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

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

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

Contents

FY21 key financials

Revenue

£4,183m

2020: £4,429m

(Restated, see page 31)

Statutory operating loss

£(1,643)m

2020: £(76)m

(Restated, see page 31)

Underlying operating (loss) / profit

£(28)m

2020: £378m

(Restated, see page 31)

Statutory cash generated from operations

£471m

2020: £445m

(Restated, see page 177)

Underlying free cash flow

£170m

2020: £56m

(Restated, see page 32)

Net debt / EBITDA (covenant basis)

(see page 28)

2.5x

2020: 2.3x

(Restated, see page 43)

Statutory to underlying adjustments

The Group uses various alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. The Directors believe the alternative performance measures provide a consistent measure of business performance year to year and they are used by management to measure operating performance and as a basis for forecasting and decision-making. The Group believes they are also used by investors in analysing business performance.

This presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items. This helps to ensure performance in any one year can be clearly understood by users of the financial statements. These alternative performance measures are not defined by IFRS and therefore there is a level of judgement involved in identifying the adjustments required to calculate the underlying results. As the alternative performance measures used are not defined under IFRS, they may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, measures defined under IFRS.

For further details see the Financial review on pages 30 to 49.

Forward-looking statements

Statements in this Annual Report, including those regarding the possible or assumed future or performance of Babcock or its industry, as well as any trend projections or statements about Babcock's or management's beliefs or expectations, may constitute forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties as well as other factors, many of which are beyond Babcock's control. These risks, uncertainties and factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. No assurance is given that any forward-looking statements will prove to be correct. The information and opinions contained in this Annual Report do not purport to be comprehensive, are provided as at the date of the Annual Report and are subject to change without notice. Babcock is not under any obligation to update or keep current any information in the Annual Report, including any forward-looking statements.

Key messages

1. Following extensive reviews, we now have a turnaround plan to restore Babcock to strength without the need for new equity.

2. We did not adapt our approach quickly enough to match the changing world around us and this led to underperformance. We are now aiming to put this right.
See page 8 for details.

3. The contract profitability and balance sheet review has had a significant impact on our financials but the vast majority of the impacts are one-off.
See page 33 for details.

4. We have established a more appropriate baseline for financials going forward.

5. Our strategy review has now been completed and we are focusing on being an international aerospace, defence and security company.

6. We are well placed in our markets for future opportunities.
See page 18 for details.

7. We are aligning our portfolio and aim to generate at least £400 million of disposal proceeds over the next 12 months.

8. Our new operating model will help improve performance and control.
See page 13 for details.

9. Babcock will be a better place to work.
See page 22 for details.

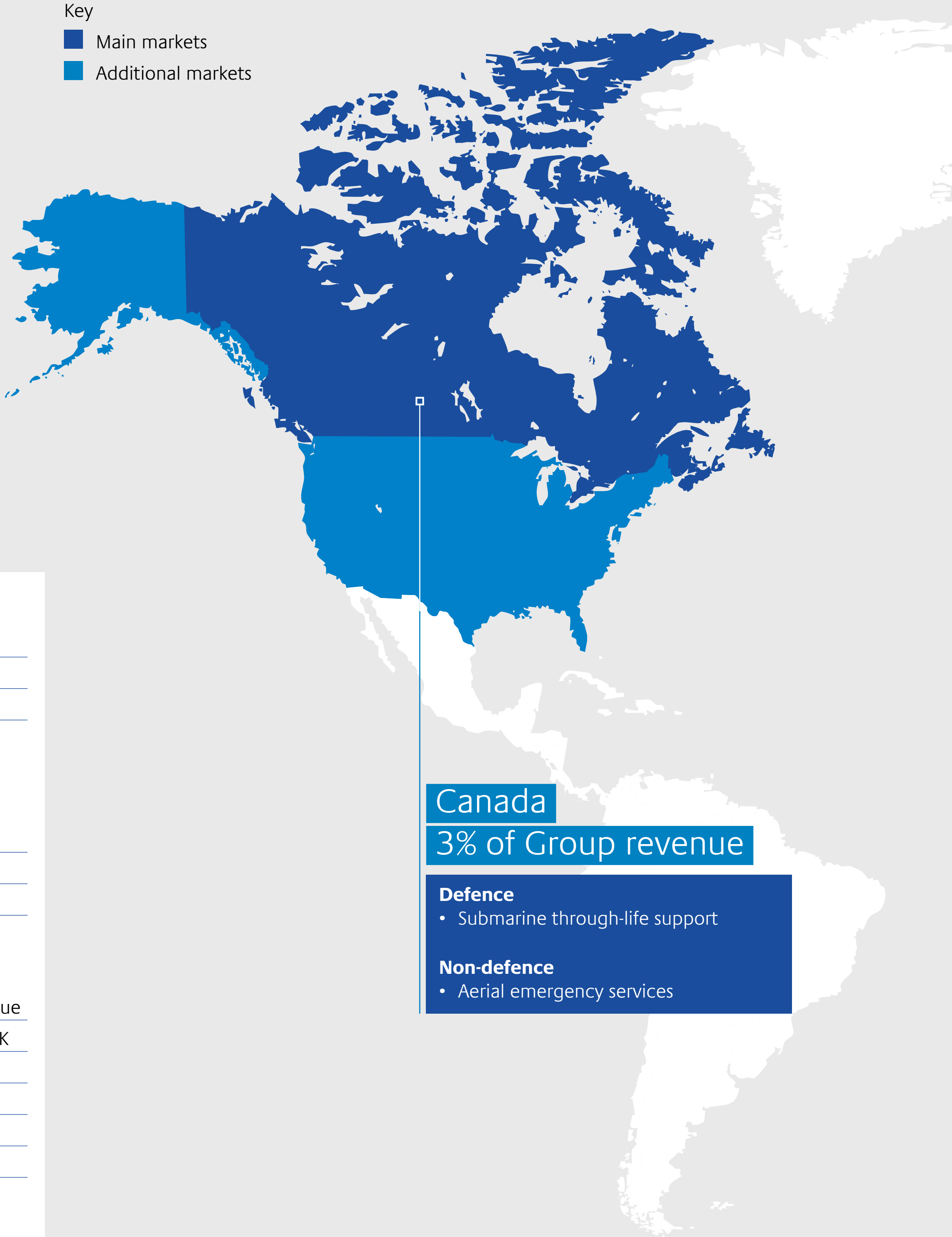
10. ESG is becoming central to all that we do and we continue to make good progress, including a commitment to net zero for our estate, assets and operations, by 2040.
See page 62 for our ESG report.

What we do

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

The markets in which we operate

Key
- Main markets
- Additional markets

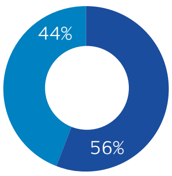


Canada
3% of Group revenue

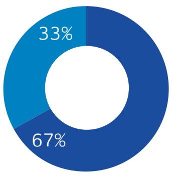
Defence
- Submarine through-life support

Non-defence
- Aerial emergency services

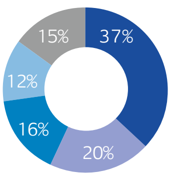
Revenue profile



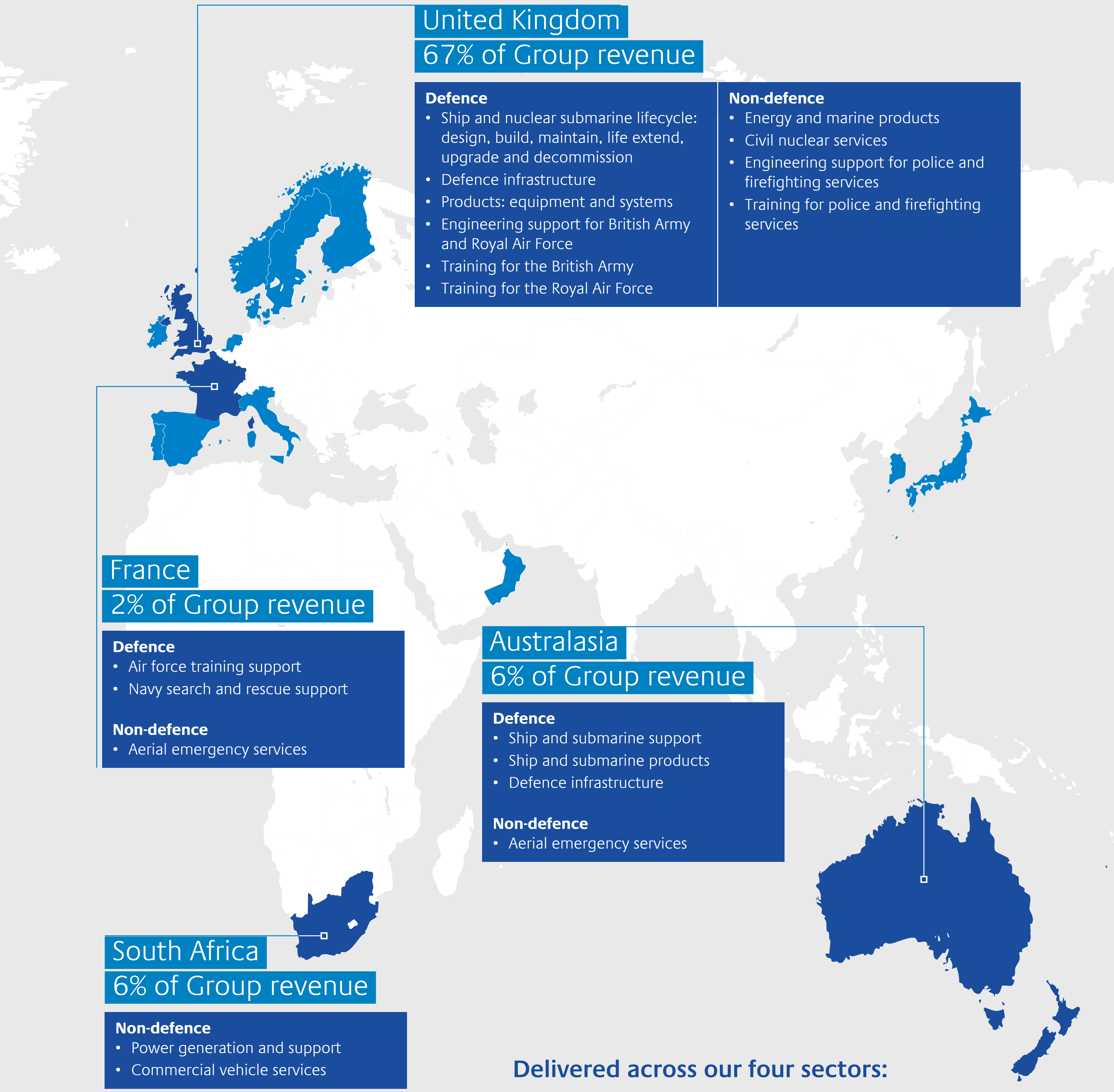
- Defence
- Non-defence



- UK
- International



International revenue
- Europe, excl. UK
- South Africa
- Australasia
- North America
- Rest of world



United Kingdom
67% of Group revenue

Defence
- Ship and nuclear submarine lifecycle: design, build, maintain, life extend, upgrade and decommission
- Defence infrastructure
- Products: equipment and systems
- Engineering support for British Army and Royal Air Force
- Training for the British Army
- Training for the Royal Air Force

Non-defence
- Energy and marine products
- Civil nuclear services
- Engineering support for police and firefighting services
- Training for police and firefighting services

France
2% of Group revenue

Defence
- Air force training support
- Navy search and rescue support

Non-defence
- Aerial emergency services

Australasia
6% of Group revenue

Defence
- Ship and submarine support
- Ship and submarine products
- Defence infrastructure

Non-defence
- Aerial emergency services

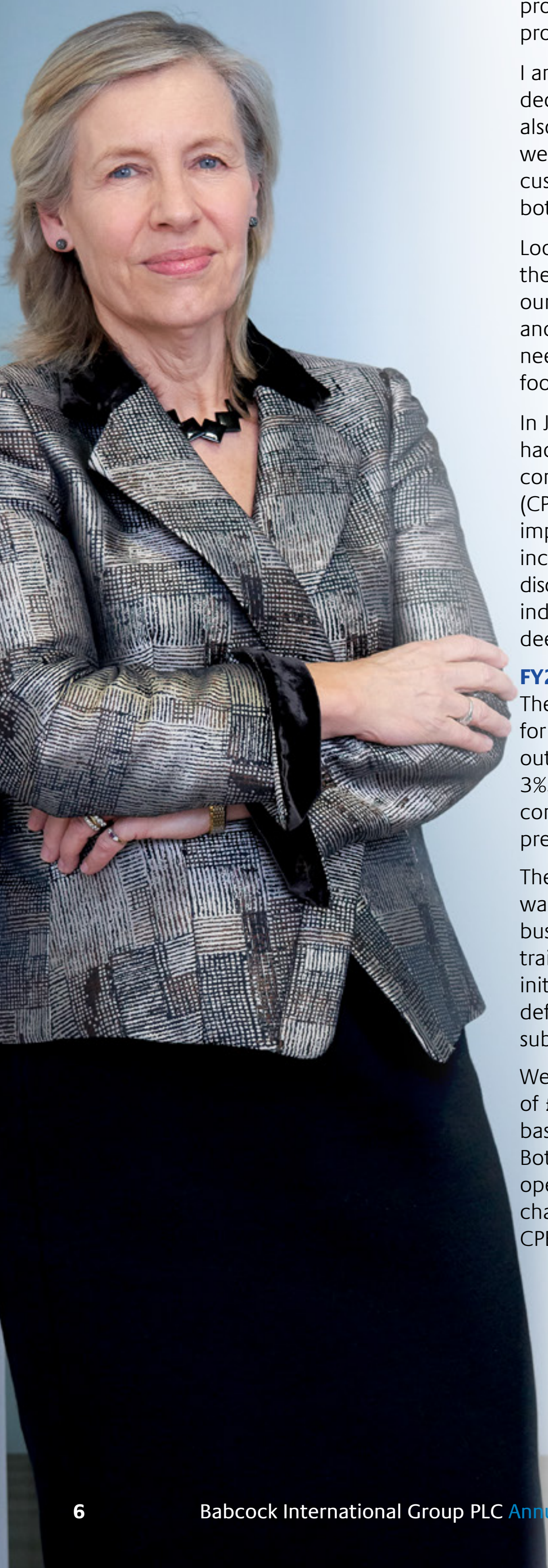
South Africa
6% of Group revenue

Non-defence
- Power generation and support
- Commercial vehicle services

Delivered across our four sectors:

Marine, Nuclear, Land and Aviation

See pages 50-57



Returning Babcock to strength

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

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

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

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

FY21 results

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

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

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

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

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

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

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

Addressing underperformance

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

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

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

A new CEO

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

"Whilst it has been a year of profound challenge, I am confident that we have the right team, the right strategy and the right governance to ensure we are able to take advantage of the opportunities before us.

"We are on a clear path to return Babcock to strength."

I was therefore delighted that, despite COVID-19, we were able to conduct a thoughtful and robust process at some pace, appointing David Lockwood to take up the position of CEO in September 2020. The Board subsequently appointed David Mellors as CFO in November.

Driving progress

The new management team has since been driving rapid progress across a full range of priorities within an overall agenda supported by the Board.

This has included reviewing the strategic and operational way forward for the business and, most notably, the CPBS review.

Unlike the review I referred to last year, which looked at a sample of contracts and focused on technical accounting, this was an executive-led review of the business fundamentals and underlying assumptions for a much broader range of contracts. It also incorporated an extensive assessment of the carrying values on the balance sheet.

The review, including our annual goodwill impairment test, highlighted a large number of issues and the need for a significant write down of our balance sheet. As well as changes in estimates and accounting policies, the total charge of £2.0 billion includes prior year errors. More detail of the findings can be seen on page 33.

