

Creating a safe and secure world, together

In FY21 we made progress in the development of our environmental, social and governance (ESG) strategy despite managing financial issues. We recognise it is increasingly important to all our stakeholders, not least our people and our customers. Our activities have a significant impact on society and the environment, and sustainability is now an integral part of our corporate strategy and how we do business, but we need to focus more in this area. You can see more about how our new approach to sustainability, driven by our corporate purpose, is central to our business model and wider strategy on page 16.

Key focus areas for FY22

- Materiality assessment see page 64
- Progress the pathway to net zero, set science-based targets and reduce emissions
- Conduct Chapter Zero Board readiness assessment
- Focus on climate action: TCFD risk management and scenario planning
- Establish a baseline and investigate reduction initiatives for water and waste
- Progress sustainable transport solutions for Babcock and our customers
- Progress inclusion and diversity initiatives
- Upweight corporate citizenship
- Increase Group-wide engagement with stakeholders
- Increase ESG transparency and disclosure

We recognise we are at the start of our sustainability journey but are committed to acting now to reduce emissions, achieve our net zero goals and meet the expectations of all our stakeholders and society as a whole. In particular, we aspire to make a positive difference for the communities in which we operate and actively contribute towards the UN Sustainable Development Goals (SDGs).

We are focused on minimising the impact of our operations on the environment, on ensuring the safety of our people and ensuring that we have a positive impact on the communities in which we operate. We are working collaboratively with our customers and our supply chain to address the common challenges we all share, such as climate change.

Our sustainability strategy underpins our corporate purpose: to create a safe and secure world, together. We do this by supporting the defence of nations, protecting communities and saving lives.

- By reducing our carbon emissions and focusing on cleaner energy, minimising waste and increasing recycling we will protect the environment
- Through an active corporate citizenship programme and sustainable procurement initiatives we will protect our communities and suppliers
- By providing a safe and inclusive workplace where each person feels valued we will protect our employees
- By delivering robust free cash flows and creating sustainable value we will protect the future of the organisation

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 fulfil 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 solutions 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.

Our ESG strategy focuses on the operations and strategy of the Group and is owned at Executive Committee level by John Howie, Chief Corporate Affairs Officer. Our approach to Board governance is owned by our Chair, Ruth Cairnie, and is discussed on page 100.

ESG and our shareholders

We recognise that there are parts of our business model of particular relevance to investors when looking at ESG matters, most notably that we operate in the defence and nuclear markets.

This year our ESG report features additional disclosure and transparency on key sustainability interests that may help investors looking at Babcock with an ESG lens. To address this, we met with some of our top shareholders in the year to identify and discuss what the most material areas of focus should be and what disclosures would be useful.

Below we highlight the key points relating to issues commonly identified among our shareholders:

Environmental: We have set a net zero emissions target for 2040. Not only do we explain our target, we set out a roadmap with milestones to achieve our new goals, linked to our KPI on CO₂e emissions for measuring our progress, see page 68.

Social: The health, safety and wellbeing of our employees, customers and the community comes first at all times. We have evolved the way we conduct community outreach activities in the year to foster take-up in STEM subjects for younger audiences and to help address diversity disparity, including encouraging women in engineering. Improved employee diversity is a key pillar of our new people strategy and this year we have set an ambitious new target – to increase the proportion of women in our senior leadership team from 21% to 30% by March 2025.

Governance: Governance starts at the top. We have made significant changes to the governance of the Group at Board level, which is covered in detail in our Chair's Governance Statement (page 100) and our Audit Committee Chair's Report (page 119). We have reworked our approach to risk management in the year, see page 84, and changed our governance of contract bids, as covered in our business model on page 21.

Investor FAQ:

Are you involved in nuclear weapons?

- We do not make, deal in or maintain nuclear weapons
- We do, however, own and operate critical infrastructure and have technical knowledge of the defence nuclear market. We provide maintenance and through-life support for the UK's fleet of nuclear powered submarines
- Our product offering includes the build and assembly of the missile launch tubes for the common missile compartment on the US and UK nuclear deterrent submarine replacement programme
- Work related to these areas represented approximately 20% of FY21 Group revenue

Are you involved in other weapons?

- We do not make or deal in other weapons
- We do, however, design and manufacture weapons handling and launch systems for international naval platforms used by the UK, Spain, Korea and Australia
- We also have a contract to maintain the UK Royal Navy's naval weaponry
- Work related to these areas represented approximately 2% of FY21 Group revenue

Are you involved in nuclear power?

- Yes, nuclear power provides a reliable source of low-carbon electricity and is a critical component of countries' energy strategies as they move towards net zero carbon
- Our civil nuclear business is involved in new build, power generation support, fuel route management and decommissioning in the UK nuclear market
- We also use technical knowledge and reference cases to undertake consultancy work in Canada and Japan, albeit at a small volume currently
- Work related to these areas represented approximately 4% of FY21 Group revenue

Do you have a dedicated ESG team with ESG targets?

- Yes. Following our review of the Company's strategy and operating model, we have confirmed that ESG remains a vital part of our business model. Not only do we report on TCFD, but our new Net Zero 2040 target is published alongside a route map to achieving our goals

What ESG indices are you actively involved in?

- While we can be rated by many ESG indices, we actively cooperate and submit information and disclosures for rating by MSI, with a year-on-year improvement under the DJSI scoring system.

This year we have continued to develop our approach to ESG reporting. Building on last year, we have enhanced the level of transparency and provided further insight into a range of economic, social and environmental impacts in association with global standards and industry-specific disclosures.

