal risks and management controls continued

Regulatory and compliance burden

Our major businesses are dependent on being able to comply with applicable customer or industry-specific requirements or regulations. Following the UK’s exit from the European Union, the terms of the UK’s future relationship with the EU will have implications for the requirements or regulations that are applicable to the business of the Group, including where a licence to operate in the European Union is required.

**Risk description**

The cost of compliance can be high. Requirements can change.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all. For example:

- Our Aviation business is subject to a high degree of regulation relating to aircraft airworthiness and certification and also to ownership and control requirements (for example, European air operators must be majority-owned and controlled by European Economic Area nationals).
- Our civil and defence-related nuclear businesses operate in highly regulated environments.

Geopolitical factors, for example the terms of the UK’s exit from the EU, could lead to significant tensions between trading countries.

**Potential impact**

Failure to maintain compliance with applicable requirements could result in the loss of substantial business streams (and possible damages claims) and opportunities for future business.

A change in requirements could entail substantial expenditure, which may not be recoverable (either fully or at all) under customer contracts.

Changing international circumstances could result in the rise of trade protectionism and reduce the Group’s access to non-UK markets.

**Mitigation**

We seek to maintain a clear understanding of ongoing regulatory requirements and to maintain good working relationships with regulators.

We have suitably qualified and experienced employees and/or expert external advisors to advise and assist on regulatory compliance.

We have management systems involving competent personnel with clear accountabilities for operational regulatory compliance.

We have restructured our EU Aviation business in order to take account of the EU requirement that all European air operators must be majority-owned and controlled by European Economic Area (EEA) nationals. Under Regulation (EC) No. 1008/2008 (the Regulation), no undertaking may carry passengers, mail or cargo for remuneration or hire, unless it has an operating licence from an EU aviation authority. One of the terms of such a licence is that the relevant undertaking must be majority-owned and majority-controlled by EEA nationals. Our Aviation sector currently holds eight such operating licences, which cover certain of the Aviation sector’s operations in those territories. Following the UK’s exit from the EU, the EU authorities may, depending on the terms of any exit, no longer consider the Company as an EEA national and revoke operating licences, which would have a material adverse effect on the business, financial condition and operations of the Group. In order to mitigate this risk, we have reorganised the operations of those Babcock companies which hold an EU operating licence, to separate those parts of their business which need a licence, from those parts which do not. We transferred the companies holding the licences once reorganised, to a new sub-group, parented by an EU-based holding company. Subsequently, an EU investor subscribed for 50.2% of the voting shares in the EU holding company. The Board believes that this current structure satisfies the nationality requirements of the Regulation. However, as the ultimate decision to grant or revoke a licence rests with the aviation authorities, there can be no guarantee that this will prove to be the case.
Health, safety and environmental
We are a multi-national company based in a number of locations worldwide. Some of our operations entail the potential risk of significant harm to people, property or the environment.

Risk description
Many of our businesses (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.

Some, 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 and offshore oil and gas crew change services) or the environments in which they operate (low-altitude flying in adverse weather, terrain or operational conditions).

As a global company, we are dependent on the ability of our personnel to maintain their physical health and wellbeing in order to carry out their roles either from our work sites or from remote locations.

Potential impact
Serious accidents can have a major impact on the lives of those directly involved and on their families, friends, colleagues and community, as can serious environmental incidents.

If we have caused or contributed to an incident because of failings on our part, or because as a matter of law we would be strictly liable without fault, the Group could be exposed to substantial damages claims, not all of which may be insured against, as well as potentially to criminal proceedings, which could result in substantial penalties.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously and adversely affect the reputation of the Group or its brand (whether that would be justified or not), which could lead to a significant loss of business or future business opportunities.

Business disruption may occur when personnel are not able to work or communicate due to a pandemic such as the current COVID-19 outbreak.

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 and extensive and ongoing education and training programmes for staff. Sector safety leadership teams and the Corporate Safety Steering Group (CSSG) oversee the implementation of policy, strategy and initiatives across all our businesses. An internal safety audit programme reviews different businesses throughout the year and reports back to the CSSG.

The Board receives half-yearly reviews of health and safety and environmental performance. In addition, the management reports tabled at each of its meetings also address health, safety and environmental issues on an ongoing basis.

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

Nuclear risks: we believe, having regard to the statutory regime for nuclear liability in the UK, the terms on which we do nuclear engineering and the terms of indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD in respect of the nuclear site licensee companies in which we are interested, that the Group would have adequate protection against risk of liability for injury or damage caused by nuclear contamination or incidents, but a reputational risk as a result of any serious incident would remain.