The 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 some parts of the business.

Despite compliance with most provisions of the Corporate Governance Code, there have been weaknesses in some aspects of our governance framework, notably in Aviation. There have also been weaknesses in its practical implementation, including instances across the businesses, affecting this year as well as prior periods.

We have paid careful attention to ensuring that, as we introduce a completely new operating model and changes in governance and controls, we can be confident that our processes are fit for the strategic path we are now setting out. These changes are being supported by a strong focus on tone from the top.

Response to review findings

The various elements of our response are set out in this Annual Report as follows:

- The findings of the CPBS review are presented in detail in the Financial review (see page 33);
- The work of the Audit Committee in reviewing every finding and its correct accounting treatment is covered in the Audit Committee report, alongside the Committee's assessment of controls;
- The enhancements in governance are set out in my introduction to the Governance section;
- The changes in internal controls linked to the new operating model are set out on page 47.

The Board fully acknowledges the extent and seriousness of the accounting issues and weaknesses identified. We are satisfied however that we have taken the necessary steps, and at sufficient pace, to be able to look forward to a positive future.

The Board believes that with execution of our plans, the future of the Company can be secured without the need for new equity. Our new Executive team has a proven track record of delivering business turnaround and transformation at listed companies.

And we are confident that the strategic clarity, simpler and more accountable operating model, new people strategy and revised governance will result in improved financial transparency and control, a stronger balance sheet and the capability to create and capture future opportunities.

We have also developed a new Group purpose: ***to create a safe and secure world, together***. We believe this reflects our continued commitment to our customers' critical operations, our focus on empowerment and collaboration throughout the organisation and with partners.

It also reflects our refreshed commitment to ESG, including our new goal to reduce carbon emissions and achieve net zero in our estate, assets and operations by 2040. The new purpose will support our intention to drive cultural change throughout the business.

Whilst it has been a year of profound challenge, I am confident that we have the right team in place, the right strategy and the right governance to ensure we are able to take advantage of the opportunities before us.

We are on a clear path to return Babcock to strength.

Ruth Cairnie
Chair

Creating a new approach

We did not adapt our approach to match the changing world around us quickly enough. This led to underperformance for our customers, our employees and our investors. We are now aiming to put this right.

What the world looks like now

- The world is more unstable with new and evolving threats to national security

  See page 18 for a detailed look at the defence market
- Many exciting opportunities exist across our markets but our customers demand more sophisticated relationships and outputs
- Our aspirations around the Avincis acquisition in 2014 have not played out, most notably the growth opportunity in oil and gas and the sustainability of high margins
- The UK's Nuclear Decommissioning Authority has moved large civil nuclear projects in-house which has changed the shape of our civil nuclear business

How we are responding to it

- Developed a refreshed strategy

  See page 16
- Aligning our portfolio
- Creating a new operating model that will increase collaboration and reduce complexity and duplication, and improve our internal and financial controls
- Established a more appropriate baseline for future financial performance
- Increasing focus throughout our business on cash and returns
- Building a stronger balance sheet with lower leverage
- Implementing a new people strategy

  See page 22

This new approach aims to create

- A better place to work for our employees
- Improved and more consistent delivery for our customers
- Increased ability to meet our budgets
- Improved quality and predictability of earnings, with profits backed by cash
- An appropriate balance sheet
- A return to growth

Meet the CEO

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

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

Q What was it like joining the Company in the middle of a global pandemic?
I like to get out and about to meet people and customers to understand how an organisation works. Obviously that wasn't possible, so I had to learn a lot of new ways of working, so I could reach and understand the organisation in ways I hadn't thought about before.

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

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

Q So how will you get Babcock back to full strength?
In the near term we have to rein in the challenges, focus on our recovery, and get fitter. The strategic piece is making sure we're competing in the right events and the new operating model is how we get fit. And like any athlete who has gone through a period of being out of condition, we need to regain our confidence, and that's the work we're doing on culture.

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

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

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

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

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

David Lockwood
Chief Executive Officer

Adam Collins
Motor Cycle Technician
UK

Detailed reviews completed and turnaround underway

David Lockwood
Chief Executive Officer

"Our direction is set, and we are ensuring that we have all the elements in place to take advantage of the many opportunities which lie before us."

Our new approach

We announced a series of reviews in January 2021 of our strategy, portfolio and operating model, alongside a deep dive into the profitability of our contracts and balance sheet position to establish a financial baseline. These reviews have now been concluded, and the results make a compelling argument for the significant change needed in order to unlock the Group's potential.

The reviews showed that Babcock was being run as a federation rather than a unified Group, an approach which may have served us in the past but does not meet the needs of today's market. The last few years have seen a move to in-source civil nuclear work in the UK, increased customer demands on each new programme, the need for a more agile supply chain and the requirement for more innovative solutions to the evolving threats in international defence. We did not adapt to the changing world around us quickly enough.

We also have to accept that the expectations we had for the Avincis acquisition in 2014 have not played out. Growth in the markets Avincis served has not been as expected, most notably in oil and gas, and the profitability of those businesses has been under pressure for some years. Many of these pressures are highlighted in our contract profitability and balance sheet review ('CPBS') with just over half of adjustments by value relating to businesses that came from this acquisition. Most importantly, we have already started to implement a plan to fix this: removing costs and taking a different approach to contract bids. We are disposing of our oil and gas business and are further reviewing the aerial emergency services businesses.

As a Group, it seems that we sometimes have been optimistic in setting objectives. This led to a pattern of underperformance which we are determined to address. We are doing just that, and have instituted a number of changes to enable us to be fit to take advantage of the significant opportunities we can see ahead.

We now have a more appropriate baseline for the financial performance of the Group. We have set a new strategy as outlined below, with a greater focus on maximising our fundamental strengths in the UK and internationally, both in our target countries and through exports like the new Type 31 frigate and High Frequency communications. I'm pleased to say that the international defence market is responding positively. And we are undergoing a wide-ranging refresh of our culture – not just in terms of the new ways of working captured in the changes to the operating model, but in the rolling-out of a new people strategy and a new emphasis on ESG throughout the Group.

Strengths of the Group

Our business is based on some key fundamental strengths across the Group, including:

- Deep technical expertise and highly skilled people across critical and complex engineering
- Ownership of key sites and infrastructure including the Devonport and Rosyth dockyards
- Strong relationships with our customers, including a deep understanding of their challenges
- Strong niche positions in Canada, Australasia and South Africa, with a developing position in France
- A range of platforms, systems and products that are highly competitive in international markets

Our strategy

We are an international aerospace, defence and security company with a leading naval business, and we provide value-add services across the UK, France, Canada, Australasia and South Africa. We are focused on five strategic actions:

1. Aligning our portfolio
2. Implementing our new operating model
3. Rolling out our new people strategy
4. Developing our new ESG strategy
5. Exploring growth opportunities

Together this should lead to returns for our shareholders, improved delivery for customers and a better place to work for our employees.

1) Aligning our portfolio

Our strategy review defined the markets we wish to serve and therefore the best portfolio to hold. With this in mind, we considered which businesses we are the best owner of and on which we could earn a sufficient return on capital and this has led to us identifying businesses that may be divested. This portfolio alignment will reduce complexity, increase focus and increase the effective use of the Group's capital by disposing of the businesses that are outside the perimeter of our strategy.

We are targeting proceeds of at least £400 million over the next 12 months from these divestments. Some of these processes are underway and we will update the market when material progress is made.

As announced in March 2021, we have agreed the conditional sale of our oil and gas aviation business. This deal is expected to complete over the summer subject to the satisfaction of the relevant third-party conditions.

2) Implementing our new operating model

We are creating a business that is more efficient and effective. We are reducing layers of management within the business to form a flatter structure that will simplify how we operate, improve line of sight, shorten communication lines and therefore increase business flexibility and our responsiveness to market conditions. Sadly, these changes will result in approximately 1,000 employees leaving the Group over the 2022 financial year with an estimated restructuring cost of £40 million.

These changes will also reduce our operating cost base. Some of the savings will be recognised across long-term projects, for example where they form part of existing contract efficiency assumptions, and some savings will benefit our customers via the contract structure. As such, the expected realisable annualised savings are approximately £40 million. The benefit in FY22 will be roughly half this due to timing.

These changes will also create a leaner organisation and should help our decision-making – giving more power to the teams closer to the customer. The changes also aim to improve our internal and financial controls, see further details in our Financial review on page 30.

3) Rolling out our new people strategy

We are developing an organisation that shares capability, talent, innovation and best practice across the Group and removes complexity. The new operating model is a key pillar of our new people strategy. On top of this, we will create an agile and inclusive workplace, improve our diversity, create a new approach to talent management and we will harmonise our people policies and processes. All of these will combine to make Babcock a better place to work for our employees.

Delivering our new operating model and new people strategy requires us to embrace a new culture to unlock the potential that exists within the business – one which continues our tradition of focus on the customer, but which enables more innovation and collaboration. We have begun that process with the articulation of our new purpose: creating a safe and secure world, together. It's a recognition of the positive role we can and should take in creating a safe and secure world, as a responsible member of society, and of the fact that almost everything we do is collaborative – whether it is working together across the different parts of the Group, working with our customers, or working with our partners and suppliers. We have started to transform our culture and that work will continue throughout the coming financial year.

4) Developing our new ESG strategy

We have continued to make great progress on developing our ESG strategy in a year of many challenges. We have a plan to reduce harmful emissions and integrate sustainability into programme design and have set a new target for the Group: to achieve net zero carbon emissions for our estate, assets and operations by 2040.

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

5) Exploring growth opportunities

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

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

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

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

Recent business development

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

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

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

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

Summary of financial performance in FY21

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

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

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

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

Health and safety performance in the year

While our total injuries rate was lower this year, at 1.01 reported injuries for every 100,000 hours worked (2020: 1.24), we saw an increase of 36% in the more serious 'Babcock RIDDOR' injury rate. Tragically, in August 2020, 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. This incident and the increase in serious injuries underlines how crucial it is we continue to focus on improving our health and safety performance.

Trading in the first quarter for FY22

Trading in the quarter ended 30 June 2021 was in line with our expectations across all four sectors. Net debt (excluding operating leases) was £1,140 million, higher than at 31 March 2021 but lower than the average net debt for FY21.

Outlook

We are confident that we have established a clear strategic path to return Babcock to strength, but the extent of the transformation we are undergoing means that FY22 will be a year of transition. The impact of COVID-19 on performance in FY22 is uncertain. While activity levels have broadly recovered, the additional costs from operating in a COVID-secure way remain. These costs, combined with the uncertainty over business interruption from increased cases and potential new variants, mean that we do not currently expect a material boost in profitability from COVID-19 restrictions easing. As such, we remain cautious about the progress we will be able to make on profitability.

Free cash flow will be impacted by the material cash outflows previously communicated, particularly additional pension contributions and exceptional cash costs, both restructuring costs and the Italy fine. In addition, we are still investing in facilities and IT upgrades and we will be unwinding the historical management of working capital around period ends. As such, free cash flow (before disposal proceeds) in the 2022 financial year is expected to be significantly negative.

We are confident about our prospects for the markets we serve. We believe that with our improved strategic focus and operational delivery, and with efficiencies generated by the new operating model, we can significantly improve the Group's profitability, and most importantly its cash generation, over the medium term but this will take time to deliver.

Delivering for all our stakeholders

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

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

Our direction is set, and we are ensuring that we have all the elements in place to take advantage of the many opportunities which lie before us. We look forward to sharing updates on our progress as we move forward

David Lockwood OBE
Chief Executive Officer

Our strategy

We are focused on being an international aerospace, defence and security company with a leading naval business, providing value-add services across the UK, France, Canada, Australasia and South Africa.

UK naval business

Strengths
- Owns key sites and infrastructure including the Devonport and Rosyth dockyards
- Deep technical expertise across critical and complex engineering
- Customer relationships

Growth drivers
- Increase in UK defence budget
- Increase in shipbuilding
- Defence and nuclear infrastructure
- Increased submarine support with more classes in service

UK value-add services

Strengths
- Deep technical expertise across critical and complex engineering
- Deep technical expertise in civil nuclear
- Customer relationships

Growth drivers
- Long-term opportunities in civil nuclear

International

Strengths
- Strong niche positions in Canada and Australasia and South Africa
- Developing position in France
- Range of platforms, systems and products that are highly competitive in international markets
- Customer relationships

Growth drivers
- First generation outsourcing
- Equipment and systems
- Potential for Type 31 exports

Supported by

Our five strategic actions

Delivering

Returns for our shareholders

A return to growth with improving margins and better cash conversion

Improved delivery for customers

Consistent delivery and partnering with customers to solve their challenges

A better place to work for our employees

An open, collaborative and diverse workplace that engages our employees

Strategic actions

1. Align the portfolio

- We will align the Group's portfolio by divesting certain businesses to reduce complexity, increase focus and improve the effective use of the Group's capital by disposing of the businesses that are nearer the perimeter of our strategy
- This is expected to generate disposal proceeds of at least £400 million over the next 12 months

2. Implement our operating model

- We are creating a business that is more efficient and effective
- A flatter structure will simplify how we operate, improve communication and increase business flexibility and our responsiveness to market conditions
- The new structure will reinforce a one company culture and remove duplication
- This new model will generate annualised cost savings of approximately £40 million, helping to create a stronger Babcock
- The new model will also help our internal and financial controls

3. Roll out a new people strategy

See page 22 for more details

- We will develop an organisation that shares capability, talent, innovation and best practice across the Group and removes complexity
- We will communicate our purpose and create a culture that better supports and empowers our people
- We will create an agile and inclusive workplace, which supports work-life balance
- We will improve diversity across the Group
- We will take a new approach to talent, learning and performance
- We will harmonise people policies and processes

4. Develop our ESG strategy

See page 62 for more details

- We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040
- We will integrate environmental sustainability into programme design to minimise waste and optimise resources
- We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies
- We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges
- We will ensure the safety and wellbeing of all our people

5. Explore growth opportunities

See page 18 for opportunities across our defence markets

- The markets we address offer favourable medium-term growth. We will focus on opportunities for defence and value-add services in the UK, France, Canada, Australasia and South Africa
- Growth in the UK will mainly come from market growth, given our strong market position today. There are areas where we will also look to increase our share, for example defence secure communications and shipbuilding
- Growth in international markets can come from market growth and an increase in market share. We are bidding for contracts that, if won, would offer significant in-market growth, for example pilot training in Canada
- Our products have further opportunities for growth including growth in our equipment and systems exports and international demand for the Type 31 platform

Babcock across defence

Defence is our largest market and at the heart of what we do. We have a crucial role in delivering critical defence services in the UK, France, Canada, Australasia and we make products for several other nations including the USA and Korea.

Our customers are all facing similar demands:

- A more unstable world with new and evolving threats to national security
- Budgets under pressure to deliver value for money
- A greater need for applied technology

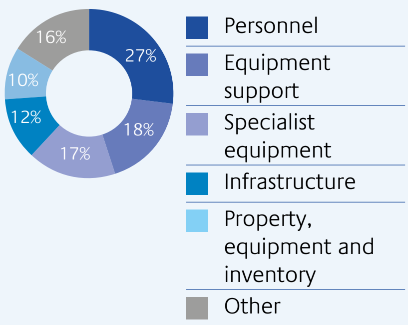
Defence markets offer significant resilience and long-term potential, both in terms of increased spend in our current markets and expansion into new markets, and our bid pipeline includes many opportunities. We are focused on the UK, France, Australasia and Canada markets, as well as export opportunities across the world.

UK

Market position

Our primary market today is the UK, where we provide critical support to all of the UK's armed forces. We are the UK's second largest defence supplier and, as part of the Strategic Partnering Programme, we are working with the UK Government and MOD across more critical programmes than any other provider to ensure the needs of our armed forces are met as requirements evolve and complexity increases.