- We achieved a demonstrable improvement in the Dow Jones Sustainability Index score across all three reporting areas (overall increase of 17 points versus last year)
- We have shared examples of how we are contributing towards the global UN SDGs (see over)

- We have assessed against global standards and increased our level of disclosure (see GRI/SASB tables)
- Our 2020 Modern Slavery statement was recognised in the TISC compliance report as amongst the top 6% of companies in scope for Section 54 for meeting the minimum criteria this year and published in a list of links to exemplar statements
- We are now reporting in line with TCFD limited disclosure recommendations

Materiality assessment

We are focusing on issues that we believe matter most to our stakeholders and to Babcock and this will help influence our sustainability agenda and our priorities.

This year we have set out our material issues and explained why they matter. We did this by reviewing the list of topics from our 2019 stakeholder engagement, assessing our impact across the value chain and versus global standards.

We have categorised these topics and they will be further explored in the relevant pages of the Environment, Social and Governance sections of the ESG report.

ESG	Material issue	Why this matters to us
E	Biodiversity and Ecological Impact	Biodiverse ecosystems are fundamental to healthy and quality lives. Maintaining and enhancing the environment in which we operate is at the core of Babcock's principles.
E	Climate Change	We are facing a global climate crisis which has the potential to cause catastrophic impacts. We understand the risks posed by climate change and are committed to play our part in addressing the global crisis.
E	Waste	Global production and consumption patterns generate unconscionable amounts of waste, depleting finite resources and causing irreparable damage to the global biosphere. We are committed to driving material and resource efficiency, adopting circular economy principles and reducing our impacts.
E	Water Consumption	The global hydrosphere supports all life on earth and current consumption and production patterns place significant pressure on our finite water resources. We understand the importance of this precious resource and commit to managing our consumption responsibly.
S	Community Engagement	Our community engagement approach aims to ensure we are good neighbours by supporting the communities who live alongside and work with us whilst positively contributing to society's progress overall.
S	Health, Safety and Wellbeing	High health and safety standards are a fundamental condition and responsibility we must meet to protect the wellbeing of all who interact with Babcock and ensure everyone gets home safely every day.
S	Talent and Development	Recruiting, maintaining and developing the best talent through a robust talent pipeline is key to ensuring that we maintain a competent workforce with the capacity to meet current and future needs.
S	Local Economic Contribution	We recognise the jobs we provide have a large socio-economic impact, especially at major sites where we are often a leading employer in that area.
S	Employee Diversity and Inclusion	Diversity and inclusion in recruitment and in all our people processes is critical to ensuring we create a workplace culture where individuals can flourish and contribute to the shared success of the business.
G	Business Ethics and Integrity	Reputation is a key business asset – in order to thrive, we as an organisation have to be trusted by all our stakeholders.
G	Data and Cyber Security	We recognise the very real risk of malicious cyber breach and work hard to ensure both our customers' and our information assets remain protected. (See risk section on page 84.)
G	Governance, Accountability and Culture	Babcock's culture is the glue that binds strategy and operating model. Governance is the way in which we make sure that Babcock is true to its purpose, culture and strategy.
G	Sustainable Supply Chains	We manage our local and global impact through considerate purchasing, taking into account products' entire lifecycles, whilst safeguarding our supply chains from the taint of unacceptable labour practice issues.
G	Innovation and Technology	Innovation, including the application of novel or transferable technologies, is important in creating efficient and sustainable outcomes. (See Innovation and technology section on page 24.)
G	Collaboration	Collaboration unifies and empowers others to achieve a shared goal, fosters innovation and creates lasting relationships for sustainable long-term business success. (See people strategy on page 22.)

We recognise the importance of the materiality assessment and there is further progress to be made. It will be reviewed on an annual basis to capture the dynamic and ever-changing sustainability landscape and ensure that our strategy evolves with the interests and needs of our stakeholders, as well as those of Babcock.

Progress against UN Sustainable Development Goals

The UN SDGs provide a common language for our employees, our customers, our investors and regulators. By aligning the Company strategy and material issues to the SDGs, we can transparently disclose our contribution, assess annual progress that has been made towards the 2030 targets and unlock opportunities that benefit people, the planet and the economy.

Our aim is to make a positive impact on the communities in which we operate and make a better and more sustainable future for all.

Our sustainability agenda has a number of programmes which support and make a valuable contribution to the following SDGs and we have listed a few examples of the activities taking place across the business. SDG 13 Climate Action has been added this year as it is a key focus.

