

# Chair's introduction



Ruth Cairnie  
Chair

## Dear Shareholder

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

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

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

### **Board changes Board structure**

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

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

#### **Board membership**

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

#### **New leadership team**

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

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

#### **Board process and climate**

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

#### **New operating model**

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

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

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

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

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

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

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

Please see above and the following pages.

## COVID-19 response

Inevitably, the pandemic has continued to affect the way we have gone about our business throughout the year. The Board has regularly reviewed the measures taken by the business in response to the pandemic: those to protect our staff, to ensure we have remained aligned with the priorities of our customers, and to ensure continuity of operations. The restrictions on travel and social interaction have affected all aspects of the working of the Board, including notably the recruitment process for new executives and the induction process for all our new joiners (as detailed on page 110).

Throughout the year we have needed to conduct all our regular Board and Committee meetings by video conference; we quickly adjusted to this new way of working and have successfully covered all the required aspects of Board oversight, leadership and governance. Whilst pleased with the effective way the Board has adjusted, a return to some face-to-face meetings and visits to different parts of the business will be given high priority as soon as this is possible.

## Strategy

The Board has spent significant time reviewing and refreshing the strategy for the Group, having given David Lockwood licence to consider all aspects of the strategy on his appointment as CEO. This work has been conducted in parallel with the contract profitability and balance sheet review, and has informed the operating model review, so that the strategy, financial underpinning and operating model to deliver it are all coherent. We held multiple Board sessions to work through different aspects of the strategy and choices, with plenty of opportunities to capture the diverse perspectives and insights of Board members. The refreshed Group strategy is set out on page 16.

One conclusion of the strategy is that steps will be taken to align the portfolio, a difficult decision as it will mean exiting some good-quality businesses. The Board carefully considered the implications of these decisions both for the overall strategy and for affected stakeholder groups.

## Purpose and culture

The Board believes Babcock needs a clear purpose that sets out how it will contribute to society, and that the purpose should set the context for the strategy and drive key decisions and actions. We recognise the importance of a clear purpose in attracting talented people to work for us and in enabling them to feel attuned to the objectives and values of the Company and were pleased to approve the new Group purpose, *creating a safe and secure world, together*.

To deliver the purpose through the new Group strategy, further development of the culture across the organisation will be essential. A key enabling step is the development of Babcock's first Group-wide people strategy, a critical element of our new operating model. The people strategy has been discussed and supported by the Board and its development is described on pages 22 and 23. Whilst not yet finalised, our people strategy will set out for all our employees what the Company stands for, what is valued and rewarded and the output and behaviour the Company expects. Future work to strengthen and embed the culture will include a renewed focus on employee engagement and on developing the skills of leaders at all levels. The Board will keep itself informed through a variety of mechanisms and we have enhanced our oversight of employees' interests and views with the appointment of Lord Parker as Director designated for employee engagement. This is a significant step up from our previous approach.

## ESG

The Board's oversight of the Group's ESG approach and performance has been strengthened in a number of areas across the three ESG pillars. On the environmental pillar, the Board has agreed a net zero target for emissions by 2040, which is supported by a roadmap with milestones. On the social pillar, the Board has overseen the reinvigoration of the Group's safety leadership with the establishment of the Corporate Safety Leadership Team, supplemented by the appointment of a Group Health, Safety & Environment Director and the development of a new balanced safety scorecard. In addition, the Board has reviewed the Group's Inclusion and Diversity policy and welcomed the clear positioning of Inclusion and Diversity as a strategic imperative by the new management with the adoption of targets to drive and measure progress. On the governance pillar, I have described the actions taken during the year above.

## Independent board evaluation

As a Board we are committed to effective corporate governance and believe that fresh perspectives from independent reviewers add significant value by identifying opportunities for improvement. Having deferred the FY20 external review of the Board as I was newly appointed into the Chair role and had a number of changes underway, this year as planned we commissioned an external review of the Board, its Committees and the Group Executive Committee. This was conducted by an independent reviewer (Belinda Hudson Limited) and was completed recently so it reflects the full suite of changes that have been described. The findings have reinforced the sense of substantial change and improvement.