UK defence spend 2020 £39.8bn



Source: UK MOD departmental resources 2020 – GOV.UK (www.gov.uk).

Over the last year, the UK has seen a significant uplift in budget commitments. Defence spending rose to £39.8 billion in 2020, an increase of £1.8 billion or around 2%, adjusted for inflation compared with 2019, with an estimated £19.5 billion spent on MOD equipment and equipment support, an increase of around 13%. Around 18% of the total defence spend (of around £7 billion) was designated to supporting MOD equipment, slightly lower than last year.

Growth year on year is dependent on the phasing of MOD spend, whereas long-term UK market growth is driven by the MOD's longer-term spending commitments, which will soon see the biggest uplift in over 30 years. In November 2020, the UK announced a defence spending uplift of £24 billion which will raise defence spending as a proportion of GDP to an estimated 2.2%, exceeding the NATO pledge of 2%. In total, £190 billion was pledged to be spent over the next four years. The budget uplift framework was populated with detailed plans and commitments in the Integrated Review released in March.

Opportunities

The budget uplift produces a variety of potential outcomes for UK defence. The deployment of a carrier strike group will require available ships and submarines with trained personnel and support ships to be ready. The confirmation of volumes of operational F35s and the new Tempest programme may present further opportunities for support to operational training. The continued commitment to the Continuous At Sea Deterrent may require two streams of nuclear ballistic submarine maintenance in future, combined with two streams of attack class submarine support while both classes transition, while the

UK Integrated Review

In March 2021, the UK published the Integrated Review which sets out the Government's strategic framework for national security and international objectives out to 2025, including future threats, capability investment and innovation in R&D. We outline below the highlights from the report most relevant to us.

Naval

- A commitment to develop the next generation of warships, including multi-role research vessels and support ships to supply carriers, with investment set to double to £1.7 billion a year. This sets out a strategic approach to the UK's core industrial base, including shipbuilding in Scotland.
- Confirming the carrier strike group deployment schedule highlights the requirement for support ships, submarines and trained crew and presents opportunities for the wider UK supply chain.
- Continued commitment to the nuclear deterrent and an increase in the cap on the number of UK nuclear warheads from 180 to 260 requires UK industry to enable the continued support of current classes while gearing up infrastructure, support technology and supply chain for the future classes.

Carrier Strike Group © Crown Copyright 2021 Image: UK MOD.

Air Force

- The confirmation of the Tempest programme to provide the Royal Air Force with a modern aircraft to counter future threats. Babcock currently has no involvement with this programme.

Land

- The investment of an additional £3 billion in new army equipment, (including upgrading Challenger 2 to 148 Challenger 3 vehicles) will not directly benefit Babcock, but may present opportunities in the future.
- The Warrior capability sustainment programme, where we had previously targeted supporting the prime contractor, has been cancelled .

Type 31 programme may present further opportunities to progress into the Type 32 class.

Risks
We recognise that our position as the UK's second largest defence supplier represents a significant reliance on the UK MOD, which is identified as a key principal risk outlined by the Group, see page 87. Reputational and execution risk on the volume of critical programmes is also routinely reviewed.

A shift of threat level towards innovative airborne and cyber threats may trigger a response to further move budget allocation away from traditional land-based requirements to new areas.

Canada

Market position
Working with the Royal Canadian Navy, Babcock has transferred the skills and expertise required for UK submarine services to provide through-life support and maintenance to Canada's fleet of Victoria Class submarines.

Opportunities
The Canadian Government has committed to the long-term funding of defence to grow its force size and enhance capabilities. It has also pledged to keep defence spending steady to more closely meet NATO commitments. The Canadian Government's shipbuilding strategy may provide additional surface ship opportunities in the future as new variants are commissioned. In addition, we continue to target future military aviation training opportunities in Canada.

Risks
A preference for native companies could limit Babcock's exposure to further opportunities given our relatively modest footprint in the country. This is highlighted as one of the Group's principal risks, see page 89. Our current work is based around one programme and we do not own any infrastructure.

Australasia

Market position
Babcock provides naval support programmes to the Royal Australian Navy and Royal New Zealand Navy. In Australia, we provide both submarine and surface ship programmes entailing through-life support for the Collins Class submarines, Canberra Class landing helicopter platform docks and ANZAC Class frigates. Babcock also provides unique defence exports for weapons handling and launch systems for their future frigate and submarine programmes. In New Zealand, we provide maintenance programmes for their fleet of frigates through the managed dockyard in Auckland.

Opportunities
Australia has set out a significant increase in defence spending over the next 10 years. A key beneficiary of the increase are the ship and submarine building programmes to address the evolving threats in the Indo-Pacific region. The new frigate and submarine programmes present a good opportunity for naval defence contractors.

Risks
Competition remains strong in Australia and we may need to develop a larger in-country presence for some major programmes in the pipeline.

France

Market position
In partnership with the French Air Force, Babcock developed a first-generation outsourcing programme of support for fixed wing air training. Babcock built from that position with rotary wing support for French Navy search and rescue operations, with clear overlap with our aerial emergency services maintenance and support business.

Opportunities
The French defence budget will benefit from the third year in a row of increased spend. There is opportunity to use our status as a maritime and aviation support and training provider to deliver integrated support and training requirements as additional programmes may mature into an outsourced contracting framework.

Risks
With limited infrastructure, there is a risk that French companies will be prioritised for national recovery plans designed to support the defence sector's supply chain.

Products

Market position
Babcock offers a number of defence products in naval market categories. A major offering in our product category is the UK's Type 31 frigate programme, building on our capability with the design, build and assembly of the Queen Elizabeth Class aircraft carriers.

We have unique solutions for weapons handling and launch systems, primarily for submarines but also for surface ships, with supply and support to the UK, Australia, Spain, and Korea. We are also involved in the production of vertical missile tubes for the US-UK common missile compartment programme. In addition to weapons handling and launch systems we have expertise in designing innovative equipment launch and discharge systems.

Opportunities
Type 31 presents the largest product opportunity for Babcock, with potential for international export plus the Type 32 variant recently included in the UK Integrated Review. In addition to current build programmes, the Fleet Solid Support ships (FSS) will be required to support the carrier strike group on deployment and Babcock is well placed for some of this work. Outside of shipbuilding there is a potential to combine our equipment discharge system knowledge with autonomous technology for deployment in a variety of applications.

Risks
UK shipbuilding decisions receive a great deal of political attention and bidding processes are competitive.

Our business model

Customer challenges

Maintaining national security
We help our customers maintain national security and save lives. Our customers have complex and valuable assets that need to be available for as long as possible and many defence assets need constant sustainment to ensure there are no gaps in defence capability.

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

Safety and regulatory
Safety and regulatory compliance underpin all work. We and our customers operate in heavily regulated environments where the health, safety and wellbeing of all stakeholders is the number one priority.

Our inputs

Our people
We rely on our people, and their experiences and skills, to deliver for our customers and solve challenges every day. We aim to better support and empower our workforce. See our people strategy on page 22.

Our assets
We operate a range of assets in our business, ranging from complex engineering facilities through to aircraft for the delivery of emergency services. We own critical national infrastructure in the UK including the Devonport and Rosyth dockyards.

Our technology and know-how
Across our business we use our technology and our engineering know-how to solve customer challenges. We have a deep understanding of our customers' assets and are able to integrate multiple technologies to support their needs. Read more about our innovation and technology on pages 24 to 27.

What we do

Deliver critical programmes
We provide through-life support for our customers' assets to deliver material improvements in the performance, availability and cost of supporting these assets.

Design and manufacture
We design and manufacture a range of equipment, from warships to weapons handling and launch systems for submarines.

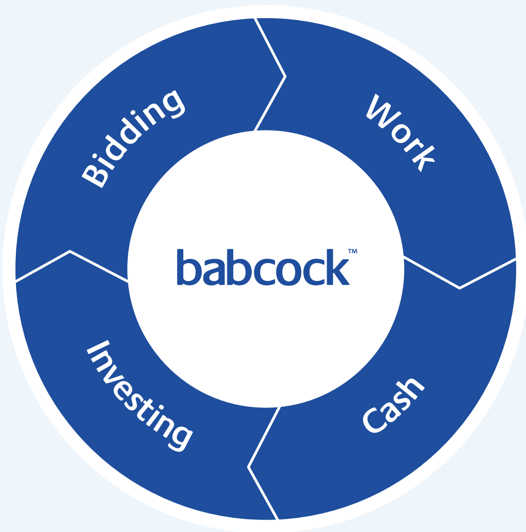
Deliver critical services
We deliver critical services for all our customers, from supporting naval and air base operations to emergency services and complex nuclear services.

How we do it

Delivering across long-term contracts

Bidding
We continually monitor opportunities across our markets, for new and existing customers. We have a multi-gate review process for contract bids to help ensure we only bid on value-creating work. Any contract worth more than £25 million, or lasting five years or more, requires approval from the CEO and CFO.

Work
Our contract backlog of £8.7 billion represents contracted work and provides a base level of revenue for the years ahead. This is supplemented by new business wins, in contract growth and short-cycle work. Contract extensions and variations also add to the our work over time. Revenue is recognised as we deliver on our contracts and performance obligations are satisfied.



Investing
The cash we generate funds reinvestment into the business, principally through capital expenditure to develop sites, equipment and IT infrastructure. It pays our suppliers, employees and lenders and covers our tax liabilities and the funding of our pensions schemes.

Cash
Performance across contracts drives revenue, profits and cash. We aim to improve our cash generation throughout the year as covered in our Financial review, see page 40.

Creating stakeholder value

Customers
Delivering for our customers and partnering with them on the challenges they face.

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

Employees
Creating a better place to work where employees are valued and motivated at all times.

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

Supply chain
Creating jobs and nurturing investment through collaboration with our supply chain and paying our suppliers on time.

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

See pages 58 to 59 and 114 to 116 for details on how we engage with stakeholders

Unlocking potential

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

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

We have listened to feedback from our workforce on how it feels to be part of our organisation, and taken a hard look at what we need to do to have a more efficient, agile, sustainable and people-focused business. Our federated structure has resulted in an organisation that is not as efficient as it needs to be and is far too complex. The new operating model we announced in April will support changes to the way in which we deliver our work, including the following:

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

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

Nikki Fox
Chief Human Resources Officer

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

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

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

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

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

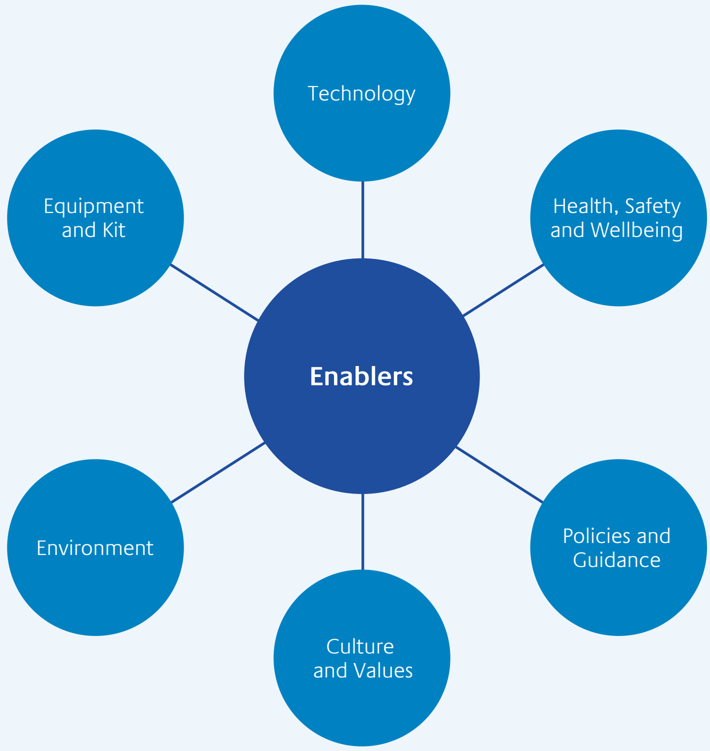
This is our new reality.

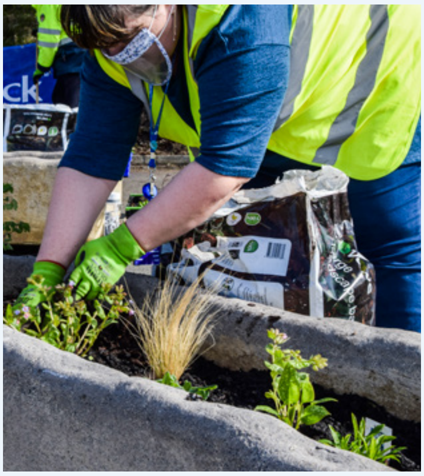
- Developing impact-focused, collaborative leaders – there will be a fundamental shift in leadership expectations, creating leaders who 'think, connect and do'. We will set a new standard for leadership and expect leaders to act as role models for our purpose, principles and behaviours in how they support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

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

Nikki Fox
Chief Human Resources Officer

Agile Working Enablers




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

Sustainability matters

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

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

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

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

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

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

For details of what we are doing on ESG see pages 62 to 81.

Innovating for the future

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

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

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

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

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

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

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

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

Jon Hall, PhD
Chief Innovation & Technology Officer

Fostering innovation

Over the current financial year, working together with our leadership team we will nurture and foster innovation within Babcock, supported by our new people Strategy (see page 22). We will build on our inherent engineering ingenuity, harness the expertise of our people through knowledge-sharing platforms and continue to invest in our technology capabilities both in the UK and internationally. This focus on innovation will be promoted by increased collaboration and reach across the Group, aided by our 'lean' or operational excellence programmes.

We will drive growth through our extensive technology programmes, but we also need people who understand the increasingly complex world of digital systems and data; people who can translate and transform that data to bring about real, tangible benefits to how we design, build and look after our customers' assets.

So investing in next generation skills will be a key enabler of how we work with our customers and manage their assets, and our businesses. We will create a Babcock Digital Academy to build wider digital awareness across Babcock. This will be a network to integrate and embed the latest thinking around data exploitation and digital technology, and an opportunity to share ideas and best practice. Using technology such as machine learning to assess corrosion, for example, will drive significant efficiencies, reduce costs, increase availability and tap into new markets – whatever the industry.

We have also started an internal campaign to encourage our own people to innovate, and to 'think BIG' and contribute through our new knowledge-sharing hub, BIG Ideas. I'm delighted that so many of our people have jumped on board since we launched the hub to have their say. It isn't just about platforms of course; it's how we share information, and our people are critical to achieving that.

Randika Vithanage, Senior R&D Engineer, using a high temperature ultrasonic roller probe at the University of Strathclyde's Technology Innovation Centre laboratory in Glasgow.

Strathclyde Case study

Innovation through collaboration: Our strategic partnership with Strathclyde.

At Babcock, successful collaboration underpins much of what we do. That's why working in partnership with academic partners such as the University of Strathclyde means we can deliver real innovation to address some of the most important engineering challenges facing us today.

With our recently launched strategic partnership, our longstanding relationship will allow us to focus on activities which will drive innovation and enable technology integration in the critical work we do. Knowledge transfer is also fundamental so we'll have the right platforms in place to ensure we're learning from this at every step.

We'll focus on technology areas such as autonomy and trusted systems, data analytics, and advanced manufacturing and inspection. Our people will also benefit through our planned Babcock Digital Academy, in which Strathclyde will have a role, to support all these projects.

We'll build on existing successes such as our Prosperity Partnership; a five-year collaborative research project, co-funded by the UK EPSRC, involving Babcock, Strathclyde and other academic partners, focused on delivering new technology solutions to prolong the life of the nuclear assets we manage.

Again, our focus will be on driving down costs and improving availability. Over the next two years we will deploy this research into industrial application and generate real world impact. There will be a particular focus on deploying informatics solutions, in-process and autonomous inspection capabilities and field trials of infrastructure remediation techniques. All of this helps us to provide deeper engineering support and increased efficiencies for new and existing customers.