Sustainability at Babcock	SDGs	Some examples which demonstrate our progress and impact during FY21
Affordable and Green Energy	Our intention is to ensure access to and use of affordable, reliable, sustainable and modern energy for Babcock.	 <ul style="list-style-type: none"> Rosyth naval base is developing plans to install a solar farm and energy storage system at the site with a view to incorporating other energy solutions.
Clean Water and Sanitation	Our intention is to sustainably manage our water consumption to ensure it remains available and safe to all at our sites.	 <ul style="list-style-type: none"> Cavendish Nuclear focuses on water-saving devices and technologies, such as sensor taps and eco flush toilets, on all sites when performing refurbishments.
Responsible Consumption and Production	Our intention is to sustainably manage our consumption of our planet's finite resources and ensure sustainable production patterns.	 <ul style="list-style-type: none"> In August 2020, Devonport joined forces with WH Knight & Sons, to ensure that 3,000 pairs of decommissioned overalls could be reused instead of being sent to landfill. Twenty-three ISO 14001 accredited environmental management systems.
Climate Action	Our intention is to work collaboratively with our customers and suppliers to take immediate action to combat climate change and its catastrophic impacts by decarbonising our business and our value chain.	 <ul style="list-style-type: none"> Carbon strategy and TCFD reporting, see pages 67 and 70 respectively. Since our datacentre move in June 2020 we have saved 1,500 MWh of electricity, which is equivalent to the average annual electricity consumption of 400 UK homes and has resulted in a reduction of 350 tonnes of CO₂e. Babcock, alongside three partners, has secured funding to undertake an R&D project seeking to understand the performance of hydrogen fuel cells and batteries as a possible zero emission power and propulsion technology.
Life Below Water	Our intention is to protect the ocean, seas and marine resources for sustainable development.	 <ul style="list-style-type: none"> Delivery of aerial firefighting services reduces damage from fires and run-off into water bodies.
Life on Land	Our intention is to protect and conserve the biosphere around the communities in which we operate.	 <ul style="list-style-type: none"> Use of UAVs to detect fires and assist direction of firefighting actions. Land Defence partnered with the Marine Conservation Society to undertake volunteer beach cleans. Plans were arranged for another volunteer clean project in March 2020, but this was cancelled due to COVID-19. Piloted food waste collections at Dalton Avenue site, Rivergate and Babcock Technology Centre, which will be rolled out across further sites. One wormery and one beehive in place at Chatham base in October 2020.

Environmental

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

Environmental – Clean inputs

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

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

Low carbon energy

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

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

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

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

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

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

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

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

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

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

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

Environmental – Responsible consumption

In FY21 we reset and reassessed our environmental performance. We have worked hard to develop and enhance our previous environmental, energy and carbon strategies and we are working to establish more ambitious targets, with detailed roadmaps, implementation plans and initiatives.

Our sectors and business units are supported by specialist teams of environmental experts who work to ensure the impacts of our operations are minimised. We continue to manage our environmental impacts through ISO14001 accredited Environmental Management Systems (EMS) which cover over 75% of our global operations.

Waste

Waste is a significant global issue and we understand we have a responsibility to minimise the impacts of our operations. We also have the opportunity to influence a large value chain and accordingly we regularly engage with our suppliers and customers to ensure sustainable practices are adopted. Material and resource efficiency is a core principle which we seek to embed across our operations.

Babcock Group Energy Consumption and Emissions

		Mar-18	Mar-19	Mar-20	Mar-21
UK / UK offshore					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	76,688.9	74,167.5	66,349.4	60,848.3
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	96,233.6	73,416.0	61,595.3	51,058.1
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	20,747.1	17,701.8	13,722.7	6,920.9
Total Emissions	tCO₂e	193,669.6	165,285.3	141,667.4	118,827.3
Underlying energy consumption used to calculate emissions	kWh	645,286,882.4	610,390,853.8	553,861,833.7	513,073,873.2
Global (excluding UK / UK offshore)					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	105,010.5	93,619.5	100,424.7	97,205.5
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	8,144.8	7,314.3	4,571.0	4,268.6
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	851.4	323.1	364.4	86.8
Total Emissions	tCO₂e	114,006.8	101,256.9	105,360.1	101,560.8
Underlying energy consumption used to calculate emissions	kWh	446,044,504.7	397,521,762.0	417,636,004.0	403,486,309.6
Babcock Group Total (UK / UK offshore and Global)					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	181,699.4	167,786.9	166,774.1	158,053.7
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	104,378.4	80,730.3	66,166.3	55,326.7
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	21,598.6	18,025.0	14,087.0	7,007.6
Total Emissions	tCO₂e	307,676.4	266,542.3	247,027.5	220,388.0
Underlying energy consumption used to calculate emissions	kWh	1,091,331,387.1	1,007,912,615.8	971,497,837.7	916,560,182.8
Underlying energy consumption	GJ	3,928,793.0	3,628,485.4	3,497,392.2	3,299,616.7
Revenue	£M	4,659.6	4,474.8	4,428.5	4,182.7
Intensity Ratio	tCO₂e/£1M Revenue	66.0	59.6	55.8	52.7

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. Figures for UK operations follow conversion factors published by BEIS. Non-UK operations utilise emission factors applicable to the fuel source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Scope 1, 2 and 3 sources have been divided by the annual revenue to provide the intensity ratio (tCO₂e per £m). Figures for prior years 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 (including operations in Oman, South Korea, Canada and Australia). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period our approach to energy and carbon management included a holistic review and the re-establishment of our baseline. We have developed our new net zero carbon strategy, Plan Zero 40, which details our journey to net zero.

Where feasible we adopt circular economy principles throughout planning, design and delivery phases to maximise opportunities for end of life reuse.

Across our operations we are investigating a range of waste management initiatives with key aims of minimising waste to landfill and limiting the use of 'single use plastics'. We do, however, acknowledge that more needs to be done and we are committed to continually improving our approach to waste management and reducing our impacts.

Water consumption

We have commenced investigations to re-establish our baseline and are working to ensure we have an accurate and complete understanding of our water consumption across our global operations. Our local environmental teams are working to identify opportunities to reduce our water consumption and we are assessing opportunities to incorporate water reduction technologies within our new developments, such as rainwater harvesting, leak detection and flow restriction.