Whilst her report confirmed our compliance with the Code, the review identified some helpful points for further improvement and these will be my focus for the year ahead. These include spending time together as a Board, especially considering that due to COVID-19 we have not yet had the opportunity for a face-to-face meeting all together; completing the induction process with site visits for new members as COVID-19 restrictions are lifted; increasing Board engagement with all stakeholders especially key talent; embedding the Board role in overseeing the implementation of the new people strategy, culture and succession planning; and driving even more focus on ESG issues across the business.

## 2022

An extensive set of changes and improvements have been described in this report that will ensure full compliance with governance and control expectations in the future. We plan to engage with our larger shareholders at a governance event later in the year, to provide more insights into our new approach. The Board has reviewed carefully the totality of the measures taken and will oversee the planning and delivery of implementation, the intended assurance and the effectiveness of operation.

This provides the firm foundation on which we will deliver benefits for all our stakeholders – for our shareholders, a sustainable return; for our customers, excellent and innovative services; and for our employees, interesting and rewarding careers.



Babcock Festival of Engineering for local Rosyth school children.

**Ruth Cairnie**  
Chair

# Board of Directors



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**Ruth Cairnie**

Chair

**Appointed:** April 2019

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

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



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**David Lockwood OBE**

Chief Executive Officer

**Appointed:** September 2020

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

**Current external appointments:** None



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**David Mellors**

Chief Financial Officer

**Appointed:** November 2020

**Skills and experience:** David brings extensive CFO experience in defence, aerospace and commercial markets. David was previously CFO of Cobham plc and prior to that he was CFO of QinetiQ Group plc from 2008 to 2016 and also served as interim Chief Executive for a period. His career includes several roles at Logica PLC, CMG plc and Rio Tinto PLC. David has a Degree in Physics from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

**Current external appointments:** None



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**Carl-Peter Forster**

Senior Independent Director

**Appointed:** June 2020

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

**Current external appointments:** Carl-Peter is currently the Chairman of Chemring Group PLC and Senior Independent Director of IMI plc.



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**Kjersti Wiklund**

Independent Non-Executive Director

**Appointed:** April 2018

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

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



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**Russ Houlden**

Independent Non-Executive Director

**Appointed:** April 2020

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

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



**Prof. Victoire de Margerie\***  
Independent Non-Executive Director

**Appointed:** February 2016

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

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



**Myles Lee\***  
Independent Non-Executive Director

**Appointed:** April 2015

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

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



**Lucy Dimes**  
Independent Non-Executive Director

**Appointed:** April 2018

**Skills and experience:** Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships. She was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. In her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and was previously Chief Executive Officer, UK & Ireland, of Fujitsu, the Chief Operating Officer and Executive Director of Equinix Group, Chief Executive Officer UK & Ireland of Alcatel Lucent (now Nokia) and had a 19-year career at BT, where she held various senior roles, including Managing Director of Group and Openreach Service Operations. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

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



**The Right Honourable, The Lord Parker of Minsmere, GCVO, KCB**  
Independent Non-Executive Director

**Appointed:** November 2020

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

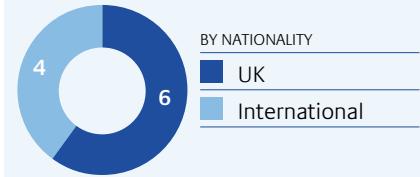
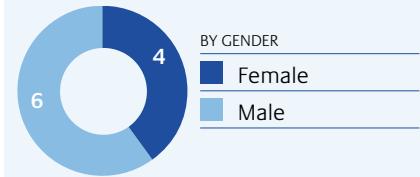
**Current external appointments:** Lord Chamberlain (head of the Royal Household), member of the House of Lords, Board Adviser to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

#### Appointment key

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

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

#### Board Diversity\*



\* July 2021.

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

# Executive Committee

**Biographies for CEO David Lockwood and CFO David Mellors are on page 104.**

## Will Erith

Chief Executive, Marine

**Appointed:** December 2020

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

## Simon Bowen

Chief Executive, Nuclear

**Appointed:** April 2017

**Skills and experience:** Simon is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock in December 2015 as Managing Director of Cavendish Nuclear. Simon was previously the Managing Director of Urenco UK, which he joined in 2010. Prior to that, Simon worked at BP, undertaking a variety of senior roles, culminating in his appointment as Vice President of Manufacturing and Procurement for Petrochemicals. In the early part of his career, Simon was an Engineering Officer in the Royal Navy on operating submarines.