A more structured collaboration means we can bring all of that innovation together and plan greater continuity of engagement and insight.

Professor Sir Jim McDonald, Principal Vice-Chancellor of the University of Strathclyde said: "Our innovative collaborations, such as the Prosperity Partnership, are already generating impact across industry and academia. Our partnership means we can now look forward to exploring new areas of research and translating the outcomes to both support innovation and develop solutions for industry challenges.

"It also means we can offer students and staff valuable industry experience through internships, placements and secondments, as well as providing Babcock with a critical source of future talent."

Airbus H145 helicopter operated by Babcock in Italy.

Cranfield/Odin Case study

Innovation unlocking AI potential

At Babcock we manage complex and critical assets, and to get the best out of these assets and deliver increased efficiency for our customers we need to understand the data we're working with.

In our Aviation business the Innovation and Technology team have been working to develop a cutting-edge data and analytics capability to allow us to make better-informed decisions to prolong asset life, increase availability and reduce cost.

The first phase of Project Odin has just been delivered, with our UK Onshore Team supported by research with our partners at Cranfield University.

Odin uses advanced data analytics and artificial intelligence garnered from the aircraft we manage. Using the most advanced data analytic techniques we can bring data from different sources together which provides valuable insight into system availability, usage, spares management and maintenance scheduling.

Hayley Belmore, Director UK Onshore, explains: "The Onshore business benefits from a number of great systems collecting a plethora of useful data. Extracting, validating, improving the quality of the data and bringing the information together in an intelligent way to help us better understand the business had previously been a challenge. We now have a fantastic platform giving us accessible, quality data to facilitate decision-making."

Odin is one of the most exciting programmes Babcock will be offering. As well as developing its reach across existing aviation fleets, we'll also look to incorporate it into new areas such as smart buildings and hangars. This in turn will support our customers' need for sustainability and give us both opportunities for growth. We'll work alongside them so they will be able to make data-driven decisions and incorporate new technologies such as unmanned air systems.

Partnerships

As well as our people, it's the strength of the organisations we partner with that really makes a difference to the work Babcock does, whether in defence, emergency services, or our civil nuclear business.

That's why we're collaborating with some of the most respected academic institutions and industrial partners in the UK and internationally. Our partnerships enable us to stay abreast of developments, and to share the innovation that research brings with our customers, our people, and our business.

Our assets are complex and critical with long lifespans, so these programmes allow us to better understand their lifecycle, prolong their use and deliver increased operational efficiencies and enhanced output.

Innovation is good ideas put into practice, and our partnerships are a critical part of how we do that.

Over the coming year we will expand the number of research projects with our academic partners. These include Strathclyde, Cranfield, Edinburgh and Exeter universities where we are working on areas such as the application of digital twins, condition monitoring and predictive modelling to prolong the life of nuclear assets.

Royal Navy's 4.5" Mk8 Medium Calibre Gun © Crown Copyright 2021 Image: UK MOD.

Digital & data technology Case study

Continued investment in digital and data technology

We continue to invest and innovate across our technology programmes, including our iSupport360 approach where we have a strong focus on using data to enable better asset availability management, in projects such as Odin. This includes a recent application with the Royal Navy's 4.5" Mk8 Medium Calibre Gun. Here we've created a digital twin to better predict performance and define maintenance requirements – demonstrating innovation and value in the real world use of digital twin technology in legacy assets. Expanding our data exploitation in contracts like these not only increases availability to benefit our customer, it benefits Babcock through KPI incentives and by driving down our costs and inventory.

Working in partnership with our customers and original equipment manufacturers we are implementing similar programmes across a number of existing assets that Babcock supports or operates, including the UK Royal Navy's Type 23 frigates, UK Army platforms such as Bulldog, military aviation platforms and infrastructure, civil aircraft and civil nuclear power plants.

We are also putting this digital approach at the core of new platform development such as the Type 31 class frigates and the Dreadnought nuclear submarine programme, where we are working with our supply chain and wider enterprise to establish a digital thread at the design stage which can live with the platform throughout its lifecycle – data that can be shared across all stakeholders operating and managing the asset and will reduce costs both now and throughout the life of the assets.

These partnerships also support the work we do with the Advanced Nuclear Research Centre and the Advanced Manufacturing Research Centre and this investment is being realised in the Arrol-Gibb Innovation Campus at our Rosyth site. We will trial advanced technology applications that will support our major manufacturing programmes, including the Type 31, ensuring we meet the programme's challenging targets.

Our integration of advanced manufacturing and MRO technology will directly support cost advantage across our current programmes. Equally, our access to international markets for Type 31 'export' and other future programmes will be enhanced by the ability to transfer these new solutions, for in-country build.

We have a busy and exciting year ahead of us. I am inspired by our people every day, knowing what we can achieve and deliver, as a team and as a company.

That is why for us, innovation isn't just in that cutting-edge piece of technology, it's in our people, it's in our partnerships – it's in what we deliver and it defines not just who we are but what we can be.

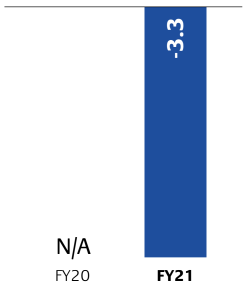
How we will measure our progress

We have nine key performance indicators (KPI) that we monitor to measure the progress against our strategy. These include six financial metrics and three non-financial measures, including a new KPI this year for gender diversity across our senior management.

FY21 results

Organic revenue growth (%)

-3.3%



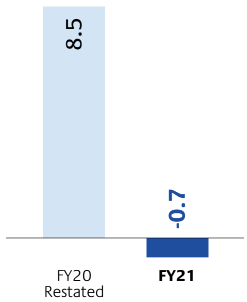
Definition
The movement in revenue compared to that of the previous year excluding the impact of FX, acquisitions and disposals. See note 1 of the accounts for details of our revenue recognition policy. Previously we reported underlying revenue, which included our share of revenue from joint ventures. We now report only one revenue number, which excludes joint ventures, in line with IFRS 15.

Commentary
Organic revenue was down 3.3% in the year, reflecting the impacts of COVID-19 on trading as well as the de-recognition of revenue from our Phoenix contract in Land.

Link to strategy
5. Explore growth opportunities

Underlying operating margin (%)

-0.7%



Definition
Underlying operating profit expressed as a percentage of revenue. We have updated our definition of underlying operating profit this year to exclude our share of joint ventures, see page 31 for more details. See page 31 for a reconciliation of statutory to underlying operating profit.

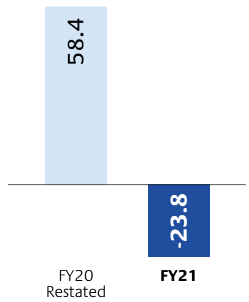
Commentary
Our underlying operating margin was negative this year as a result of the impacts of the CPBS. Excluding the one-off impacts of the CPBS, our underlying operating margin would have been 5.3%. This significant decline on last year mainly reflects the impact of COVID-19 and significant credits that benefited FY20, especially tax credit phasing in Nuclear and FY20 credits in civil aviation. Our target is to gradually expand our underlying margin over time.

Link to strategy
2. Implent our operating model

5. Explore growth opportunities

Underlying EPS (p)

-23.8p



Definition
Underlying earnings after tax divided by the weighted average number of ordinary shares.

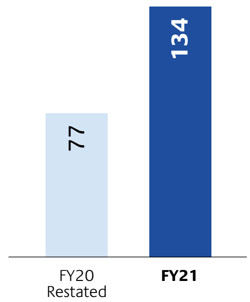
Commentary
Underlying earnings per share was a loss of 23.8p per share this year, reflecting the underlying operating loss following the negative impacts of our CPBS. Excluding the one-off impacts of the CPBS, underlying EPS would have been 28.9p. Our target is to grow EPS over the long-term.

Link to strategy
2. Implement our operating model

5. Explore growth opportunities

Underlying operating cash conversion (%)

134%



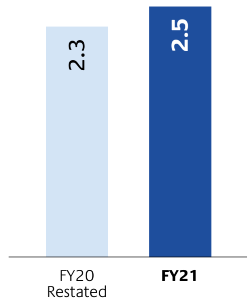
Definition
Underlying operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit. For this year, we have excluded the one-off impacts of the CPBS on underlying operating profit as this gives the most useful comparator.

Commentary
Underlying operating cash conversion was 134% and mainly reflects the significant working capital inflow of £128 million in the year, of which £56 million related to the delay in payments of VAT. In a normal year, we would expect underlying cash conversion to be around 80-90%.

Link to strategy
2. Implement our operating model

Net debt / EBITDA (covenant basis)

2.5x



Definition
Net debt / EBTIDA as measured in our banking covenants. This uses net debt (excluding operating leases) divided by underlying earnings before interest, tax, depreciation and amortisation plus JV dividends received. The calculation this year excluded the one-off impacts of the CPBS. This definition makes a series of adjustments to both Group net debt and Group EBITDA, see page 43 for a reconciliation.

Commentary
Our net debt to EBITDA increased to 2.5 times this year as the reduction in net debt, reflecting free cash flow generation and disposal proceeds, was more than offset by the decline in EBITDA. We are targeting to move the Group to a level below 2 times.

Link to strategy
1. Align the portfolio

2. Implement our operating model

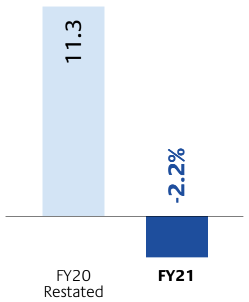
5. Explore growth opportunities

A new approach

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

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

-2.2%



Definition

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

Commentary

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

Link to strategy

1. Align the portfolio

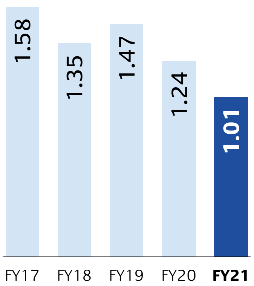
2. Implement our operating model

5. Explore growth opportunities

Non-Financial

Total injuries rate

1.01



Definition

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

Commentary

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

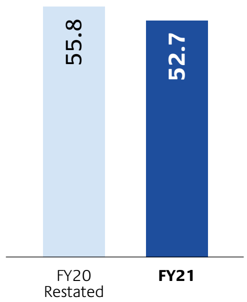
Link to strategy

3. Roll out a new people strategy

4. Develop our ESG strategy

CO_2e emissions (tCO_2e/£m)

52.7



Definition

Estimated tonnes of CO_2e emitted as a direct result of revenue-generating operations.

Commentary

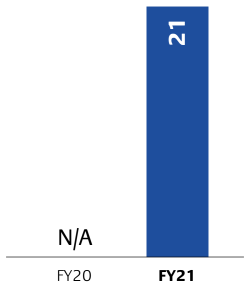
We have continued to reduce our emissions year on year, both the intensity ratio and in absolute terms. We aim to continue to reduce the emissions of our operations and we are committed to achieving net zero emissions by 2040. See page 69 for more details.

Link to strategy

4. Develop our ESG strategy

Senior management gender diversity (%)

21%



Definition

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

Commentary

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

Link to strategy

3. Roll out a new people strategy

4. Develop our ESG strategy

Link to management remuneration

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

Operational performance measures

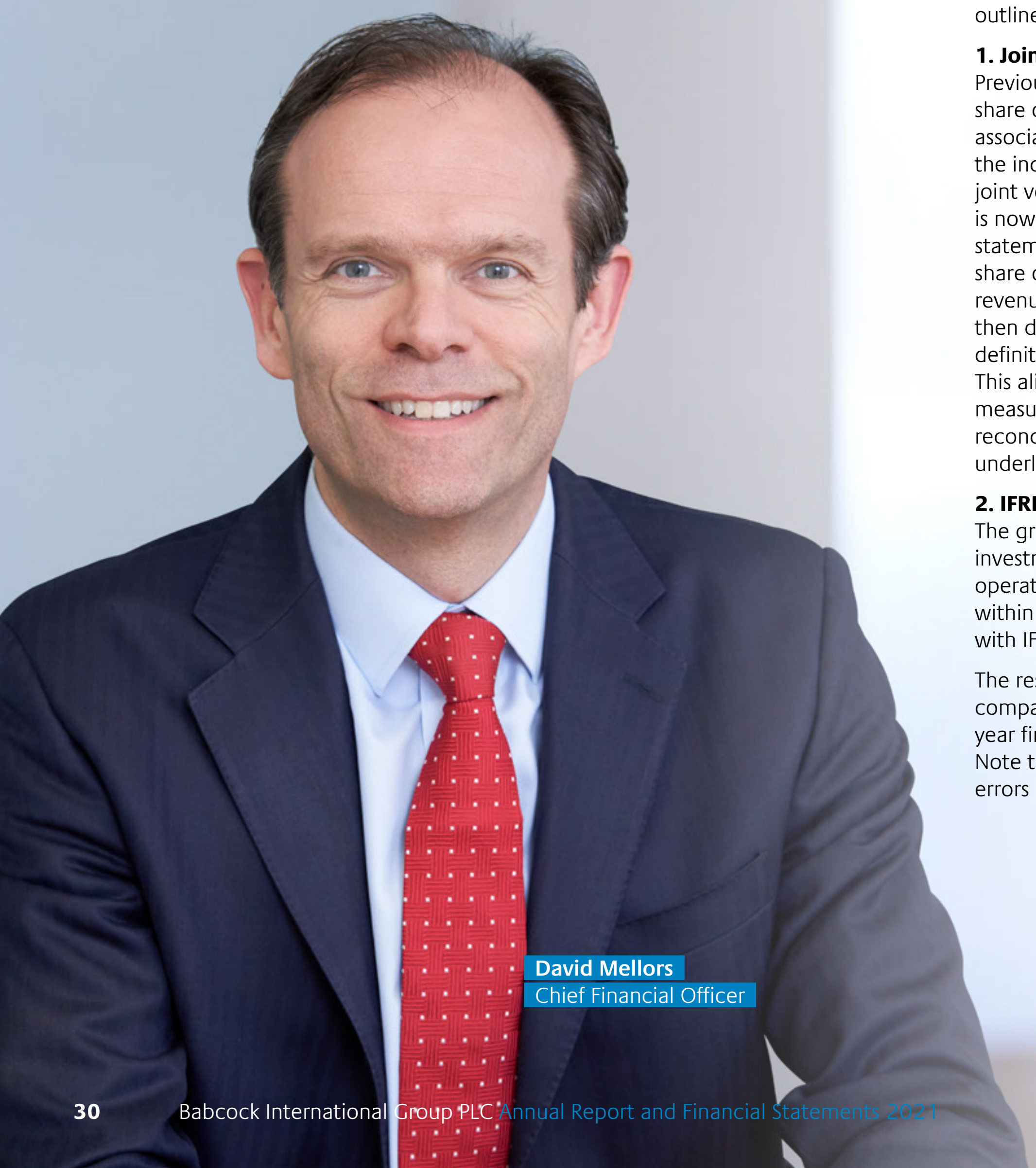
In the operational reviews on pages 50 to 57, we use our first two KPIs (revenue growth and underlying operating margin) to measure sector performance.

Financial review

Introduction

This Financial review covers:

- The changes we have made to the presentation of underlying reporting this year, with restatements to FY20
- A summary of the contract profitability and balance sheet review ('CPBS')
- Our financial performance in FY21, both statutory and underlying, including a reconciliation between the two
- Improvements we intend to make to risk management and internal controls



David Mellors
Chief Financial Officer

Changes to the presentation of underlying reporting

The Group provides alternative performance measures, including underlying measures, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision making and the Group believes are helpful for investors to analyse business performance. We have made a series of changes to our underlying measures this year to improve transparency and provide a simpler set of accounts and financial commentary for the future.

There are four main changes to the presentation of our underlying results as outlined below.