Biodiversity and ecological impact

Throughout our global operations we interact with a range of complex ecosystems. Maintaining and enhancing the natural capital and ecosystems within which we operate is a priority and we strive to adopt a net gain approach where possible. Our commitment to the environment is delivered by our network of experienced environmental professionals and dedicated local sustainability groups in collaboration with our customers, value chain and wider stakeholders.

Devonport Dockyard's Environmental Working Group takes part in a range of local initiatives throughout the year, collaborating with the local communities and environment groups to address local issues such as litter on beaches. At Rosyth Dockyard our local environmental improvement team are investigating tree planting within the dockyard, with the aim of reintroducing indigenous flora and fauna, reducing carbon emissions and improving local air quality.

Climate change

Babcock is committed to addressing the global climate crisis. Plan Zero 40 is our

strategy to lead the low-carbon transition with extensive decarbonisation programmes planned across our estate, assets and operations. We have committed to setting ambitious science-based targets in line with a 1.5°C limit to global warming and commit to delivering net zero carbon emissions by 2040. We are aware of the challenges and risks on our journey to net zero, but also the opportunities the low-carbon transition presents. We will require strategic investment in our people, technology and innovation. However, achieving net zero is not something we can achieve on our own and we will be taking a leading role in collaborations and partnerships. We commit to driving innovation throughout our value chain and aim to be a leader in low-carbon enablement. Planning our approach for full scope 3 mapping is a priority for FY22 and we have committed to developing our scope 3 footprint with associated decarbonisation strategy by 2025.

We have gained reaccreditation to the Carbon Trust Standard for Babcock's UK-based operations which supports our journey to net zero.



Environmental – Task Force for Climate-related Financial Disclosure

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

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

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

Social – People and potential

People are critical to our ability to deliver our strategic goals. In order to serve our customers effectively, we need to attract, recruit and retain the best people and provide a workplace which is inclusive where each individual feels supported and respected.

New People strategy

If we are to deliver our business strategy and priorities we need to develop a people strategy that underpins this. Our people strategy is evolving under the new leadership of Nikki Fox, Chief Human Resources Officer (see People section on page 22 and Business model on page 20).

As we move forward, we will create an organisation that is more integrated and collaborative, putting our people at the centre of what we do. We will bring our HR teams into a more integrated function that supports the business in its mission, supporting and navigating the cultural challenges we will inevitably face.

We will design simple and consistent people processes, and scale up the approaches that are working well already, to deliver a new HR function. These new ways of working and the overarching people strategy will seek to develop and motivate a workforce that is built on trust and empowerment. Our new people strategy will offer a consistent and common solution for Babcock, providing the foundation to evolve the Babcock we want for the future.

The agile framework and culture

We are committed to creating an inclusive working environment with a trust-based culture, focused on providing our customers with the delivery they expect, to the quality they desire, in the timeframe that is agreed.

The COVID-19 pandemic and our operational response has highlighted opportunities to work effectively but differently – one of these new ways is agile working. We have launched an agile framework which builds on the positive and alternative working arrangements, setting out a consistent, single framework to maintain these across Babcock.

Agile is an all encompassing term to describe not just where our people work but how they work; providing our people with the flexibility to make local decisions on when, where and how they deliver their commitments, and the infrastructure, policies and procedures that support them, within an agreed and acceptable framework.

Agile working will support our new business model and culture, providing an environment where employees are trusted to make decisions about how they work, balancing personal preferences with Company and customer needs:

- A way of working that enables work-life balance, supports family commitments and promotes inclusivity;
- Where employees are empowered to use personal judgement and make individual choices; and
- A business that focuses on output and deliverables, not presence or location.

Each business within the Group will implement the principles of the agile framework, working closely with local trade unions and HR teams, so that we have synergy and a common improved working environment for all. There are already activities underway in different areas of the business to review revised working methods and it is the intention that the Group framework will complement the local progress.

Employee engagement

During the COVID-19 pandemic we significantly increased and improved employee communications to enhance and improve employee engagement. These include a weekly CEO vlog and the 'Ask David' initiative, where employees can email the CEO and get a direct response from him, as well as the launch of a Babcock app allowing more employees to access communication content.

The CEO has been open in his communication with employees; for example explaining that as the COVID-19 situation worsened in most of our markets the Executive Committee made the decision to defer the Annual Pay Review, which usually takes place in April, until September. The deferral will allow the Group to make a decision as to whether the pay review can then proceed or whether it will need to consider alternative options.

Based on the outcomes of our employee engagement focus groups, employee surveys and listening forums, we have been focusing on the topics that employees have highlighted as a priority, those being: communication, pay and reward, leadership and career development. Examples of our work to improve across these areas are the introduction of our BIG Benefits platform and the development of the Babcock Academy.

During FY22 we will be moving to a consistent approach to measuring employee engagement across the Group.