## Tom Newman

Chief Executive, Land

**Appointed:** December 2020

**Skills and experience:** Tom was appointed as Chief Executive, Land in June 2021, following the retirement of John Davies. Tom joined Babcock through the VT acquisition in 2010 and brings a broad range of experience from senior management positions held in industrial sectors including shipbuilding, broadcast and communications, aviation, defence and emergency services. Most recently Tom has been responsible for our relationship with the UK Cabinet Office through the Strategic Partnering Programme and as Chief of Staff the design and implementation of our new Operating Model. He has a degree in Naval Architecture from UCL and an MBA from Warwick Business School.

## Neal Misell

Chief Executive, Aviation

**Appointed:** April 2020

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

## Nikki Fox

Chief Human Resources Officer

**Appointed:** January 2021

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

## John Howie MBE

Chief Corporate Affairs Officer

**Appointed:** April 2016

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

## Jon Hall

Chief Innovation & Technology Officer

**Appointed:** April 2017

**Skills and experience:** Jon joined Babcock in 2008 as Managing Director, Technology and in November 2020 was appointed Chief Innovation & Technology Officer. Prior to that, Jon held senior roles within the Weir Group, covering defence, nuclear and commercial sectors and, before that, worked in the power and process sectors with Balfour Beatty International and Monenco Inc. Jon is a Chartered Engineer and Fellow of the Institution of Mechanical Engineers, and holds a PhD from Bath University for research work in technology.

## Jack Borrett

Group Company Secretary and General Counsel

**Appointed:** July 2016

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

## Collette McMullen

Chief of Staff

**Appointed:** June 2021

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

## Statement of compliance

The principal governance framework applying to the Company is the UK Corporate Governance Code published in 2018 (the Code). The Board acknowledges that the contract profitability and balance sheet review has demonstrated that, in an evolving and increasingly competitive environment, our governance framework, business management, and internal and financial controls were not fully effective in all parts of the business in prior years as well as in 2021, notably in Aviation. Corrective actions have been set in place during the year (see page 101). In respect of the Code, the Nominations Committee did not use an external search consultant for the appointment of Lord Parker (**provision 20**, see page 118), this year's external Board evaluation was delayed into the fourth year after the previous one (**provision 21**, see page 111) and the transition arrangements for alignment of pension contribution rates for our former Executive Directors were not in line with **provision 38** (see page 144). With these exceptions, the Company throughout the year to 31 March 2021 complied with all the provisions of the Code. Information on how the Company has applied the principles and complied with the supporting provisions during the year can be found throughout the Annual Report. Details of where key information can be found is provided below.