1. Joint ventures and associates

Previously the Group incorporated its share of the results of joint ventures and associates into each of the main captions of the income statement. Babcock's share of joint ventures and associates profit after tax is now included as one line in the income statement. The Group used to include a share of joint ventures and associates revenue within its revenue line – which was then defined as underlying revenue. This definition is therefore no longer needed. This aligns revenue with the statutory IFRS measure and reduces the number of reconciling items between statutory and underlying income statement captions.

2. IFRIC12 Investment Income

The group previously included IFRIC 12 investment income within underlying operating profit. This is now included within investment income to align with IFRS.

The restated underlying income statement compared to that presented in the prior year financial statements is shown below. Note that the correction of prior year errors is covered on page 33.

Restatement of FY20 underlying income statement

	Underlying FY20 previously reported £m	Change to JV and Associates presentation £m	Change to IFRIC 12 presentation and tax* £m	Prior year restatements £m	Underlying FY20 restated £m
Underlying revenue	**4,871.7**	(422.2)	–	(21.0)	**4,428.5**
Underlying operating profit	**524.2**	(105.7)	(1.1)	(39.8)	**377.6**
Share of results from joint ventures and associates	**–**	58.6	–	–	**58.6**
Investment income	**–**	–	1.1	–	**1.1**
Finance costs	**(95.8)**	22.8	–	–	**(73.0)**
Underlying profit before tax	**428.4**	(24.3)	–	(39.8)	**364.3**
Tax	**(77.1)**	17.9	1.2	(9.4)	**(67.4)**
Underlying profit after tax	**351.3**	(6.4)	1.2	(49.2)	**296.9**
Underlying basic EPS	**69.1p**				**58.4p**

* includes £1.2 million

3. A clearer definition of underlying operating profit and Specific Adjusting Items

Underlying operating profit is now defined as IFRS statutory operating profit adjusted for Specific Adjusting Items. Items such as these may occur regularly, may be lumpy and may be profits or losses. As such they distort the reporting of underlying business performance measures if not adjusted for. The Specific Adjusting Items are:

- Amortisation of acquired intangibles
- Business acquisition, merger and divestment related items (being acquisitions and gains or losses on disposal of assets or businesses)
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the sale of assets and termination of leases
- The costs of large restructuring programmes which significantly exceed the minor restructuring which occurs every year as part of the normal day to day business. Where restructuring costs are incurred as a result of the on-going execution of day to day business, they are included in operating costs and are not excluded from underlying operating profit
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance

The income statement can now be shown in a 'three column' format with Underlying results, Specific Adjusting Items and Statutory results in separate columns as shown below:

	2021			2020 (restated)		
	Underlying £m	**Specific Adjusting Items £m**	**Statutory £m**	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	**4,182.7**	**–**	**4,182.7**	4,428.5	–	4,428.5
Operating (loss)/profit	**(27.6)**	**(1,615.4)**	**(1,643.0)**	377.6	(453.2)	(75.6)
Share of results of joint ventures and associates	**(13.1)**	**–**	**(13.1)**	58.6	–	58.6
Investment income	**0.9**	**–**	**0.9**	1.1	–	1.1
Finance costs	**(62.1)**	**–**	**(62.1)**	(73.0)	–	(73.0)
(Loss)/profit before tax	**(101.9)**	**(1,615.4)**	**(1,717.3)**	364.3	(453.2)	(88.9)
Income tax benefit/(expense)	**(18.4)**	**33.7**	**15.3**	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year	**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)
Basic EPS	**(23.8)p**		**(337.0)p**	58.4p		(23.3)p
Diluted EPS	**(23.8)p**		**(337.0)p**	58.3p		(23.3)p

Note: the performance review on page 36 considers these results in more detail, they are shown here for presentational purposes.

4. Presentational changes to the underlying cash flow statement

The Group has historically presented an underlying cash flow statement with free cash flow as an important measure. Previously cash flows relating to exceptional items were excluded from free cash flow. This has now been changed to more clearly present the cash generated from the Group's operations.

Also, following the introduction of IFRS16 (Leases), the Group previously deducted new lease commitments in entirety from operating cash flow. We have now amended this to show the capital element of leases as an operating cash flow (akin to capital expenditure) and the interest element of leases within the interest line. The lease commitment is now shown as a change in net debt when signed, not an operating cash flow. The restated FY20 underlying cash flow is shown below.

Restatement of FY20 underlying cash flow

	Underlying FY20 previously reported £m	Prior year restatements £m	Changes to cash flow presentation £m	Underlying FY20 restated £m
Operating profit	**417.4**	(39.8)	–	**377.6**
Depreciation & amortisation	**95.7**	(4.7)	–	**91.0**
ROU asset depreciation	**129.4**	(6.1)	–	**123.3**
Non-cash items	**5.4**	(2.9)	(1.1)	**1.4**
Working capital	**(26.8)**	16.0	–	**(10.8)**
Provisions	**(19.4)**	9.4	–	**(10.0)**
Net capital expenditure	**(147.5)**	39.0	–	**(108.5)**
IFRS 16 new lease commitments	**(109.8)**	–	109.8	**–**
Capital element of lease payments	**–**	–	(175.0)	**(175.0)**
Operating cash flow	**344.4**	10.9	(66.3)	**289.0**
Cash conversion %	**83%**	–	–	**77%**
Pension contributions in excess of income statement	**(70.2)**	–	–	**(70.2)**
Interest paid	**(71.4)**	–	1.1	**(70.3)**
Tax paid	**(62.6)**	–	–	**(62.6)**
Dividends from joint ventures	**52.0**	–	–	**52.0**
Exceptional items	**–**	–	(82.4)	**(82.4)**
Free cash flow	**192.2**	10.9	(147.6)	**55.5**
Acquisitions and disposals net of cash acquired	**(0.8)**	–	105.5	**104.7**
Exceptional cash flow	**23.1**	–	(23.1)	**–**
Capital element of lease payments	**–**	–	175.0	**175.0**
IFRS 16 additions	**–**	(7.3)	(109.8)	**(117.1)**
Investments in joint ventures	**(0.3)**	–	–	**(0.3)**
Own shares	**(2.9)**	–	–	**(2.9)**
Dividends paid	**(153.9)**	–	–	**(153.9)**
Net cash outflow	**57.4**	3.6	–	**61.0**
Opening net debt (previously reported)	**(957.7)**	–	–	**(957.7)**
Supply chain financing – opening adjustment	**–**	(113.5)	–	**(113.5)**
Opening net debt (restated)	**(957.7)**	(113.5)	–	**(1,071.2)**
IFRS 16 transition	**(640.8)**	–	–	**(640.8)**
Exchange movements	**(53.8)**	–	–	**(53.8)**
Movement in net debt	**57.4**	3.6	–	**61.0**
Closing net debt	**(1,594.9)**	(109.9)	–	**(1,704.8)**

Note: the two main items in the correction of prior year errors impacting net debt are the movement of supply chain finance balances from trade creditors to debt (£113.5 million 1 April 2019, £93.2 million at 31 March 2020) and the inclusion of certain lease liabilities (31 march 2020: £16.7 million).

Contract profitability and balance sheet review

As announced in January 2021, the Group performed a review of the profitability of its contract portfolio, and the carrying values of assets and liabilities on the balance sheet. The review was carried out by management using the expertise and resource of an independent accounting firm. The initial year end financial close occurred in early April before completion of the CPBS. On 13 April 2021, the Group announced the initial headline unaudited results for FY21 before the impact of CPBS, along with an early estimate of the CPBS findings. The annual goodwill impairment test, required by IAS 36, was included within the scope of the CPBS review.

The CPBS scope covered over 100 contracts, representing c.£2.7 billion of annual revenues. The selected contracts received differing levels of review depending upon their perceived risk. Those contracts deemed high risk had a full review of their status, underpinning assumptions and risks and dependencies. Those deemed medium risk had a specific scope review with work targeted at any specific areas of concern, and those deemed low risk had a review with the project manager to gain an understanding of the contract and assess whether any specific scope work should be performed. The balance sheet reviews covered all main balance sheet captions for all sectors, again prioritising balances on a risk basis. As the reviews progressed, more work was performed on contracts where findings raised issues that had not been considered in the initial scoping reviews.

More than 140 accounting adjustments totalling £2.0 billion (post-tax effect on retained earnings) resulted from the CPBS consisting of:

- **Cumulative restatement at 1 April 2019 of £308.1 million –** being £45.3 million relating to a change in accounting policy and correction of prior year errors of £262.8 million)
- **Cumulative restatement at 1 April 2020 of £230.7 million –** being £59.8 million relating to a change in accounting policy and correction of prior year errors of £170.9 million)
- **Changes recorded within the current financial year of £1,813.7 million –** the vast majority of which are change in estimates, including the impairment of goodwill

Of the adjustments recorded in the current year income statement (see table below), £274.7 million were charged within underlying operating profit and the vast majority of these amounts related to changes in estimates. Their inclusion within underlying operating profit reflects the fact that the occurrence of such transactions, when taken individually, are part of the ordinary course of business. However, the number and magnitude of the adjustments as a result of the CPBS far exceed what would normally be expected in the Group in any one period, hence the additional disclosure.

In order to assist the users of the financial statements to better understand the effect of the transactions resulting from the CPBS on FY21 underlying operating profit performance, we have analysed them into **'one-off CPBS adjustments'** and **'recurring CPBS adjustments'**. It is accepted that these terms are not defined in IFRS and are simplistic. For this purpose, we consider 'one-off CPBS adjustments' to be those that adjust the level of profit recognised either as a result of a one-off event or in previous periods, while 'recurring CPBS adjustments' are those that impact the amount of current period (and potentially future) profit before completion of the CPBS review. A single adjustment arising from the CPBS review might have both 'one-off' and 'recurring' elements.

By way of illustration, the write-off of a long overdue debtor can be thought of as a 'one off CPBS adjustment' as – with today's facts and circumstances – it would be a single transaction that would not otherwise impact the current or future year's profitability. However, a long term contract that has had its profit margin reduced creates an adjustment that has the effect of reducing the cumulative profit recognised over the life of the contract from the old profit margin estimate to the new. An element of this adjustment can be seen to in effect reverse the profit on these contracts that had been recognised in FY21 (before completion of CPBS review). This element is included within 'recurring CPBS adjustments' whereas the remainder of the adjustment, simplistically relating to the profit previously recognised before FY21, is included within 'one-off CPBS adjustments'.

The total of the 'recurring CPBS adjustments' within FY21 underlying operating profit is £24.7 million, and £250.0 million 'one-off CPBS adjustments' make up the total of £274.7 million included within underlying operating profit.

Prior year restatements

There are a number of prior year errors that have been recognised which are detailed in note 5 in the financial statements. Adjustments are denoted as errors, rather than changes in estimates, when it has been identified that assumptions or methodologies were used which the Group should have known at the time were incorrect. One accounting policy has also been changed to better represent certain maintenance arrangements in the Aviation sector, and the errors and the policy change result in prior year restatements – see note 5 in the financial statements for details. Prior year restatements were recorded in the 1 April 2019 opening balance sheet in these financial statements, unless they resulted from an error during FY20 in which case they were recorded in the FY20 income statement. The accounting policy change and some of the prior year errors have a consequential impact on financial results for future periods (e.g. the decision to expense certain aircraft maintenance charges rather than capitalise them will have a recurring impact). Where this is the case, those recurring impacts are included in the relevant years in the table on the following page for completeness –and are also included in the 'recurring CPBS adjustments' figure above.

The impacts of the CPBS adjustments on the income statement, including the results of the annual goodwill impairment test, are summarised as follows:

	2021			2020		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue impacts	**(207.4)**	**–**	**(207.4)**	(21.0)	–	(21.0)
Operating profit/(loss) impacts						
Impairment/disposal of goodwill and acquired intangible assets	**–**	**(1,349.4)**	**(1,349.4)**	–	130.5	130.5
Impairment of non-current assets	**(5.8)**	**(32.7)**	**(38.5)**	0.7	–	0.7
Impairment/reversal of property, plant and equipment and right of use assets	**–**	**(156.9)**	**(156.9)**	(21.6)	(1.4)	(23.0)
Impairment/write down of current assets	**(142.6)**	**(0.8)**	**(143.4)**	(19.5)	–	(19.5)
Introduction of/increase to liabilities	**(126.3)**	**(1.0)**	**(127.3)**	0.6	–	0.6
Operating profit/(loss)	**(274.7)**	**(1,540.8)**	**(1,815.5)**	(39.8)	129.1	89.3
Share of income from JVs and associates	**(37.1)**	**–**	**(37.1)**	–	–	–
Profit/(loss) before tax impacts	**(311.8)**	**(1,540.8)**	**(1,852.6)**	(39.8)	129.1	89.3
Tax adjustments	**(7.5)**	**–**	**(7.5)**	(12.4)	–	(12.4)
Tax effect	**29.3**	**17.1**	**46.4**	3.0	(2.5)	0.5
Loss after tax impacts	**(290.0)**	**(1,523.7)**	**(1,813.7)**	(49.2)	126.6	77.4

Summarised cumulative adjustments to retained earnings, including the results of the annual goodwill impairment test, are as set out below:

	£m
Restatement as at 1 April 2019	(308.1)
Adjustments recognised in the year ended 31 March 2020	77.4
Total restatement at 31 March 2020	(230.7)
Adjustments recognised in the year ended 31 March 2021	(1,813.7)
Total adjustments recognised at 31 March 2021	**(2,044.4)**

The summary of the adjustments in the table above is set out below:

Revenue:

These adjustments have two components within them. Firstly is a correction of an error where revenue had been recognised on the Phoenix contract after the terms had been varied in February 2020. The effect of the contract change is that Babcock is deemed an agent of the customer, not a principal, and therefore the revenue should not be recognised. As a result of identifying this error, £71.8 million of revenue initially recognised in FY21 was reversed together with £11.6 million of revenue in relation to FY20. The second component of revenue adjustments reflects reassessments of the progress and profitability of a number of contracts across the Group.

Impairment of goodwill and acquired intangible assets:

In the current year, goodwill was impaired by £1,243.2 million and acquired intangible assets were impaired by £56.4 million. As detailed in note 13 of the financial statements, the impairments of the Land and Aviation sectors' goodwill of £425.8 million and £817.4 million respectively were largely as a result of reduced forecasts of future cash flows and an increase in the discount rate used to discount them. CPBS adjustments of £64.8 million were also recorded to allocate the goodwill that should have been allocated to the Holdfast disposal (June 2020) and to correct the allocation of goodwill to the Conbras disposal (October 2020 and provided in the first half of the financial year). As detailed in note 13 of the financial statements, £56.4 million was impaired in relation to the DSG contract acquired intangible as its carrying value could no longer be justified following the reassessment of the contract profitability.

Partially offsetting this is the reversal of amortisation of £15.0 million in relation to the Oil and Gas business acquired intangible reflecting management's judgement to derecognise this intangible at 1 April 2019 as a prior period error, as a result of a reassessment of its useful economic life.

Previously a goodwill impairment of £395.0 million was recorded in FY20 against the Aviation sector goodwill. The credit of £130.5 million within FY20 shown above is a reduction to that impairment and is the result of three prior year errors. Firstly, credits of £239.2 million and £5.1 million reflect the cumulative amount of prior year errors to the capital employed in the Aviation and Land operating segments respectively – and therefore reduce the amount that should have been impaired in FY20. Secondly, a calculation error in the FY20 impairment test of Land goodwill creates a charge of £127.7 million and, thirdly, the reduced intangible amortisation in relation to the Oil and Gas business was a credit of £13.9 million.

The FY21 adjustment within underlying operating profit largely relates to the write off of a loan to one of our joint ventures which is no longer deemed recoverable. The £32.7 million within FY21 Specific Adjusting Items is largely due to the impairment of internally generated intangibles, mainly computer software.