Capability and skills

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

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

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

Early careers

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

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

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

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

Inclusion and diversity

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

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

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

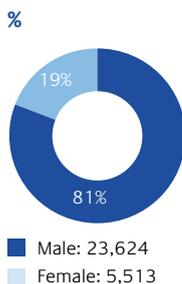
Our Diversity and Inclusion focus areas for the year ahead are: harnessing our data to drive insight and measure results; strengthening and broadening our employee networks; transforming our key people processes; creating a culture of wellbeing; and celebrating inclusion and diversity as our key differentiating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

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

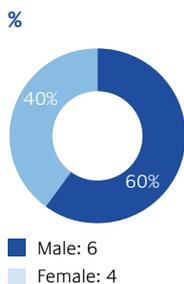
1. 80% disclosure of diversity data within 18 months.
2. 30% women within senior leadership teams by 2025. Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Executive Committee) or a strategically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

Gender Diversity

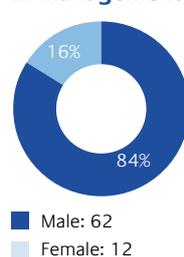
Total workforce



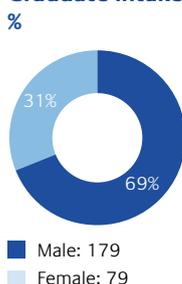
Board



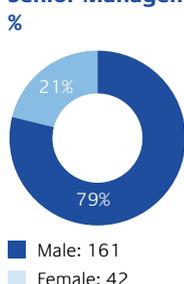
Executive Committee and Direct Reports in management roles %



Graduate intake



Senior Management*



* See KPI on page 29.

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

Gender diversity and gender pay gap

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

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

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

For further information please see our Gender Pay Gap Report.

Focus for FY22

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

Health and safety

Governance

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

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

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

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

The role of the CSLT is to:

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

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

Achievements and improvements

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

babcock™

Our leadership safety commitments to you:

We will CARE by

- Never walking by anything unsafe.
- Challenging constructively.
- Providing you with the right tools, training and working conditions.
- Visible safety leadership and starting all meetings with a safety moment.

CARE

LEARN

We will LEARN by

- Reviewing all significant events.
- Listening to you and seeking your views.
- Creating an open environment, with a just culture, that recognises that people make mistakes that we can learn from.

HOME SAFE EVERYDAY

Throughout the period we have reviewed and refreshed our Group safety strategy, our Safety policy and the Terms of Reference of the Corporate Safety Leadership Team. Of particular note, we launched our new safety commitments (see left).

Additionally, during January 2021 all of our sectors, direct reporting countries and business units undertook safety stand downs. Dedicated sessions were held to hear about the new safety commitments, based around the themes of Care and Learn and to discuss how we can improve safety. A short survey was launched to all employees and the feedback will prove important and extremely valuable in informing our future direction towards achieving our safety vision and mission.

A replacement incident reporting system was launched in May 2020 predominantly for our UK operations. All other areas are due to be included early in the next financial year; this will then provide a truly global reporting and analysis system.

Performance

Tragically, in August, during a firefighting mission an aircraft crash-landed in Spain near the Portuguese border causing the immediate fatality of the co-pilot. The pilot, who had suffered major injuries, subsequently passed away. The incident is currently under investigation by the appropriate authorities.

The number of injuries in the period has reduced by 32%; however, the more serious 'Babcock riddor' injuries increased by 11% compared to the previous year. Similarly, our total injury rate (injuries per 100,000 hours worked) has reduced by 19% and the Babcock riddor injury rate increased by 36%.

Incident numbers

	2016/17	2017/18	2018/19	2019/20	2020/21
Total number of injuries	1,720	1,389	1,452	1,141	780
Fatalities	7	2	4	1	2
Major injuries	27	12	24	20	12
Over three day injuries	107	101	144	111	133
Babcock riddor ¹ totals	141	115	173	132	147

Incident rates

	2016/17	2017/18	2018/19	2019/20	2020/21
Total injury rates per 100,000 hrs worked	1.58	1.35	1.47	1.24	1.01
Babcock riddor ¹ rates per 100,000 hrs worked	0.13	0.11	0.18	0.14	0.19

1. In 2012, the UK Health and Safety Executive changed formal 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 these as a 'Babcock riddor'.

Focus for FY22

Our focus for FY22 will be on building on the strategy and creating a second wave of Group-wide Health, Safety and Environment standards, engagement with our people and the second part of the safety commitments survey, together with a Group-wide communications campaign on our new safety commitments. We will also be moving to Occupational Safety and Health Administration reporting requirements in order to be able to benchmark our HSE performance against our peers.

Social – Community engagement

We are the major employer in many of our communities so our engagement approach aims to ensure we support the communities in which we work, we are a good neighbour and we contribute positively to society's progress.

We focus on the wider impact we have on society, including environmental, social and cultural factors.

We are committed to being proactive in ensuring we build a positive relationship and engagement with the local communities in which we operate; in some places we are one of the most significant employers in the area. In some communities inequality and high unemployment are a specific concern, so we try to recruit locally and train where the required skills are available.

Historically we have focused our sponsorship and volunteering activities on locally-led causes that are important to us and close to our business but we plan to introduce a Group-wide approach in FY22.

Volunteering

Volunteering is a rewarding and meaningful experience that supports employee development and their wellbeing. Whilst we do some volunteering activities around the Group, our ambition is to develop a centrally-led framework which can be applied locally across our business.

We are proud that two of our employees have been awarded the prestigious British Empire Medal (BEM) for the important role that they played during the COVID-19 pandemic.

In Australia many of our employees acted as volunteers in the bush fire rescue services. In Canada employees volunteered to support local homeless shelters and in South Africa we supported "adopt a school", donated computers and provided maintenance.

We actively support our reservist employees and we now have circa 160 volunteer reserves and 50 sponsored reserves. We also have around ten uniformed cadet instructors. We provide 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.

Community Impact

During the year we supported a broad range of activities for local communities and the armed forces community. This includes Science, Technology, Engineering and Maths (STEM) programmes, strengthening our relationship with indigenous peoples, support for armed forces and reserves, partnering with a broad range of academic establishments to support funded research and local sponsorship.