<b>1. Board leadership</b>	The Directors of the Company are set out on pages 104 and 105.
and company purpose	<p><b>Long-term value</b> Our business model is set out on pages 20 and 21 and our strategy can be found on pages 16 and 17. Principal risks are on pages 87 to 95.</p> <p><b>Purpose and culture</b> Our purpose is set out in the Strategic report on page 7. The Board's consideration of our purpose and culture is described on pages 102 and 111.</p> <p><b>Stakeholders</b> Our key stakeholders are set out in the Strategic report on pages 58 and 59, with the section 172(1) statement on page 79 with details of how the Board has engaged directly with stakeholders and how the Directors have had regard to stakeholders when undertaking their duties can be found on pages 114 to 116.</p> <p><b>Workforce policies and practices</b> Our people strategy, described on pages 22 and 23, has been designed to support our values and long-term sustainable success.</p>
<b>2. Division of responsibilities</b>	<p><b>Role and independence of Directors</b> We are satisfied as a Board that all our Non-Executive Directors are independent and we have the right balance of executive and non-executives on the Board see page 109. We are also satisfied that the Non-Executive Directors have sufficient time to meet their Board responsibilities.</p> <p><b>Board and Committee meetings</b> Information on the operations of the Board and its Committees can be found throughout this section, with a table detailing the number of meetings and Director attendance for the Board and the key Board Committees on page 109.</p> <p><b>Directors' external commitments</b> Details of the Board's current external commitments are provided in their biographies on pages 104 and 105.</p>
<b>3. Composition, succession and evaluation</b>	<p>The Nominations Committee Report can be found on pages 117 and 118.</p> <p><b>Director appointment and succession planning</b> The Nominations Committee has responsibility for ensuring that the Board has the correct balance of skills, experience and knowledge, and oversees succession planning. See page 118.</p> <p><b>Diversity and inclusion</b> The Board's oversight of diversity is described on page 118 and details of the Group's diversity policy and objectives, together with the gender balance of senior management and other groups, is provided on pages 72 and 73.</p> <p><b>Board evaluation</b> An evaluation of the Board, Board Committees and individual Directors is undertaken annually. A description of the externally led process undertaken this year is provided on page 111.</p>
<b>4. Audit, risk and internal control</b>	<p>The Audit Committee Report can be found on pages 119 to 131.</p> <p><b>Internal controls</b> The result of the Board's review of the effectiveness of the Company's internal control systems is on page 158. The Board concluded that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office. For more information, see page 131.</p> <p><b>Audit and integrity of financial reporting</b> For information on our external audit tender and for review of our financial information reporting processes see page 119 and pages 129 to 130.</p> <p><b>Risk reporting</b> Our approach to risk management along with the Group's principal risks is set out on pages 84 to 95.</p> <p><b>Other reporting requirements</b> The Board's approach to ensure a fair, balanced and understandable report is provided on page 124. The Going concern and viability statement can be found on pages 96 and 97. The Directors' responsibility statement is on page 158.</p>
<b>5. Remuneration</b>	<p>The Remuneration Committee Report can be found on pages 132 to 153.</p> <p><b>Remuneration policies and practices</b> For an explanation of how our remuneration policies and practices support our strategy for long-term sustainable success, see pages 136 to 142.</p> <p><b>Remuneration policy and its implementation</b> Our approach to developing Remuneration policy is described on pages 132 and 133 and a report of how it was implemented during the year on pages 143 to 153.</p>

# Our governance framework

## The Board

The Board's role is to lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value, to review and approve the Group's strategic plan and to supervise the conduct of the Group's activities within a framework of prudent and effective internal controls.

The Board has adopted a schedule of matters reserved for its, or its Committees', specific approval (see page 110. For other matters, authority is delegated to management by way of a delegation matrix.

### Principal Board Committees

#### Audit Committee

Responsible for overseeing the Company's systems for internal financial control, risk management and financial reporting.

[See pages 119 to 131.](#)

#### Remuneration Committee

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

[See pages 132 to 153.](#)

#### Nominations Committee

Reviews the composition of the Board, considers succession planning at both Board and senior management level and leads the process of appointments to the Board.

[See pages 117 and 118.](#)

#### Disclosure Committee

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

#### UK Security Committee

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

## Group Executive Committee

Reviews and discusses all matters of material significance to the Group's management, operational and financial performance, as well as strategic development. For its membership, please see page 106.

### Principal Management Committees

#### Corporate ESG Committee

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

[See page 70.](#)

#### Corporate Safety Leadership Team

Leads the development and implementation of policies, standards and expectations for health, safety and environmental issues with a mission that everyone goes "Home Safe Every Day".

[See page 73.](#)

#### Disclosure Panel

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

[See page 113.](#)

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

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

1. Carl-Peter Forster was appointed to the Board in June 2020 and was absent from one meeting due to a prior engagement.
2. Russ Houlden was appointed to the Board in April 2020.
3. Victoire de Margerie was absent from certain meetings due to prior engagements.
4. Lord Parker was appointed to the Board in November 2020.
5. David Lockwood was appointed to the Board in September 2020.
6. David Mellors was appointed to the Board in November 2020.
7. Archie Bethel retired from the Board in September 2020.
8. Franco Martinelli retired from the Board in November 2020.
9. Ian Duncan retired from the Board after the AGM in August 2020.
10. Jeff Randall retired from the Board after the AGM in August 2020.
11. Sir David Omand retired from the Board on 31 March 2021.

### Roles and responsibilities

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

### Review of independence of Non-Executive Directors

The Board is satisfied that throughout the year all Non-Executive Directors remained independent and accordingly the Company is compliant with Provision 10 of the Governance Code. Although Ian Duncan and Sir David Omand had served for over nine years at the time of their resignations, the Board did not consider that this impaired their independence and they both played a role in the managed succession. Ian stepped down as Audit Committee Chair and Director after the AGM in 2020. Sir David passed on his responsibilities as SID to Carl-Peter Forster after the 2020 AGM and retired from the Board at the end of the financial year.