Impairment of property, plant and equipment and right of use assets:

As detailed in notes 15 and 16 of our financial statements, impairments of £156.9 million largely relate to fleet values in the Aviation sector where aircraft carrying values are no longer expected to be recovered through use or sale. Also included are impairments of leasehold property (£12 million) and plant and equipment of £11 million. The prior year error of £21.6 million within underlying profit is all from the Aviation sector and relates to the expensing of previously capitalised maintenance and the reversal of aircraft vendor credit notes previously recognised within profit. See note 5 of our financial statements for details on prior year errors.

Impairment / write down of current assets:

This covers the reassessment of several contract profitability margins and the recoverability of many trade and other receivables (including contract assets and accrued income) as well as an increase in obsolescence provisions for inventory. This is the summation of many contract reassessments across the Group with £62.0 million in Aviation, £36.6 million in Land, £21.8 million in Marine and £20.6 million in Nuclear. The prior year error of £19.5 million relates to Aviation and corrects the capitalisation of mobilisation and other costs as well as revenue milestones incorrectly recognised for aircraft deliveries.

Introduction of / increase to liabilities:

These increases reflect reassessment of several contract profitability margins, onerous contract provisions, aircraft maintenance accruals, and other provisions. £72.6 million are in the Aviation sector, £35.5 million in Land and £11.4 million in Marine. Around £60 million of the liabilities are expected to outflow beyond one year.

Share of income from joint ventures and associates:

Historically the Group adjusted the results of the joint ventures and associates before equity accounting the relevant share in the income statement. The Group has now decided such results should be incorporated without adjustment by the Group – unless required to align with IFRS. In the prior periods the Group's share of joint venture and associates results have been adjusted by £23.1 million cumulatively, and a charge of this amount is booked as a change in estimate in FY21 to reverse these amounts. In addition, following the termination of the Group's Dounreay decommissioning contract on 31 March 2021, as a consequence of the NDA's decision to take contract delivery in-house, the Group booked an adjustment of £10.9 million to reflect the estimated contract settlement with the NDA. Contract settlements remain outstanding in relation to works carried out some years ago by the Land sector's ABC joint venture and, following developments during the year, a further adjustment of £3.1million was recorded and represents an updated assessment of the contract outcomes.

Tax adjustments:

The underlying FY21 impact of £7.5 million consists of the write off of deferred tax assets in Spain now considered not recoverable within the Group's forecasting horizon, together with a £21.6 million credit, being the recognition of tax deductibility on the DSG contract intangible amortisation now confirmed with HMRC. The prior year error of £12.4 million is the write off of a deferred tax asset incorrectly calculated in the prior year.

Change in accounting policy

During the year management amended the Group's accounting policy regarding Power By the Hour agreements. At 31 March 2021 this change in policy reduces property, plant and equipment by £65.6 million and trade and other receivables by £3.1 million and increases trade and other payables by £8.1 million.

Material balance sheet reclassifications

All balance sheet reclassifications are shown in note 5 of the financial statements. The materials ones are covered below.

Supply chain financing:

The Group entered into certain Supply Chain Financing Facilities ('SCF arrangements') in the Aviation operating segment. Outstanding balances financed through those arrangements were previously classified within trade payables. The Group has reassessed this classification and has determined that these liabilities should be reclassified as bank and other borrowings. This has also resulted in an increase to property, plant and equipment, trade and other receivables and other borrowings as part of the Supply Chain Financing Facilities has been used for deposits on aircraft.

At 1 April 2019, correction of this error results in an increase in property, plant and equipment of £54.7 million, an increase in trade and other receivables of £21.6 million, an increase in bank and other borrowings of £113.5 million and a reduction in trade and other payables of £37.2 million. At 31 March 2020, correction of this error results in an increase in bank and other borrowings of £93.3 million, an increase in property plant and equipment of £32.9 million and a reduction in trade and other payables of £60.4 million. This adjustment also impacts on the cash flow statement, resulting in an increase in cash flows from financing activities and reduction in cash flows from operating activities.

Cash pool arrangement:

An error has been identified in relation to the accounting for the Group's notional cash pool arrangement. Cash and cash equivalents and bank and other borrowings should have been presented on a gross rather than net basis, in line with the requirements of IAS 32 Financial Instruments: Presentation ('IAS 32'). The correction of this error results in increases in cash and cash equivalents and bank other borrowings of £569.5 million at 1 April 2019 and £494.5 million at 31 March 2020. There is no impact on the income statement.

FY21 performance

In order to simplify the presentation of underlying and statutory financial performance, the Group has adopted a three-column approach to the income statement. The first column below shows the underlying results, with the second column showing the Specific Adjusting Items. The third column shows the statutory results.

Details of the Specific Adjusting Items are included in note 3 of the financial statements.

	2021			2020 (restated)		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	**4,182.7**	**–**	**4,182.7**	4,428.5	–	4,428.5
Operating (loss)/profit	**(27.6)**	**(1,615.4)**	**(1,643.0)**	377.6	(453.2)	(75.6)
Share of results of joint ventures and associates	**(13.1)**	**–**	**(13.1)**	58.6	–	58.6
Investment income	**0.9**	**–**	**0.9**	1.1	–	1.1
Net finance costs	**(62.1)**	**–**	**(62.1)**	(73.0)	–	(73.0)
(Loss)/profit before tax	**(101.9)**	**(1,615.4)**	**(1,717.3)**	364.3	(453.2)	(88.9)
Income tax benefit/(expense)	**(18.4)**	**33.7**	**15.3**	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year	**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)
Basic EPS	**(23.8)p**		**(337.0)p**	58.4p		(23.3)p
Diluted EPS	**(23.8)p**		**(337.0)p**	58.3p		(23.3)p

Statutory performance

Revenue is now the same on a statutory and underlying basis as set out on page 31. Revenue of £4,182.7 million was 6% lower than last year including foreign exchange movements and disposals. Excluding these, revenue was down 3% organically with reductions due to COVID-19 and the CPBS adjustments only partly offset by other trading growth.

The statutory operating loss was £1,643.0 million in the year (2020: £75.6 million loss), mainly as a result of charges taken in our CPBS and our annual review of goodwill impairment as discussed in detail on page 33. Compared to the prior year, this was exacerbated by the impact of COVID-19 and significant credits that benefited the results in FY20. These items are discussed in more detail on page 37 to 38.

The share of results of joint ventures and associates was much lower than the prior year due to the termination and disposal of certain investments and the CPBS impact outlined on page 34.

Net finance costs reduced from the prior year due to the lower level of debt. Our statutory loss before tax was £1,717.3 million (2020: £88.9 million loss), again reflecting the CPBS charges. Basic earnings per share, as defined by IAS 33, was (337.0) pence (2020: (23.3) pence) per share.

Exceptional items

Details of exceptional items recognised in FY21 within the Specific Adjusting Items column in the year are show in note 3 of the financial statements. For the 2022 financial year we expect exceptional charges of around £50 million relating to the operating model restructuring charge (c.£40 million) and previously announced restructuring programmes (c.£10 million).

We intend to restrict the use of exceptional items in future periods following a tightening of definition this year.

Underlying results

For the most useful comparison to last year, and as a better measure for future periods, we focus on the Group's underlying operating profit excluding the one-off CPBS adjustments. This is believed to the most helpful measure for stakeholders to judge our performance this year.

		31 March 2021 £m		31 March 2020 Restated £m
Revenue		**4,182.7**		4,428.5
Underlying operating (loss) / profit		**(27.6)**		377.6
of which one-off CPBS adjustments	***(250.0)***		*–*	
Underlying operating profit excluding one-off CPBS adjustments	***222.4***		*377.6*	
Underlying margin excluding one-off CPBS adjustments	***5.3%***		*8.5%*	
Share of results of joint ventures and associates		**(13.1)**		58.6
of which CPBS one-off impacts	***(31.5)***		*–*	
Share of results of JVs and associates excluding one-off CPBS adjustments	***18.4***		*58.6*	
Net finance costs		**(61.2)**		(71.9)
Underlying (loss) / profit before tax		**(101.9)**		364.3
Tax		**(18.4)**		(67.4)
Underlying (loss) / profit after tax		**(120.3)**		296.9
Non-controlling interests		**–**		(2.0)
Underlying profit attributable to shareholders		**(120.3)**		294.9
Underlying basic EPS		**(23.8)p**		58.4p
*Underlying basis EPS excluding one-off CPBS adjustments**	***28.9p***			

* estimated based on an underlying effective tax rate of 21%.

Revenue bridge

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Impact of COVID-19 £m	FY21 CPBS impacts £m	Other trading £m	**31 March 2021 £m**
Marine	**1,163.6**	(2.9)	(25.4)	8.5	(25.7)	124.2	**1,242.3**
Nuclear	**896.9**	–	(3.5)	9.3	(21.8)	95.0	**975.9**
Land	**1,522.5**	(50.8)	(30.5)	(118.5)	(140.9)	(71.7)	**1.110.1**
Aviation	**845.5**	11.8	–	(44.6)	(19.0)	60.7	**854.4**
Total	**4,428.5**	(41.9)	(59.4)	(145.3)	(207.4)	208.2	**4,182.7**

Revenue for the year was £4,182.7 million, down 6% compared to last year but down 3% organically (i.e. excluding FX and disposals). The table above shows the main comparison variances of revenue performance against last year.

Specifically on each main variance:

- **FX impact** – this primarily relates to FX translation on the results of the South African business.
- **Disposals of businesses** – this is the lower revenue from Context (sold in March 2020), Conbras (sold in October 2020) and the civil nuclear manufacturing business (sold in September 2020).
- **Impact of COVID-19** – this reflects the impact of the COVID-19 pandemic across the Group, with the most significant impact being in many of our Land businesses including South Africa, airports and civil training. Lower flying hours in the early stages of the pandemic also impacted the Aviation sector. Conversely, COVID-19 led to slightly more revenue in Marine and Nuclear as activity levels were increased, for example for the design and manufacture of ventilators. This COVID-19 impact has been estimated across our sectors and based on an analysis of direct and indirect impacts, which include a significant degree of judgement.
- **FY21 CPBS impacts** – the most significant item is the de-recognition of revenue from the Phoenix contract in Land following a contract change in February 2020 which resulted in our contract relationship changing from principal to agent. The remaining revenue decreases are a result of the reassessment of progress and profitability on many of the Group's contracts.
- **Other trading** – this relates to revenue movements excluding all the items above. Revenue grew across three of the sectors, with the strongest growth coming in Marine which was driven by increased activity on our Type 31 frigate programme. Growth in Nuclear was due to higher activity, especially in infrastructure projects, while growth in Aviation came from new contracts. The decline in revenue in Land includes the impact of the loss of our Heathrow airport baggage handling contract, which ended half way through the year.

Revenue of £4,183 million differs from the unaudited draft figure of £4,690 million given in our April 2021 business update as this figure included £290 million share of revenue from joint ventures and associates and excluded the £207 million adjustment to revenue from our CPBS as shown in the table above. Further analysis of our revenue performance is included in each sector's operating review on pages 50 to 57.

Underlying operating profit performance

The underlying operating loss in the year was £27.6 million. This differs from the unaudited draft figure of £307 million given in our April 2021 update as this figure included £62 million from joint ventures and associates and IFRIC 12 income and did not include the impacts of the CPBS.

This performance compares to £377.6 million underlying operating profit last year, as restated on page 31 for the change in presentation of joint ventures and associates and the correction of prior year errors and a change in accounting policy.

Excluding the one-off CPBS adjustments, FY21 underlying operating profit was £222.4 million. This measure is deemed to be the most useful measure to compare to last year, and a better measure to compare with future periods.

Underlying operating profit bridge from FY20 to FY21 (before one-off CPBS adjustments):

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Significant credits in FY20 £m	Impact of COVID-19 £m	FY21 recurring CPBS adjustment £m	Other trading £m	**31 March 2021 £m**
Marine	**134.4**	(0.3)	(2.5)	(5.7)	(17.3)	(8.4)	(15.0)	**85.2**
Nuclear	**113.3**	–	0.5	(20.9)	(2.1)	(0.2)	(3.3)	**87.3**
Land	**98.1**	(4.8)	(1.7)	(3.1)	(15.1)	(9.8)	(11.7)	**51.9**
Aviation	**31.8**	(0.3)	–	(17.0)	(11.1)	(6.3)	0.9	**(2.0)**
Corporate	**–**	–	–	–	–	–	–	**–**
Total	**377.6**	(5.4)	(3.7)	(46.7)	(45.6)	(24.7)	(29.1)	**222.4**

The main variances year-on-year are:

- **FX impact** – this primarily relates to FX translation on the results of our South African business.
- **Disposals of businesses** – this is the lower profit contribution from Context (sold in March 2020) and Conbras (sold in October 2020) partly offset by the lack of an operating loss in the civil nuclear manufacturing business disposed of in the year.
- **Significant credits in FY20** – these relate to significant credits that benefited underlying operating profit in FY20. These credits included a higher level of R&D tax credits due to a catch up on previous years' claims. The majority of other FY20 credits were in the civil aviation business, and include multi-year indexation claims on contracts and accrual and provision releases. The FY20 credits in Marine and Land were mostly accrual releases.
- **Impact of COVID-19** – this reflects a range of direct and indirect costs from working through the COVID-19 pandemic. Direct costs included the purchase of personal protective equipment (PPE) and testing equipment. Indirect costs include site closures, lower activity and reduced efficiency due to social distancing. This COVID-19 impact has been estimated across our sectors and at Group based on an analysis of direct and indirect impacts, which include a significant degree of judgement. The estimated lower expenses, e.g. travel, have also been considered in this analysis.
- **FY21 recurring CPBS adjustment** – these relate to the recurring impacts of the CPBS on underlying operating profit. The largest two items included within this are a more cautious view on the recognition of profit on the Type 31 frigate programme in Marine and a lower margin recognised on the DSG contract in Land.
- **Other trading** – this relates to the movement in underlying operating profit after all of the above. Included within this movement was an increase in overheads and corporate costs in the year of around £10 million, with a less favourable allocation to Marine than in the previous year, partly explaining the sector's decline in trading. Marine's weaker trading also reflects lower profitability than last year on certain contracts and a charge from the loss of a legal case. The lower profit in Nuclear partly reflects the lower margin in the transition year of MSDF while the lower profit in Land reflects the loss of the Heathrow contract and operating gearing impact of the lower revenue. Aviation saw a small increase in underlying operating profit, after adjusting for the items above, as the benefits of the cost saving programme initiated last year were mostly offset by weaker trading.

Further analysis of our underlying operating profit performance is included in each sector's operating review on pages 50 to 57.

Share of results of joint ventures and associates

The Group's share of results in joint ventures (JVs) and associates was a loss of £13.1 million in the year, or a profit of £18.4 million excluding one-off CPBS adjustments. The reduction on last year of £40.2 million reflects the absence of Magnox (£2.2 million impact), a JV that ended in the 2020 financial year, a loss on the Dounreay JV (£9.5 million impact), the disposal of the Holdfast JV (£14.8 million impact) and lower recognised profit in our Aviation JVs and associates.

The Group's main joint ventures and associates at 31 March 2021 were:

- Naval Ship Management (NSM) in our Marine sector, which maintains part of Australia's naval fleet
- ALC in our Land sector, which manages the UK Army's construction vehicle fleet. This contract ended in May 2021
- Ascent in our Aviation sector, which trains RAF pilots in the UK under the UK Military Flying Training System (UKMFTS) air training contract
- AirTanker in our Aviation sector, which is responsible for the UK's air-to-air refuelling capability and air transport operations. We increased our stake in this associate to around 15% in November 2020

Work in the Dounreay JV in our Nuclear sector ended on 31 March 2021 after the Nuclear Decommissioning Authority (NDA) announced the contract's early termination in line with their "One NDA" strategy to move work in-house. The Group recognised a loss on the Dounreay contract in the year of £15.9 million (£5 million loss excluding one-off CPBS adjustments) reflecting the updated assumptions around contract milestone profit achievability in the reduced timeframe.