In FY21, COVID-19 had a significant impact on our operations, our employees and our supply chain. As the main employer in many of the communities we supported a range of different initiatives such as the Mayflower 400 celebrations in Plymouth, military open days (eg *HMS Raleigh* and *HMS Collingwood*) and The Trussell Trust (a foodbank charity). Our Chair was a founder member of the Covid Recovery Commission and we recognise the critical role that businesses have to play in supporting the needs of individual communities.

STEM

Babcock encourages its employees to become STEM Ambassadors so they can support our schools engagement programme. In the UK this year we have trained over 200 STEM Ambassadors, bringing our total across the business to over 700 active Ambassadors. The focus this year has been to move our extensive programme of events in schools to virtual offerings. This has included: two activity books targeted at primary age children that could be used at home, and virtual careers events for students, parents and teachers/careers leaders. In Australia we are focused on female STEM programmes and Submarine in school programme. This year we sponsored the "xhibition" team of 20/21 from Brighton Secondary School in Adelaide and supported with engineering technical capability.

Indigenous peoples

In Canada we are in year two of the Progressive Aboriginal Relations Certification through the Canadian Council for Aboriginal Business. We are focused on expanding the supply chain and have recently invested C\$1 million in an indigenous owned business based in Victoria, British Columbia. We have a further range of activities in place to help drive social inclusivity, eg an initiative over the next two years with the Camosun College Coastal Training Centre which is an indigenous post-secondary institution in British Columbia. In Australia, we are engaging with organisations targeted towards indigenous peoples and we are focusing on expanding our indigenous supply chain.

Support for Armed Forces, veterans and reserves

We are proud to be a major employer of service leavers, veterans and reserves and have in excess of 5,000 veterans in the UK workforce. 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. In 2020 we enhanced our focus on Service Leaver and Veteran hires and recruited 164 declared service leavers and 380 veterans (total 544) representing circa 20% of our total UK hire for 2020.

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.

Partnerships with academia

We are collaborating with and have built outstanding relationships with a broad range of academic establishments both local to our facilities and where subject matter expertise exists that complements our business. We support learning development opportunities by mentoring and helping to refine the teaching of courses as well as providing industrially related projects for students. In addition we fund and collaborate on a number of excellent research programmes developing impactful, sustainable solutions for implementation across all our sectors.

Sponsorship

During FY21, we supported communities by sponsoring local events or providing donations to local causes. Babcock policy is not to make political donations either in cash or kind; this includes not only financial donations but indirect support.

Sponsorship activity has been locally led and not coordinated centrally. In FY22 we will be developing a Group-wide sponsorship and donations policy which will be aligned to our corporate purpose and this will be supported by locally led programmes. There will be a clear guidelines for managing community and sponsorship activities to ensure that our sites follow the overall Group approach.



Bokantsho Primary School in Viljoensdrift, South Africa.

Supporting local communities

It is important that Babcock supports the communities around the world in which it operates.

In South Africa, we championed the renovations for the Bokantsho Primary School in Viljoensdrift. Located approximately 5km from the Lethabo Power Station, the school provides an essential service to the community and caters for Grade R to 7 learners from different townships. The majority of the school's 198 pupils come from nearby farms and impoverished families who cannot afford to pay school fees. The school also participates in the National School Nutrition Programme (NSNP) which provides food for pupils on a daily basis.

Our team of Babcock volunteers engaged several contractors to upgrade the school buildings including the classrooms, kitchen, hall, administration building and toilets. The scope of work was extensive, including painting of walls; repairing and replacing ceilings, doors, windows and roofing; installing new flooring; repairing and upgrading of the electrics and plumbing; and removing the old fence and installing a new one.

T A Lengana, the school's principal, said: "Babcock's contribution and assistance is highly appreciated and valued, and ensures that learners are taught in an environment that is conducive to teaching and learning. The support also contributes to learners' holistic development by providing adequate resources for all learners, and will contribute to improving the learners' confidence and their self-worth."

Babcock is proud to support all of our communities.

Governance – Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. As well as being the right and proper way to behave, this will ensure we uphold high ethical standards across the Group and support our long-term success.

We understand our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected unprincipled 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. These are reviewed periodically to ensure that they meet current best practice principles and legislative needs. By establishing transparent policies and procedures we can reduce risk to our business and to our customers. An outline of our risk management and assurance processes can be found on pages 85 to 86.

Ethics policy and Code of Business Conduct

To protect the Company and reduce 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 Ethics policy comprises a detailed manual, available on the Group's intranet, containing guidelines, authorisation and other procedures aimed at identifying and reducing ethical risks. These include extensive policies around anti-bribery and competition law prohibitions that clearly show our zero tolerance for any form of bribery or anti-competitive behaviour.

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 as referenced in our Diverse and robust supply chains section mean for them in practice.

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns they have that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves. We provide a range of channels for employees to do so, including a new initiative "Ask David" which allows employees to raise questions directly to our new CEO, David Lockwood. We also have independent whistleblowing hotlines in each country where we operate so that employees can raise issues confidentially if they wish, with assurance that we will not take action against anyone who makes a report. All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation.

More details of our risk management procedures can be found on pages 85-86 whilst our Ethics policy, Code of Business Conduct and Suppliers' Code of Conduct can be found on our website.

Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees, our suppliers and business partners 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 to contribute positively to global efforts to ensure that human rights are understood and observed.