### Board of Directors

The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's

needs and its continuing development. This was evidenced by the Directors' attendance at additional meetings as required during the year.

The powers of the Directors are set out in the Company's Articles of Association (the Articles), which may be amended by way of a Special Resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection online at [www.babcockinternational.com](http://www.babcockinternational.com).

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees and these are clearly defined in their terms of reference (available online at [www.babcockinternational.com](http://www.babcockinternational.com)) and other responsibilities are delegated to management under a delegated authorities matrix.

### Conflict of interests

Babcock has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest in accordance with the Companies Act 2006. The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any new actual or potential conflict of interest or when there is a material change in any of the conflicts of interest they have already disclosed.

A register is maintained of all the disclosures made and the terms of any authorisations granted. Authorisations can be revoked, or the terms on which they were given varied, at any time if judged appropriate.

Possible conflicts of interest authorised by the Board are reviewed annually. In the event of any actual conflict arising in respect of a particular matter, mitigating action would be taken (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him/her of relevant papers).

### Summary of key matters reserved for the Board

- Group strategy and resourcing
- Interim and final results announcements and the Annual Report
- Dividend policy
- Acquisitions, disposals and other transactions outside delegation limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management (advised by the Audit Committee)
- Major press releases and shareholder circulars.

### Meetings and attendance

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

### Board induction and development

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

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

- Meetings with the Executive Directors and the sector CEOs
- An overview of the Group's governance policies, corporate structure, and business functions
- Details of risks and operating issues facing the Group
- Visits to key operational sites, which normally include Devonport, Rosyth, Bristol and the Group's EU operations
- Briefings on key contracts and customers.

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

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

from sector management, local management and front-line employees.

During his induction, he also met with the Group's auditors and external advisors.

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

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

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

## Board performance review

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. Each year, an evaluation is conducted to assess these aspects and also the effectiveness of the ways of working at the Board and Committees. In the second half of this year, an external evaluation was undertaken for the first time in four years. The Board considers that this departure from the recommendation of provision 21 of the Code to hold an external valuation every three years was the right choice since holding the external review this year rather than last has added more value having given the membership changes and a number of procedural changes, introduced by the then new Chair, time to bed down.

## Progress against last year

The key outcome of the Board evaluation reported last year was the need to further align the Board's agenda to the strategic priorities of the Group, shifting the balance of the Board's time further towards strategic rather than operational matters. During the year the papers moved to be more thematic and strategic and the Board approved the new strategy for ESG, including the carbon strategy, and approved the development of the people strategy.

## External Board evaluation 2021

This year Belinda Hudson carried out the formal independent effectiveness review of the Board and its Committees. Ms Hudson has no other connection with the Company or individual Directors and had not previously been engaged by the Company. Ms Hudson was selected after a tender process. Ms Hudson reviewed relevant Board and Committee papers and then interviewed all the members of the Board and the Group Executive Committee, as well as certain key external advisors to the Board. The Board discussed the resulting report at its March meeting and agreed that over the current financial year the Board would:

**Meetings** – return to face-to-face meetings as soon as COVID-19 restrictions allow to enhance Board integration.

**Inductions** – complete the induction process with site visits for those Board members who have been prevented from doing so by the COVID-19 restrictions.

**Board engagement** – enhance the Board's engagement with stakeholders.

**Board oversight** – continue the Board's oversight of the development of the Company's people strategy, culture and succession planning as well as the focus on ESG.

## How the Board monitors culture

### Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our employees through living our values.

### Listening to our people

Questions and feedback from employees to the CEO's dedicated email 'Ask David' along with employee forums and surveys. This will be enhanced by the appointment of Lord Parker as designated Non-Executive director for employee engagement.

## Cultural indicators

The Board regularly receives health and safety metrics and receives thematic reviews such as, this year, on inclusion and diversity. The Board looks forward to the development of the people strategy which will enhance the ability to monitor cultural themes.

## Ethics and whistleblowing

Whistleblowing lines are available throughout our business for reporting of any departure from our values. The Board reviews all whistleblowing reports, together with their outcomes, on a quarterly basis.