Finance costs

Total net finance costs decreased to £61.2 million (2020: £71.9 million).

Tax charge

The tax charge on underlying profits / losses was £18.4 million (2020: £67.4 million), representing a notional rate of -20.7% (2020: 22.0%). The Group's underlying effective rate of tax is calculated on underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). Before the one off CPBS adjustments, the underlying effective rate of tax for the year was 21%.

The Group's effective rate of tax for FY22, as calculated on this basis, will be dependent on country profit mix and is currently expected to be around 23%. In the medium term, we expect our effective tax rate to increase in conjunction with UK corporation tax rate increases.

Exchange rates

The translation impact of foreign currency movements resulted in a decrease in underlying revenue of £42 million and a £5.4 million decrease in underlying operating profit excluding one-off CPBS adjustments. The main currencies that have impacted our results are the South African Rand and the Euro. The currencies with the greatest potential to impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect underlying revenue by around £40 million and underlying operating profit by around £2 million per annum
- A 10% movement in the South African Rand against Sterling would affect underlying revenue by around £25 million and underlying operating profit by around £2.5 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect underlying revenue by around £15 million and underlying operating profit by around £1 million per annum

Earnings per share
Underlying earnings per share for the year was (23.8) pence (2020: 58.4 pence), reflecting the underlying operating loss.

Disposal programme
Our plan for disposals has been assessed and does not meet the criteria for any assets to be classed as held for sale under IFRS 5.

Cash flow and net debt
Our underlying cash flows are used by management to measure operating performance as they provide a more consistent measure of business performance year to year.

	2021 Underlying £m	2020 Underlying restated* £m
Underlying operating profit	**(27.6)**	377.6
One-off CPBS adjustments	**250.0**	–
Underlying operating profit excl. one-off CPBS adjustments	**222.4**	377.6
Depreciation & amortisation	**107.7**	91.0
ROU asset depreciation	**140.2**	123.3
Non-cash items	**9.1**	1.4
Working capital	**128.0**	(10.8)
Provisions	**3.4**	(10.0)
Net capital expenditure	**(171.1)**	(108.5)
Capital element of lease payments	**(140.6)**	(175.0)
Underlying operating cash flow	**299.1**	289.0
Cash conversion % excl. one-off CPBS adjustment	***134%***	*77%*
Pension contributions in excess of income statement	**(73.5)**	(70.2)
Interest paid	**(66.6)**	(70.3)
Tax received/paid	**18.4**	(62.6)
Dividends from joint ventures and associates	**36.8**	52.0
Cash flows related to exceptional items	**(44.7)**	(82.4)
Underlying free cash flow	**169.5**	55.5
Net acquisitions and disposals	**90.6**	104.7
Acquisitions/investments in joint ventures and associates	**(8.8)**	(0.3)
Dividends paid (including non-controlling interests)	**(0.8)**	(153.9)
Purchase of own shares	**(2.2)**	(2.9)
Capital element of lease payments	**140.6**	175.0
Net new lease arrangements	**(82.3)**	(117.1)
Exchange movements	**44.6**	(53.8)
IFRS 16 transition	**–**	(640.8)
Movement in net debt	**351.2**	(633.6)
Opening net debt	**(1,704.8)**	(1,071.2)
Closing net debt	**(1,353.6)**	(1,704.8)
Operating leases	**(582.1)**	(649.4)
Closing net debt excluding operating leases	**(771.5)**	(1,055.4)

* see restatements summary on page 31.

Cash performance

Changes in reporting

As set out on page 31, we have updated our cash flow reporting to better reflect cash movements, with the cash payments relating to the capital element of leases included in underlying operating cash flow rather than net new lease commitments, which is reflected as a debt movement. We have also changed our definition of underlying free cash flow to include cash flows related to exceptional items.

Underlying operating cash flow

Underlying operating cash flow in the period after capital expenditure was £299.1 million compared to £289.0 million last year. This represented operating cash conversion of 134% on the underlying operating profit excluding one-off CPBS adjustments. The increase in cash generation year-on-year despite the significant fall in operating profit came from a large working capital inflow.

Movements in working capital

The movement in working capital for the period was a £128.0 million inflow compared to a £10.8 million outflow last year. FY21 benefited from the deferral of £56 million of VAT payments that will unwind in the next financial year. Cash flow in FY21 improved through advanced customer receipts across some of the Group's businesses.

As in previous years, working capital benefited from creditor payment phasing around period end, which we will now move away from over time.

Working capital also continued to benefit from period end receivables factoring in Southern Europe, which was £102 million at 31 March 2021 (31 March 2020: £98 million).

Capital expenditure

Net capital expenditure of £171.1 million in the year was significantly higher than last year (2020: £108.5 million), reflecting the start of our investment in a new facility to build Type 31 frigates in Rosyth and increased net capital expenditure in Aviation, partly reflecting lower disposal proceeds given fewer aircraft disposals.

It is expected that net capital expenditure will continue to be high in FY22 as we continue the Type 31 investment and increase investment in other areas of the business, including upgrading facilities and IT equipment.

Cash interest paid

Net Group cash interest paid, excluding that paid by joint ventures and associates, was £66.6 million (2020: £70.3 million).

Taxation

Cash tax in the year was an inflow of £18.4 million, helped by a receipt of £67 million of corporation tax repayments in the final quarter. We currently expect a cash tax outflow of around £30 million in FY22.

Pensions

Pension cash outflow in excess of the income statement charge (excluding exceptional charges for curtailment losses) was £73.5 million (2020: £70.2 million).

For FY22, the cash outflow in excess of the income statement charge is expected to be around £130 million. This includes a £50 million additional payment into the Rosyth scheme made in April 2021 and an additional £10 million payment into the BIG scheme.

An additional £50 million additional payment into the Rosyth scheme, and a an additional £10 million contribution to the BIG scheme have been agreed to be made in April 2022.

Dividends from joint ventures and associates

During the period the Group received £36.8 million in dividends from its joint ventures and associates (2020: £52.0 million).

We expect dividends from joint ventures and associates to be around £30 million in the next financial year.

Exceptional cash flows

Cash outflows related to exceptional items were £44.7 million compared to £82.4 million last year. These costs included exits and restructuring costs. In FY22, we anticipate exceptional cash outflows of around £70 million, including around £50 million of reorganisation costs related to implementing our new operating model (c.£40 million) and completing the existing restructuring programme in Aviation (c.£10 million). In addition to this, there may be cash settlements for the Italy antitrust fine, see page 47.

Underlying free cash flow

Underlying free cash flow of £169.5 million was significantly higher than last year's £55.5 million and partly reflects the working capital timing benefits and corporation tax repayments.

Acquisitions and disposals

The net cash inflow from acquisitions and disposals was £90.6 million, including net disposal proceeds from the sale of Holdfast (£85.0 million) and Conbras (£6.6 million). In addition, the Group increased its stake in the AirTanker associate. We aim to generate at least £400 million of disposal proceeds in the next 12 months.

New lease arrangements

In addition to net capital expenditure, and not included in free cash flow, £82.3 million (FY20: £117.1 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our main net debt figure but do not involve any cash outflows at inception.

Net debt

The Group's net debt at 31 March 2021 was £1,353.6 million, or £771.5 million excluding operating leases (broadly in line with the early indication of £750 million reported in our April 2021 business update). Net debt excluding lease obligations was £283.9 million lower than last year and reflects the free cash flow and net divestments discussed above.

As in previous periods, average net debt during FY21 was higher than the closing balance at 31 March 2021, partly reflecting the phasing of creditor payments around period end. Average net debt over the 2021 financial year was around £1.3 billion, compared to around £1.6 billion last year, with this calculation being based on each month end balance.

Our net debt now includes balances related to the use of supply chain financing in the Group with extended credit terms. At 31 March 2021 the amount included was £25 million (31 March 2020: £93 million). We are phasing out the use of supply chain financing across the Group.

Funding and liquidity

As announced on 13 April 2021, the Group has been in discussions with its lending banks to prudently secure protection to the potential downside risks in our scenario planning. This includes ensuring sufficient headroom under severe but plausible scenarios.

In May 2021, the Group:

- Signed a new three-year revolving credit facility ('RCF') of £300 million that expires in May 2024. This is in addition to the £775 million RCF that expires in August 2025
- Clarified the definition of underlying results used in covenant calculations to ensure that any one-off impacts from the Group's contract profitability and balance sheet review ('CPBS') do not impact the calculation
- Agreed a temporary amendment to the net debt to EBITDA ratio covenant from 3.5 times to 4.5 times for the measurement periods ending 30 September 2021 and 31 March 2022

At 31 March 2021, the Group's net cash balance was £531 million. This combined with the undrawn element of our RCF gave us liquidity headroom of around £1.2 billion. We repaid the US Private Placement of $500 million, which was hedged at £307 million, in March 2021. This was funded from existing Group cash resources.

As of July 2021, the Group had access to a total of £2.4 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- €550 million bond maturing 6 October 2022 (in April 2021 this was hedged at £482 million)
- New £300 million 3-year RCF maturing 20 May 2024 (signed on 20th May 2021)
- £775 million revolving credit facility (RCF) maturing 28 August 2025
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- Committed overdraft facility of £50 million

Capital structure

An important part of the transformation of Babcock is the strengthening of the balance sheet. Whilst there are several facets to balance sheet strength, the primary measurement relevant to Babcock is the net debt / EBITDA gearing ratio within our debt covenants, which was 2.5x at 31 March 2021. The covenant level is 3.5 times, increased to 4.5 times until March 2022.

Our near-term priority is to reduce the gearing ratio to below 2x. There are some short-term headwinds to reducing the gearing. Free cash flow is expected to be negative in FY22 and HY23 as certain material cash outflows – particularly additional pension contributions and restructuring - have already been committed. Additionally, we intend to gradually unwind the gap between period end and average net debt.

The planned disposal proceeds of at least £400 million over the next twelve months will provide the funds to support strengthening the balance sheet. Despite the clear priority to delever the balance sheet, the Group will continue to invest organically in the business as this will be key to driving value in the medium term. As we announced in April 2021, we aim to return to strength without the need for an equity issue.

In the next 12-18 months, once the disposal programme is complete, we will reassess the appropriate capital structure for the future of the Group.

Net debt to EBITDA (covenant basis)

This is the measure used in the covenant in our revolving credit facilities (RCF) and makes a number of adjustments from reported net debt and EBITDA. The covenant level is 3.5 times - amended to 4.5 times until 31 March 2022. Our net debt to EBITDA increased to 2.5 times at 31 March 2021 as the reduction in net debt, reflecting free cash flow generation and disposal proceeds, was more than offset by the decrease in EBITDA.

	31 March 2021 £m	31 March 2020 Restated £m
Underlying operating profit excl. one-off CPBS adjustments	**222.4**	377.6
Depreciation and amortisation	**107.7**	91.0
Covenant adjustments*	**(11.5)**	(17.0)
EBITDA	**318.6**	451.6
JV and associate dividends	**36.8**	52.0
EBITDA + JV and associates dividends (covenant basis)	**355.4**	503.6
Net debt	**(771.5)**	(1,055.4)
Covenant adjustments**	**(103.6)**	(94.9)
Net debt (covenant basis)	**(875.1)**	(1,150.3)
Net debt/EBITDA	**2.5x**	2.3x

* various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs.
** removing loans to JVs, finance lease receivables and adjusting for an average FX rate for the previous 12 months.

Interest cover (covenant basis)

This measure is also used in the covenant in our revolving credit facility (RCF), with a covenant level of 4.0 times.

	31 March 2021 £m	31 March 2020 Restated £m
EBITDA (covenant basis) + JV and associate dividends	**355.4**	503.6
Finance costs	**(55.6)**	(61.2)
Finance income	**11.7**	13.0
Covenant adjustments	**(0.2)**	0.2
Net Group finance costs	**(43.7)**	(48.0)
Interest cover	**8.1x**	10.5x

Return on invested capital, pre-tax (ROIC)

This measure is one of the Group's key performance indicators (KPIs).

	31 March 2021 £m	31 March 2020 Restated £m
Underlying operating profit	**(27.6)**	377.6
Share of JV PAT	**(13.1)**	58.6
Underlying operating profit plus share of JV PAT	**(40.7)**	436.2
Underlying operating profit excl. one off CPBS impacts	**222.4**	377.6
Share of JV PAT excl. one-off CPBS impacts	**18.4**	58.6
Underlying OP plus share of JV PAT excl. one off CPBS adjustments	**240.8**	436.2
Net debt excluding operating leases	**771.5**	1,055.4
Operating leases	**582.1**	649.4
Shareholder funds	**243.4**	2,314.8
Retirement deficit / (surplus)	**293.1**	(145.2)
Invested capital	**1,890.1**	3,874.4
ROIC underlying OP (pre-tax))	**(2.2)%**	11.3%
ROIC excl. one off CPBS adjustments (pre-tax)	**12.7%**	11.3%

Pensions

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme. The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

The Group's balance sheet includes the assets and liabilities of the pension schemes calculated on an IAS 19 basis. At 31 March 2021, the net position was a deficit of £293.1 million compared to a net surplus of £145.2 million at 31 March 2020. These valuations are based on discounting using corporate bond yields. Bond credit spreads were unusually high in March 2020 given the onset of the COVID-19 pandemic. They have now reverted to a more normal level causing a significant increase in benefit obligations.

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2021				2020			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	**55.1**	**12.5**	**23.0**	**90.6**	33.7	14.0	19.8	67.5
Property	**437.1**	**2.1**	**4.7**	**443.9**	426.0	4.6	4.4	435.0
High yield bonds/emerging market debt	**348.4**	**–**	**–**	**348.4**	75.3	–	–	75.3
Absolute return and multi-strategy funds	**428.5**	**194.5**	**25.4**	**648.4**	345.0	191.1	22.3	558.4
Low-risk assets								
Bonds	**1,422.9**	**54.8**	**83.2**	**1,560.9**	1,397.4	30.3	75.0	1,502.7
Matching assets*	**1,682.7**	**1.7**	**219.5**	**1,903.9**	1,918.7	1.4	59.2	1,979.3
Active position on longevity swaps	**(211.2)**	**–**	**–**	**(211.2)**	(206.9)	–	–	(206.9)
Fair value of assets	**4,163.5**	**265.6**	**355.8**	**4,784.9**	3,989.2	241.4	180.7	4,411.3
Percentage of assets quoted	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%
Percentage of assets unquoted	**–**	**–**	**–**	**–**	–	–	–	–
Present value of defined benefit obligations								
Active members	**857.6**	**126.1**	**39.5**	**1,023.2**	892.0	93.1	91.8	1,076.9
Deferred pensioners	**1,227.3**	**107.4**	**273.9**	**1,608.6**	863.4	82.0	45.0	990.4
Pensioners	**2,259.1**	**136.1**	**51.0**	**2,446.2**	2,035.4	122.4	41.0	2,198.8
Total liabilities	**4,344.0**	**369.6**	**364.4**	**5,078.0**	3,790.8	297.5	177.8	4,266.1
Net assets/(liabilities) recognised in the statement of financial position	**(180.5)**	**(104.0)**	**(8.6)**	**(293.1)**	198.4	(56.1)	2.9	145.2

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £2,177 million (2020: £2,033 million).

Analysis of movement of pensions in the Group statement of financial position

The movement in net deficits for the year ending 31 March 2021 is as a result of the movement in assets and liabilities are shown below.