In respect of the current COVID-19 outbreak, 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.
People
Our business delivery and future growth depend on our ability to plan for management succession and for our continuing and future need to recruit, develop and retain experienced senior managers, business development teams and highly skilled employees (such as suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups).

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<td>Competition for the skilled and experienced personnel we need is intense and is likely to remain so for the foreseeable future. This poses risks in both recruiting and retaining such staff.</td>
<td>Losing experienced senior managers for any reason without plans for their replacement could have a material adverse effect on the prospects and performance of the Group and the delivery of our strategy. If we have insufficient experienced business development or bidding personnel, this could impair our ability to achieve strategic aims and financial targets or to pursue business in new areas. If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation and the risk of contract claims. The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions. This could impact our contract profitability.</td>
<td>We give a high priority and devote significant resources to recruiting skilled professionals, training and development, succession planning and talent management. The Board, the Nominations Committee and the Group Executive Committee regularly receive reports on and/or discuss these matters. Apprentice and graduate recruitment programmes are run in all sectors. Further information about this subject and how we address it is on pages 45 and 46 of this Annual Report.</td>
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Pensions

The Group has significant defined benefit pension schemes. These provide for a specified level of pension benefits to scheme members, the cost of which is met from both member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time.

Risk description
The level of our contributions is based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation, regulatory environment, etc. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes’ assets below the calculated cost of the pension obligations.

When accounting for our defined benefit schemes, we have to use corporate bond-related discount rates to value the pension liabilities. Variations in bond yields and inflationary expectations can materially affect the pensions charge in our income statement from year to year as well as the value of the net difference between the pension assets and liabilities shown on our balance sheet.

Potential impact
Should the assets in the pension schemes be judged insufficient to meet pension liabilities, we may be required to make increased contributions and/or lump sum cash payments into the schemes. This may reduce the cash available to meet the Group’s other obligations or business needs, and may restrict the future growth of the business.

Accounting standards for pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macro-economic circumstances beyond the control of the Company.

There is a risk that future accounting, regulatory and legislative changes may also adversely impact pension valuations, both accounting and funding, and, hence, costs and cash for the Group.

Mitigation
Continuous strategic monitoring and evaluation is undertaken by Group senior management of the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.

The Company and the schemes’ trustees have agreed a long-term investment strategy and risk framework intended to reduce the potential impact of the schemes’ exposure to changes in inflation and interest rates.

Longevity swaps have been used to limit the potential impact of the schemes’ exposure to increasing life expectancy.
Risk description
Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent all risk of security breaches or cyber-attacks being successful in their attempts to penetrate our network security and misappropriate confidential information. The risk of loss of information or data by other means is also a risk that cannot be entirely eliminated. Installing major new IT systems carries the risk of key system failures and disruption.

Potential impact
A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations. This could have an adverse effect on the Group’s ability to win future contracts and, consequently, on our results of operations and overall financial condition. Failure adequately to plan and resource the implementation of the ERP system or difficulties experienced in doing so could cause both trading and financial reporting difficulties that could be material.

Mitigation
We have made and will continue to make significant investment in enhancing IT security and security awareness generally. We have formal security and information assurance governance structures in place to oversee and manage cyber-security and similar risks. The Board receives reports at least quarterly on security and information assurance matters. The ERP implementation project is overseen and closely monitored by steering and working groups, is regularly reported on to the Group Executive Committee and is being implemented in a phased approach (with parallel running of old and new systems for a period) to what we believe is a realistic timetable.

IT and security
Our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information is a key factor for our customers.

The Group is rolling out an Enterprise Resource Planning (ERP) application for our ‘back office’ operations which also provides some front-end functionality.
Currency exchange rates
As we expand outside the UK, our financial results are increasingly exposed to the impact of currency exchange rates.

Risk description
We prepare our consolidated results in Sterling and translate the value of assets, liabilities and turnover reported or accounted for in non-Sterling currencies. Exchange rate movements can therefore affect the Sterling financial statements and results of the Group.

Expenses or commitments may be incurred in a currency that is different from the related turnover or income needed to discharge them.

Non-Sterling currencies to which we are currently most exposed are the Euro, US Dollar and South African Rand, as well as increasingly, Australian Dollar, Canadian Dollar, Norwegian Krone and Swedish Krona.