# Key areas of Board focus

Matters considered	Discussion and outcome	Find out more
<b>Purpose</b>		
Corporate narrative	The Board considered and approved the new purpose: to create a safe and secure world, together.	<a href="#">See pages 7 and 115</a>
<b>Strategy</b>		
Re-assessment of strategy	A full day's meeting debated the Group's strategic direction from the ground up based on our common purpose and there were regular reports at monthly Board meetings on progress of the development of the strategy.	<a href="#">See pages 13, 16 and 115</a>
ESG	The Group Head of Sustainability reported on progress with the introduction of the new Group-wide ESG strategy at the beginning of the year and environmental, social and governance matters are now an integral part of Board strategic discussions.	<a href="#">See pages 62 to 78 and 115</a>
Stakeholders	The Board reviewed its key stakeholders and its methods of engagement, and appointed a Non-Executive Director designated for employee engagement.	<a href="#">See page 114</a>
Disposals	The Board kept strategic disposals under review, approving the sale of Conbras, the facilities management business in Brazil, and the oil and gas business.	<a href="#">See pages 55 and 57</a>
<b>Culture</b>		
People strategy	The Chief Human Resources Officer presented, and the Board approved the development of the new people strategy around the new purpose.	<a href="#">See pages 22, 71 and 116</a>
Health and safety	The Board received a presentation on the reinvention of safety leadership and endorsed the reinvigoration of the Group safety strategy.	<a href="#">See pages 73 and 116</a>
Inclusion and diversity	The Board heard from the Group champion for inclusion and diversity, endorsing the ongoing work in this area of people strategy.	<a href="#">See pages 72 and 73 and 116</a>
Ethics review	The Board undertook the annual ethics review, seeking assurance that the Group's anti-bribery and corruption policy is understood and complied with across the Group.	<a href="#">See pages 77 and 116</a>
Whistleblowing	Contact details of the Group's whistleblowing line are readily available and are in local languages. All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation. The Board reviewed all reports to the Group's whistleblowing line, together with their outcomes, quarterly.	<a href="#">See pages 77 and 86</a>
<b>Risk</b>		
Risk review	The Board reviewed the major risks that the Group faces in its business model and its appetite for those risks.	<a href="#">See pages 84 to 95</a>

Matters considered	Discussion and outcome	Find out more
<b>Operational performance</b>		
Operational reports	The Board considered at its monthly meetings operational reports from the Executive Directors which included updates on the Group's COVID-19 response.	<a href="#">See page 102</a>
Project reviews	The Board considered the Design Review on the T31 project.	<a href="#">See page 51</a>
Bids	The Board reviewed reports on key bids such as FMSP.	<a href="#">See page 53</a>
<b>Financial performance</b>		
Financial reports	At its monthly meetings, the Board considered finance reports from the Executive Directors. Throughout the year the financial impact of COVID-19 was considered and the Board decided to withdraw guidance and not pay a final dividend in FY20 or an interim dividend in FY21. The Board considered the Group's treasury, tax and pensions strategies.	<a href="#">See page 115</a>
Contract profitability and balance sheet review	In January 2021 the Board approved the release of the Company's Q3 trading update which announced the contract profitability and balance sheet review. At its monthly meetings the Board received updates as to progress. For more information on the conclusions see page 119.	<a href="#">See pages 33 and 126 and 127</a>
<b>Governance and compliance</b>		
Auditor	The Board approved the appointment of Deloitte as Group auditor.	<a href="#">See pages 119 and 130</a>
Disclosure Committee	The Board revised processes for the overseeing of potential price-sensitive information and evaluation to ensure prompt disclosure with the creation of a Disclosure Committee reported to by an executive Disclosure Panel.	<a href="#">See page 108</a>
Delegated authorities	The Board reviewed its Delegated authorities. These were revised in December 2020.	<a href="#">See pages 85, 86, 109 and 131</a>
Committee terms of reference	The Board reviewed and approved any changes to the terms of reference for the Audit and Remuneration Committees.	<a href="#">See page 109</a>
<b>Succession and leadership</b>		
Executive appointments	The Board approved the appointments of a new CEO and CFO, David Lockwood and David Mellors.	<a href="#">See pages 6 and 117</a>
Non-Executive appointments	The Board approved the appointments of two new independent Non-Executive Directors, Carl-Peter Forster and Lord Parker.	<a href="#">See page 117</a>

# Stakeholder engagement

During the year the Board undertook a review of the Group's key stakeholders and levels of engagement with them to make sure that this remained appropriate. Details of how the Directors receive information on our key stakeholders and how they engage with them directly are set out below, together with some insight into how the Board took stakeholders' interests into account in certain key decisions.