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

Our Modern Slavery Transparency Statement, which is referenced again in our Diverse and robust supply chain section, 78, is reviewed and approved annually by the Board. Our statement during the year was assessed by the TISC report AI system and Babcock was placed in the top 6% of companies meeting the minimum criteria. Additionally Babcock was included in its published list of links to exemplar statements. Our statement remains available on our website.

Cyber security

We recognise the very real risk of malicious cyber breach and work hard to ensure both our customers' and our own information assets remain protected. 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 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 DCPPE Executive committee.

Babcock's core IT services are certified to ISO27001 (Information Security) and ISO22301 (Business Continuity). In addition, following a recent external assessment, we retained our Cyber Essentials Plus certification which is mandatory for all suppliers of Government contracts that involve handling personal information and providing certain IT products and services.

Governance – Diverse and robust supply chains

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 for our customers and shareholders.

External expenditure via third-party suppliers, including Original Equipment Manufacturers (OEMs), accounts for a significant part 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 supply chain solutions which enable us to return value to our customers, shareholders and communities.

We buy a wide range of goods and services from over 14,000 suppliers. These range from large multinational OEMs to Small and Mid-size Enterprises (SMEs). Of these suppliers, 300 are key partners in our ability to deliver continuous improvement and innovative quality outputs.

Sustainable sourcing

The development and execution of our supply strategy is aligned with the overall business strategy.

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. We review our business-critical suppliers on an annual basis to address any risks or concerns.

We are aligning our processes and standards to ISO 20400 (Sustainable Procurement) and this includes ensuring that we consider circular economy principles including recycling and disposal options.

Our activities ensure that we continue to deliver value through working effectively with our supply chains. By improving upfront 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 combine technology, market intelligence and business process to engage with our supply base to form long-term sustainable relationships.

Working with 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 with SMEs ensures that we have access to innovative new solutions and provides enhanced flexibility and agility.

Fair operating practices

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 supports Babcock's high standards and contributes to the reputation of Babcock and our customers.

The Code reflects the same standards to which 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.

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.

Our businesses use appropriate processes to qualify, on-board and periodically revalidate sub-contractors 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.

Payment to suppliers

Historically we have not been good customers around period ends; however we will be improving our practices. We understand the importance of predictable payments when running a business and will ensure good practice across the Group.

Twenty-one legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. Fourteen of our legal entities are signed up to the Prompt Payment Code and are compliant as of 31 March 2021.

Average payment across the Group over the past six months to March is 29.6 days, an improvement versus 34.5 as reported last year.

We actively 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. We have put in place measures to ensure that we continue to comply with the UK Government's January reforms of the code.

Focus for FY22

- Work towards aligning procurement processes and standards with ISO 20400
- Actively encourage supplier diversity and social inclusivity by engaging with SMEs and minority owned businesses
- Support Scope 3 carbon emissions mapping

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 ESG strategy report and throughout the Strategic report.

We are committed to providing greater transparency into our policies, standards and governance approach through the global reporting frameworks and insight in the ESG strategy report.

Reporting requirement	Policies and standards	Additional information	Page
Environmental matters	Health, Safety and Environmental policy*	Clean inputs	67
	Energy policy*	Responsible consumption	68
	Procurement Environmental policy*	Health, safety and environmental risk	91
Employees	Code of Conduct **	People and potential	71
	Health, Safety and Environment policy*	Gender diversity and gender pay gap	72
	Joint Ways of Working Charter	Commercial Integrity	77
	Agile working framework*	People risk	93
		Building relationships	58
		Stakeholder engagement	114
		Remuneration	134
	Note 28 – share-based payments	254	
Human rights	Code of Conduct**	Corporate Integrity	77
	Supplier Code of Conduct**	Diverse and robust supply chains	78
	Modern Slavery Statement**		
Social matters	Anti-bribery and Corruption/Ethical policy**	People and potential	71
	Code of Conduct**	Commercial integrity	77
	Diversity and Inclusion Charter*	Community engagement	75
	Canada Indigenous Peoples policy*	Building relationships	58
		Stakeholder engagement	114
		Remuneration	134
	Note 28 – share-based payments	254	
Anti-bribery and corruption	Anti-Bribery and Corruption/Ethical policy**	Diverse and robust supply chains	78
	Whistleblowing structure	Commercial integrity	77
	Supplier Code of Conduct**	Principal risks and management controls	84
		Governance statement	100
Description of principal risks and impact on business activity		Principal risks and management controls	84
Business model		Our business model	20
Non-financial KPIs		Delivering on our strategy	29

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

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

s172(1) Statement

This statement explains how the Directors, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole, while having regard for all stakeholders. Section 172(1) requires a director to have regard, among other matters to the

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

Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Further information on how the Board addresses these different factors can be found throughout the Strategic report. For further information on how the Board keeps s172(1) on its agenda, its key activities and how the Board engaged with the Company's stakeholders and took their interests into account, please see pages 114 to 116 which form part of this Statement. Additional information on the Company's engagement with key stakeholders can be found on pages 58 and 59.

Compliance with Global Reporting Initiative (GRI)

We intend to report in accordance with GRI Standards Core option. We have indicated the disclosure topics that are relevant to Babcock and the level of disclosure.