Potential impact
If the currencies in which our non-UK business is conducted are weak or weaken against the value of Sterling, this will adversely affect our reported results and the value of any dividend income received by the Company from non-UK operations. If the cost of an operation or a contractual commitment is denominated or incurred in a currency different from the currency of the income received from that operation or that is being relied on to discharge that commitment, movements in exchange rates can reduce the profitability of the operation and increase the effective cost of discharging the commitment.

Mitigation
We seek to mitigate exposure to movements in exchange rates in respect of material foreign currency-denominated transactions (for example, through use of derivative instruments). However, we do not use derivatives to hedge against the currency effect of translating our financial statements or our net assets and income of non-UK subsidiaries and long-term equity accounted investments. We maintain some foreign currency borrowings to limit, in part, the net foreign currency exposure.
**Growth and acquisitions**

Our strategy is to build on our core strengths in order to enable us to solve complex problems for our customers, improving their performance and reducing their costs. We have built our core strengths organically or by acquisition.

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<td>We look to develop innovative service offerings and products underpinned by technology, which focus on the higher-value contracts. Inevitably, this means a focus on larger customers in certain territories. However, these offerings and products may not differentiate us from more commoditised competitors or we may lose contracts or growth opportunities through price.</td>
<td>Our services and products may not differentiate us from more commoditised competitors or we may lose contracts or growth opportunities through price. Where we have acquired a strength through acquisition, the financial benefits of acquisitions may not be realised as quickly and as efficiently as expected and be a diversion to management. Post-acquisition performance of the acquired business may not meet the financial performance expected at the time the acquisition terms were agreed and could fail to justify the price paid, which could adversely affect the Group’s future results and financial position.</td>
<td>We are in constant dialogue with our customers at all levels, from the Board down to the frontline, in order to ensure that we understand their key needs and drivers. Through this engagement, we aim to focus on those services and products, which we believe will deliver real improvements and efficiencies to our customers. If we acquire a strength through acquisitions, management submit a detailed business case, with forward-looking projections, to the Board in respect of each acquisition.</td>
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Viability statement

The purpose of the viability assessment is to consider the question of solvency and liquidity over a longer period than the going concern assessment. Consistent with previous years, the Directors have assessed the Company’s viability over a three-year period to March 2023. The Directors elected to make their assessment on this basis as it is the period of the Group’s budget and forecasting review process, which the Directors believe gives the appropriate level of visibility for them to make their assessment, although the degree of certainty reduces over this longer period.

In considering the Company’s long-term prospects over the assessment period to March 2023, the Directors considered the Company’s business model as set out on pages , including, in particular, the core strengths of the Company, such as its long-term contracts, which account for around 80% of its business, as well as its order book of around £17.6 billion and its bidding pipeline of around £17 billion. The Directors assessed the Company’s business model and strategy in light of the principal strategic, financial and operational risks, including the principal risks listed on pages 83 to 92, and the Group’s solvency and liquidity risks identified within the Group’s risk management framework in the context of the controls and mitigating matters described on pages 80 to 82.

In considering the Company’s principal risks, the Directors assessed the robustness of the Company’s risk management framework in identifying the risks, their mitigation and the extent to which monitoring of the effectiveness of the mitigation measures was in place.

Having assessed the risks facing the Company, the Directors considered the Group’s budget, including the projected cash generation and the projected reduction in net debt. The Directors took into account the Group’s committed facilities, which are a £775 million five-year multi-currency revolving credit facility, US$500 million loan notes, and three tranches of notes (€550 million 1.75% notes, £300 million 1.875% notes and €550 million 1.375% notes) issued under the Group’s Eurobond programme, as well as the availability and continued access to debt markets.

The Directors then considered the impact that the COVID-19 outbreak might have on the Group’s business model and budget and mapped out certain scenarios of varying severity and impact on the Group, including changes in Government spending. The scenarios assume an appropriate management response, including deferral of non-essential capital and revenue expenditure as well as the deferral of dividends. The cashflow impacts of these scenarios were overlaid on the budget and forecast to assess the impact on the Group’s liquidity and solvency, in particular to stress test the headroom available to the Group under its existing borrowing facilities.

The Directors also considered a deterioration in the relationship with the Group’s principal customer, the loss of a significant contract and a significant increase in interest rates, coupled with a significant devaluation of Sterling to the Euro by around 20% to assess whether there were any scenarios that were plausible, the potential impact of which, taking account of the Company’s controls and mitigating actions, would threaten the ability of the Group to meet its liabilities over a three year period.

Having considered these scenarios, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to March 2023. In making this statement, the Directors have assumed that maturing facilities will be refinanced on commercially acceptable terms and the Group is able to drawdown its existing facilities as required.