This section, through to page 116, forms part of the section 172(1) statement which can be found in the Strategic report on page 79. Further information on how the Company engages with its stakeholders can be found on pages 58 and 59.

	Information flow to the Board	Direct Board engagement
<b>Customers</b>	<ul style="list-style-type: none"> <li>Monthly written reports from Executive Directors include material customer matters</li> <li>Sector CEOs and the Executive Directors give briefings at Board meetings</li> <li>Strategic Supplier Partnership briefings</li> </ul>	During the year the Chair and the Executive Directors had regular meetings with the Group's key customers.
<b>Investors</b>	<ul style="list-style-type: none"> <li>Reports from Investor Relations</li> <li>Treasury reports</li> <li>Investor meetings/roadshow</li> <li>In normal circumstances, availability at AGM</li> </ul>	The Board engaged directly with its investors. David Lockwood and David Mellors have met institutional shareholders extensively since joining the Company during the year. In addition, the Chair regularly meets with shareholders. The Chair of the Audit Committee also met with shareholders during the year (see page 121) and, in the early part of the year, the Chair of the Remuneration Committee engaged with the Company's top shareholders in connection with the Company's new Remuneration policy. Directors usually meet shareholders at the AGM, which provides an opportunity for private investors to ask questions direct to the Board. It was not possible this year due to COVID-19 restrictions, although shareholders were encouraged to submit questions via email. Subject to prevailing Government restrictions, the Board intends to return to a physical AGM in September 2021, when shareholders will again have the opportunity to meet and ask questions of Directors.
<b>Employees</b>	<ul style="list-style-type: none"> <li>Report on the new people strategy by Chief Human Resources Officer underpinned by feedback from focus groups, employee forum and surveys</li> <li>Chair of the Diversity and Inclusion Steering Committee attended and reported to a Board meeting</li> <li>Whistleblowing reports</li> </ul>	The CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email. The Chair introduced the ESG programme to all employees via a vlog. Members of the Board meet employees during site visits, although during the year these were severely restricted. The intention is to resume such visits as soon as circumstances allow and additionally this will be enhanced following the recent appointment of Lord Parker as director responsible for workforce engagement. Members of the senior leadership team regularly present to the Board.
<b>Regulators</b>	<ul style="list-style-type: none"> <li>Monthly reports as applicable</li> </ul>	The Board relies on dedicated functions, at a Group, sector or business unit level and does not have direct contact with Regulators unless appropriate.
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Briefings from Group Head of Procurement</li> <li>Audit Committee supplier risk review</li> <li>Supply chain risk considered in reports on major tenders</li> <li>Approval of the Modern Slavery Statement</li> </ul>	Principal engagement is undertaken by operational management and the Group procurement function.
<b>Communities</b>	<ul style="list-style-type: none"> <li>Health, safety and environment updates</li> <li>Monthly sector reports where applicable</li> <li>Annual Report review</li> </ul>	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is, with no direct engagement by the Board of Directors. The Board's engagement levels were considered as part of the stakeholder mapping exercise undertaken and found to be appropriate.