Standards	Disclosures		Status
Universal Standards	GRI 101: Foundation 2016	GRI 101-01 to 101-10	●
	GRI 102: General Disclosures 2016	GRI 102-01 to 102-56	●
	GRI 103: Management Approach 2016	GRI 103-01 to 103-03	●
Economic Topics	GRI 201: Economic Performance 2016	GRI 201-01 to 201-04	◐
	GRI 202: Market Presence 2016	GRI 202-01 to 202-02	◐
	GRI 203: Indirect Economic Impacts 2016	GRI 203-01 to 203-02	◐
	GRI 204: Procurement Practices 2016	GRI 204-01	●
	GRI 205: Anti-corruption 2016	GRI 205-01 to 205-03	◐
	GRI 206: Anti-competitive Behaviour 2016	GRI 206-01	◐
	GRI 207: Tax 2019	GRI 207-01 to 207-04	◐
Environmental Topics	GRI 301: Materials 2016	GRI 301-01 to 301-03	○
	GRI 302: Energy 2016	GRI 302-01 to 302-05	◐
	GRI 303: Water and Effluents 2018	GRI 303-01 to 303-05	◐
	GRI 304: Biodiversity 2016	GRI 304-01 to 304-04	○
	GRI 305: Emissions 2016	GRI 305-01 to 305-07	◐
	GRI 306: Waste 2020	GRI 306-01 to 306-05	◐
	GRI 307: Environmental Compliance 2016	GRI 307-01	◐
	GRI 308: Supplier Environmental Assessment 2016	GRI 308-01 to 308-02	◐
Social Topics	GRI 401: Employment 2016	GRI 401-01 to 401-03	●
	GRI 402: Labour/Management Relations 2016	GRI 402-01	●
	GRI 403: Occupational Health and Safety 2018	GRI 403-01 to 403-10	◐
	GRI 404: Training and Education 2016	GRI 404-01 to 404-03	◐
	GRI 405: Diversity and Equal Opportunity 2016	GRI 405-01 to 405-02	◐
	GRI 406: Non-discrimination 2016	GRI 406-01	◐
	GRI 407: Freedom of Association and Collective Bargaining 2016	GRI 407-01	●
	GRI 408: Child Labour 2016	GRI 408-01	●
	GRI 409: Forced or Compulsory Labour 2016	GRI 409-01	●
	GRI 410: Security Practices 2016	GRI 410-01	⊗
	GRI 411: Rights of Indigenous Peoples 2016	GRI 411-01	●
	GRI 412: Human Rights Assessment 2016	GRI 412-01 to 412-03	◐
	GRI 413: Local Communities 2016	GRI 413-01 to 413-02	◐
	GRI 414: Supplier Social Assessment 2016	GRI 414-01 to 414-02	○
	GRI 415: Public policy 2016	GRI 415-01	●
	GRI 416: Customer Health and Safety 2016	GRI 416-01 to 416-02	⊗
	GRI 417: Marketing and Labelling 2016	GRI 417-01 to 417-03	⊗
	GRI 418: Customer Privacy 2016	GRI 418-01	○
	GRI 419: Socioeconomic Compliance 2016	GRI 419-01	●

Response to Sustainable Accounting Standards Board (SASB)

Dimension	General Issue Category	Disclosure Topic	Accounting Metric(s)	Status
Environment	Energy Management	Energy Management	<ul style="list-style-type: none"> RT-AE-130a.1: (1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable 	🟢
	Hazardous Waste Management	Waste & Hazardous Materials Management	<ul style="list-style-type: none"> RTA-AE-150a.1: Amount of hazardous waste generated, percentage recycled RTA-AE-150a.2: Number and aggregate quantity of reportable spills, quantity recovered 	🟡
Social Capital	Data Security	Data Security	<ul style="list-style-type: none"> RT-AE-230a.1: (1) Number of data breaches, (2) percentage involving confidential information RT-AE-230a.2: Description of approach to identifying and addressing data security risks in (1) company operations and (2) products 	🟢
	Product Quality & Safety	Product Safety	<ul style="list-style-type: none"> RT-AE-250a.1: Number of recalls issues, total units recalled RT-AE-250a.2: Number of counterfeit parts detected, percentage avoided RT-AE-250a.3: Number of Airworthiness Directives received, total units affected RT-AE-250a.4: Total amount of monetary losses as a result of legal proceedings associated with product safety 	⊗
Business Model & Innovation	Product Design & Lifecycle Management	Fuel Economy & Emission in Use phase	<ul style="list-style-type: none"> RT-AE-410a.1: Revenue from alternative energy-related products RT-AE-410a.2: Description of approach and discussion of strategy to address fuel economy and greenhouse gas (GHG) emissions of products 	🟢
	Materials Sourcing & Efficiency	Materials Sourcing	<ul style="list-style-type: none"> RT-AE-440a.1: Description of the management of risks associated with the use of critical materials 	🟢
Leadership & Governance	Business Ethics	Business Ethics	<ul style="list-style-type: none"> RT-AE-p510a.1: Total amount of monetary losses as a result of legal proceedings associated with incidents of corruption, bribery, and/or illicit international trade RT-AE-p510a.2: Revenue from countries ranked in the "E" or "F" Band of Transparency International's Government Defence Anti-Corruption Index RT-AE-p510a.3: Discussion of processes to manage business ethics risks throughout the value chain 	🟢

Status Key

	Indicative disclosure		Indicative disclosure		
🟢	Full Disclosure	100%	🟡	Partial Disclosure	25%
🟡	Partial Disclosure	75%	🔴	No Disclosure	0%
🟠	Partial Disclosure	50%	⊗	Not Relevant	N/A