## How the Board took stakeholders' interests into account in key decisions

Matters considered	Stakeholders most affected	Discussion and outcome	Find out more
<b>COVID-19</b>			
Pandemic response	Customers Shareholders Employees	COVID-19 had a material impact on the principal decisions of the Board and influenced its engagement with stakeholders. In its discussions over the last financial year, the Board sought to have in mind the impact of the pandemic on its decisions. In particular, the Board considered the impact on shareholders in deciding whether to pay a final dividend in respect of the financial year ending 31 March 2020 and an interim dividend in respect of the financial year ending 31 March 2021. The Board decided that, especially taking into account the impact of COVID-19 on the economy in general as well as the Company, its shareholders, its customers and its employees, it was in the best interests of the Company not to pay either dividend in order to conserve the Group's financial position.	
<b>Purpose</b>			
Corporate narrative	Customers Employees	With the background of the Board's engagement with customers and employees, the Board considered and approved the new purpose. The Board believes that the new purpose will clarify the Group's long-term business strategy for customers and employees and create a differentiation for the Group to inspire innovation, trust and loyalty from both customers and employees.	<a href="#">See page 102</a>
<b>Strategy</b>			
Re-assessment of strategy	Shareholders	From its engagement with shareholders, the Board understood that they wanted to understand the direction of the Company in light of the appointment of the new management team. A full meeting debated the Group's strategic direction from the ground up based on a common purpose and there were regular reports at monthly Board meetings on progress of the development of the strategy. In approving the refreshed strategy, the Board took into account the views of shareholders that it had received during its direct engagement.	<a href="#">See pages 13 and 16</a>
Portfolio	Shareholders Employees	In response to shareholders, the Board has continued to streamline its portfolio, for example approving the sale of Conbras, the facilities management business in Brazil. In its discussions of the disposal, the Board took into account the impact of the sale on employees.	<a href="#">See page 55</a>
ESG	Customers Shareholders Employees Communities Suppliers	Our stakeholders have told us that they expect us to increase the integration of environmental, social and governance matters in everything we do. During the year, the Group Head of Sustainability reported on progress with the new Group-wide ESG programme. The Board, in order to progress the ESG programme and to meet the expectations of our stakeholders, approved Babcock's carbon initiative which sets new targets and established a new governance structure to deliver them.	<a href="#">See pages 62 to 78</a>

Matters considered	Stakeholders most affected	Discussion and outcome	Find out more
<b>Culture</b>			
People strategy	Employees Customers Shareholders	The Board's approval of the development of a new people strategy to drive business performance and deliver for our stakeholders followed feedback from the workforce delivered by the new Chief Human Resources Officer. The Board listened to how it feels to be part of the organisation and suggestions for what we need to create a more efficient, agile, sustainable and people-focused business.	<a href="#">See page 22</a>
Inclusion and diversity	Customers Shareholders Employees	The Board heard that customers and employees want diverse and inclusive environments. The Board agreed to build on the work already being done in the sectors and to support a revised vision for Babcock. In order to make sure that it hears better the voice of the employees around issues such as inclusion and diversity, the Board designated Lord Parker as Non-Executive Director responsible for its workforce engagement.	<a href="#">See pages 71 to 73 and 118</a>
Health and safety	Employees Regulators Customers	The Board wants all our employees to go "Home Safe Every Day", a key message from and for employees and the Company. The Board wanted to further improve the Group's health and safety performance and during the year it approved the refreshment of the safety programme and endorsed the reinvigoration of the strategy and governance to better improve safety leadership within the Group.	<a href="#">See page 73</a>
Ethics	Customers Shareholders Employees	The Board is committed to conducting business transparently and with integrity. When reviewing the Group's opportunities for the Group's services and products, for example, the opportunities to export the Type 31 platform, the Board considers the business ethical risks to the Group's reputation and the consequences of any decision in the long term.	<a href="#">See page 77</a>
<b>Succession and leadership</b>			
Executive appointments	Customers Shareholders Employees	The Board approved the appointments of a new CEO and CFO. The appointment of a new leadership is one of the core roles of any board. In both cases, the Nominations Committee led the process. A key step was to decide the necessary skills and experience required by any candidate for the relevant role. In developing the required skills and experience criteria, the Committee considered the requirements of the Company's stakeholders, including customer, business sector and leadership experience.	<a href="#">See pages 117 and 118</a>

### How the Board keeps s172 on its agenda

The Board meets the requirements of s172 of the Companies Act 2006 as follows:

- The Board sets the Company's purpose and strategy. It carries out an annual strategy review, which assesses the long-term sustainable future of the Group and its impact on key stakeholders.
- The Board's risk management procedures identify the principal risks facing the Group and the mitigations in place to manage the impact of these risks. Many of these risks relate to our stakeholder groups.
- Standing agenda items and papers are presented at each Board meeting: for example, operational reports, financial reports, health and safety reports and litigation reports.
- There are regular reports from the Audit Committee chair and the Remuneration Committee chair on items within their remit.
- When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for example, employee and executive pay; dividends; portfolio alignment.