	2021				2020			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	**3,989.2**	**241.4**	**180.7**	**4,411.3**	4,104.7	246.6	230.9	4,582.2
Interest on assets	**91.7**	**5.7**	**3.0**	**100.4**	96.0	5.8	3.0	104.8
Actuarial gain/(loss) on assets	**224.3**	**26.3**	**174.0**	**424.6**	(64.0)	(2.4)	30.3	(36.1)
Employer contributions	**102.5**	**2.8**	**3.5**	**108.8**	105.1	3.0	2.8	110.9
Employee contributions	**0.2**	**–**	**–**	**0.2**	0.2	–	0.1	0.3
Benefits paid	**(244.4)**	**(10.6)**	**(5.4)**	**(260.4)**	(252.8)	(11.6)	(6.1)	(270.5)
Settlements	**–**	**–**	**–**	**–**	–	–	(80.3)	(80.3)
At 31 March	**4,163.5**	**265.6**	**355.8**	**4,784.9**	3,989.2	241.4	180.7	4,411.3
Present value of benefit obligations								
At 1 April	**3,790.8**	**297.5**	**177.8**	**4,266.1**	4,060.3	311.1	238.8	4,610.2
Service cost	**24.1**	**2.0**	**2.0**	**28.1**	29.5	2.5	1.7	33.7
Incurred expenses	**6.4**	**0.7**	**0.2**	**7.3**	3.4	0.2	0.1	3.7
Interest cost	**86.4**	**7.0**	**3.0**	**96.4**	94.4	7.4	3.1	104.9
Employee contributions	**0.2**	**–**	**–**	**0.2**	0.2	–	0.1	0.3
Experience loss/(gain)	**33.5**	**0.6**	**(1.4)**	**32.7**	27.8	–	1.4	29.2
Actuarial (gain)/loss – demographics	**8.4**	**(0.6)**	**(0.2)**	**7.6**	14.8	1.2	(1.2)	14.8
Actuarial loss/(gain)– financial	**629.7**	**73.0**	**188.4**	**891.1**	(186.8)	(13.3)	20.1	(180.0)
Benefits paid	**(244.4)**	**(10.6)**	**(5.4)**	**(260.4)**	(252.8)	(11.6)	(6.1)	(270.5)
Past service costs	**1.4**	**–**	**–**	**1.4**	–	–	–	–
Curtailment	**7.5**	**–**	**–**	**7.5**				
Settlements	**–**	**–**	**–**	**–**	–	–	(80.2)	(80.2)
At 31 March	**4,344.0**	**369.6**	**364.4**	**5,078.0**	3,790.8	297.5	177.8	4,266.1
Net surplus/(deficit) at 31 March	**(180.5)**	**(104.0)**	**(8.6)**	**(293.1)**	198.4	(56.1)	2.9	145.2

* Settlement effect in Other schemes is a result of a transfer of assets and liabilities from the Babcock Naval Services Pension Scheme back into the Principal Civil Service Pension Scheme. As the Group is reimbursed by MOD for any contributions payable to this scheme, the settlement has an equal impact on both the value of the benefit obligations and the plan assets, hence it is neutral in terms of both the income statement and other comprehensive income,

An estimate of the technical provisions actuarial deficits as at 31 March 2021 for the principal schemes was around £270 million, predominantly reflecting discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provisions estimate is based on the assumptions used within the latest agreed valuation prior to 31 March 2021 for each of the three main schemes, and therefore does not fully allow for the impact of RPI reform which will be fully reflected in future technical provisions valuations.

Discount rate:	2.0% (31 March 2020: 2.4%)
Inflation rate (RPI):	3.2% (31 March 2020: 2.6%)

Pensions management

The Group continues to review its options to reduce the risks inherent in its schemes. In the last financial year, it closed the Rosyth Royal Dockyard Pension Scheme and the Babcock Naval Services Pension Scheme to future accruals.

It has employees earning benefits in the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme, the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme, the Cavendish Nuclear section of the Magnox Group section of the Electricity Supply Pension Scheme, as well as employees in other smaller occupational defined benefit schemes and local and central government schemes. All the occupational defined benefit pension schemes have been closed to new members for some years.

The Group also provides an occupational defined contribution pension scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit pension scheme. Over 75% of its UK employees are members of the defined contribution pension scheme. The Group pays contributions to this scheme based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk in the defined contribution pension scheme is borne by the employees.

Investment strategy

The Group previously agreed long-term funding strategies with trustees across the three largest schemes designed that each scheme would be fully self-sufficient by April 2037, although the expectation is that this target will be met significantly earlier (albeit on a slightly weakened self-sufficiency target from that used previously). In recent years, the Group has agreed revised strategies with the trustees of the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme designed to target these schemes being self-sufficient by 2026. The schemes also operate within agreed risk budgets to ensure the level of risk taken is appropriate. To implement the investment strategies, each of the three largest schemes' Investment Committees has divided its scheme's assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category differing by scheme reflecting the schemes' different characteristics and funding strategies. As at 31 March 2021 growth assets were 29% of the total assets held across the three largest schemes. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self-sufficiency measure increases, such that as at 31 March 2021 approximately 80% of the schemes' liabilities (as measured on a guilts flat basis) across the three largest schemes are protected against adverse changes in interest rates and inflation.

Actuarial valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. The valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2018 was completed in the last financial year, the valuation of the Devonport Royal Dockyard Pension Scheme as at 31 March 2020 has been completed since the end of the 2021 financial year, and work has commenced on the valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2021. The next valuation of the Babcock International Group Pension Scheme will have an effective date of 31 March 2022.

Cash contributions

	FY22e £m	2021 £m	2020 £m
Future service contributions	**23.2**	**24.2**	26.0
Deficit recovery	**111.9**	**51.6**	47.3
Longevity swap	**16.8**	**16.3**	15.3
Total cash contributions — employer	**151.9**	**92.1**	88.6

Cash contributions made by the Group into the defined benefit pension schemes, excluding expenses and salary sacrifice contributions, during the last financial year are set out in the table above. In FY22, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £160.7 million including £8.8 million for salary sacrifice contributions, £23.2 million is in respect of the cost of future service accrual, £111.9 million is to recover deficits over periods of time agreed with the Trustee and an additional £16.8 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,784.9 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £5,078.0 million. The total net accounting deficit, before allowing for deferred tax, at 31 March 2021, was £293.1 million (2020: surplus of £145.2 million), representing a 94.2% funding level. A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the risk of increasing allowances for longevity.

Income statement charge

The charge included within underlying operating profit in FY21 was £35 million, of which £28 million related to service costs and £7 million related to expenses. We expect charges of around £40 million in FY22, split between £33 million of service costs and £7 million of expenses. In addition to this, there was an interest credit of £4 million in FY21 and, for FY22, we expect an interest charge of £5 million on the deficit.

Governance

The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. Each of the largest schemes have independent trustees and professional trustees with specialist investment expertise.

Accounting valuations

	Devonport		Babcock		Rosyth	
	2021	2020	**2021**	2020	**2021**	2020
Discount rate %	**2.0**	2.4	**2.0**	2.4	**2.0**	2.4
Inflation rate (RPI)	**3.2**	2.6	**3.2**	2.6	**3.2**	2.6
Inflation rate (CPI)	**2.7**	1.8	**2.7**	1.8	**2.7**	1.8
Rate of increase in pensions in payment %	**2.7**	2.0	**3.1**	2.6	**3.2**	2.8
Life expectancy of male currently aged 65 years	**20.7**	20.7	**22.1**	22.1	**19.8**	19.8

Subsequent events

In April 2021, the Group announced a new operating model. The related restructuring will result in an exceptional charge of around £40 million being recognised in the 2022 financial year.

In FY20, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. As a result, we recognised a provision for £46 million. During the year, BMCS Italia appealed the decision of the Court to the Italian Council of State. In July 2021, the Council, whilst upholding the decision of the Court on the facts, annulled the fine, though allowing the Authority leave to re-calculate it. We expect the Authority to decide on the recalculation of the fine over the next few months. Taking into account the guidance given by the Council to the Authority on the recalculation, we further expect the Authority to reduce the fine. As a result, we have reduced our best estimate of the provision from £46 million to £20 million, although we have not received any indication from the Authority as to how it will choose to interpret the Council's guidance.

Improvements in risk management and internal control

During the second half of the year, the new Executive Directors made several changes to the risk management and internal control environment. These were initially designed to simplify and improve the oversight and governance of the Group. As the CPBS review progressed it became apparent that business processes and internal controls needed a more thorough revision. A programme of change has commenced which targets certain priority areas – a summary is set out below. The findings of the CPBS have been mapped against these areas to ensure that risks and issues that resulted in financial adjustments in the CPBS are in future either prevented, or at least detected at an early stage.

The priority areas of improvement and key actions are as follows:

Area	Improvements and actions
Governance	• Clear 'tone from the top' on Babcock values • Board and Exco documentation streamlined and focused • Formation of Disclosure Committee/Disclosure Panel to consider market communications • New Risk Management process with Exco ownership • Enhanced Delegations of Authority document across the Group • Formal Letter of Representation covering policy compliance sign off from management each six months
Financial control	• Simplification of income statement and cash flow management reporting • Standardised management reporting across the Group • Development of detailed minimum standards of financial control • Updated and standardised Group accounting policies • Updated Treasury controls and policies • Monthly business reviews with sectors • Regular balance sheet reviews with sector sign off
Bids	• Improved, standardised bid review process and documentation
Project management	• New Group-wide approach to project management and project reviews • Enhanced change control process
Safety	• Revamped scrutiny of safety performance • Nominated Exco Safety sponsor

Some of the above changes have been implemented already. Some require a more detailed approach and will take more time to embed. They will be implemented in the current fiscal year. In the meantime where this is the case, management reviews of projects and financial results will help mitigate against the risk of reoccurrence.

Additionally, the new operating model has organised the functions of finance, HR, IT, and procurement and supply chain as 'centre-led'. This will ensure higher common standards across the Group and increase transparency and oversight of the business, as well as promote more collaboration.

Treasury

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes. The treasury team is only permitted to enter into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the sectors have responsibility for monitoring compliance within the Group to ensure adherence to the principal treasury policies and guidelines. The Group's treasury policies in respect of the management of debt, interest rates, liquidity and currency are outlined below. The Group's treasury policies are kept under close review, particularly given the ongoing economic and market uncertainty.

Debt

Objective

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

Policy

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

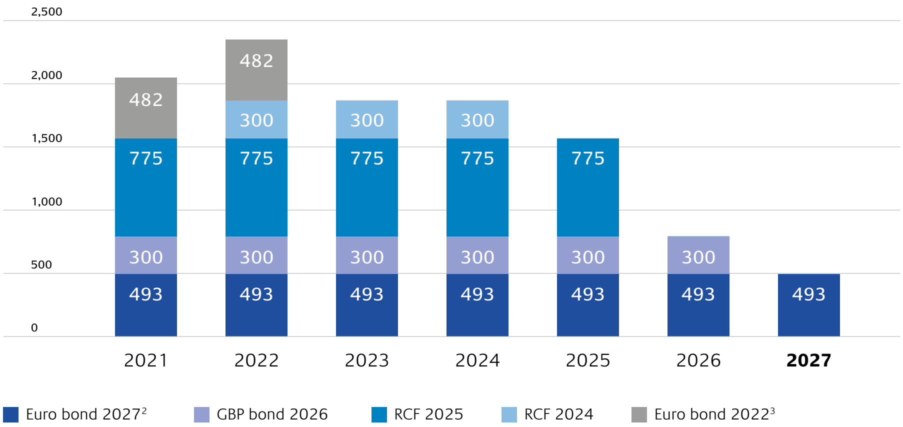
Updates

The Group continues to keep its capital structure under review to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the financial year, the Group repaid the US$500 million private placement notes maturing March 2021 using cash and drawings under its Revolving Credit Facility (RCF). The Group also extended the maturity of its £775 million RCF by one year to mature in August 2025.

In May 2021, the Group signed a new three-year RCF of £300 million that expires in May 2024. This is in addition to the Group's existing £775 million RCF. At the same time, the Group clarified the definition of underlying results used in the RCF covenant calculations to ensure that any one-off impacts from the Group's contract profitability and balance sheet review ('CPBS') do not impact the calculation and agreed with lenders a temporary amendment to the net debt to EBITDA ratio covenant permitted level from 3.5 times to 4.5 times for the measurement periods ending 30 September 2021 and 31 March 2022.

The Group's other main corporate facilities comprise of the following: a £300 million Sterling bond, maturing October 2026, a €550 million bond, maturing October 2022, and a €550 million bond, maturing September 2027. Taken together, these debt facilities provide the Group with a total of around £2.4 billion of available committed facilities and bonds as of July 2021.

Debt maturity profile (£)[1]



1. Chart shows notional value of the debt
2. Euro bond 2027 €550m hedged at £493m
3. Euro bond 2022 €550m hedged at £482m

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

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

Performance
As at 31 March 2021, the Group had 70% fixed rate debt (31 March 2020 restated: 53%) and 30% floating rate debt (31 March 2020 restated: 47%) based on gross debt of £2,340.0 million (31 March 2020: £3,621.3 million). The figures at 31 March 2020 included the drawn down RCF in response to the uncertainties of COVID-19 at the time.

Liquidity
Objective
i. To maintain adequate undrawn committed borrowing facilities
ii. To monitor and manage bank credit risk, and credit capacity utilisation
iii. To diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of Group contracts, commitments and risk profile.

Policy
All the Group's material borrowings are arranged by the treasury department and funds raised are lent onward to operating subsidiaries as required.

Each of the Group's sectors provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counter-party credit risk is monitored closely on a systematic and ongoing basis.

A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance
The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. As noted above, the Group repaid the US$500 million private placement notes maturing March 2021 using cash and drawings under its Revolving Credit Facility (RCF) during the year. The Group also extended the maturity of its £775 million RCF by one year to mature in August 2025. Any surplus cash during the year was invested in short term deposits diversified across several well rated financial institutions in accordance with policy.

Foreign exchange
Objective
To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar, South African Rand and increasingly the Australian Dollar, Canadian Dollar, Norwegian Krone and Swedish Krona.

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

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

Performance
There was a net foreign exchange loss of £7.8 million in the income statement for the year ending 31 March 2021 (2020: £12.7 million loss).

Marine

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

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

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

Revenue as % of Group

30%

HMNZS Manawanui in dry dock at Devonport, New Zealand.

	31 March 2021	31 March 2020 Restated
Contract backlog	**£2.5bn**	£2.6bn
Revenue	**£1,242.3m**	£1,163.6m
Underlying operating profit	**£56.3m**	£134.4m
of which CPBS one-off impacts	***£(28.9)m***	
Underlying operating profit excluding CPBS one-off impacts	***£85.2m***	
Underlying margin excluding CPBS one-off impacts	***6.9%***	*11.6%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**1,163.6**	(2.9)	(25.4)	–	8.5	(25.7)	124.2	**1,242.3**
Underlying operating profit	**134.4**	(0.3)	(2.5)	(5.7)	(17.3)	(8.4)	(15.0)	**85.2**

Financial review

Organic revenue grew by 9% in the year led by the ramp up of work on the Type 31 frigate programme and continued strength in our LGE business. Growth in these areas more than offset the impact of the disposal of Context and the £44 million year-on-year revenue impact from the end of the QEC programme last year. Increased work related to COVID-19 had a small positive impact on revenue with lower activity in warship support and in Oman offset by COVID-related orders for the ventilators in the UK.

Underlying operating profit of £56.3 million includes a £28.9 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating profit was £85.2 million. The table above shows the main variances year-on-year:

- The estimated impacts of COVID-19 which included lower activity in high margin consultancy work and the shutdown of our Oman training site for most of the period with limited opportunities to mitigate costs
- A recurring impact from the CPBS primarily related to a more cautious view on the recognition of profit on the Type 31 frigate programme, amongst other projects
- Weaker trading which reflects lower profitability on certain programmes, a charge from the loss of a legal case relating to a previously exited business, and a less favourable allocation of corporate costs to Marine than in the previous year

The sector's contract backlog was broadly flat year-on-year.

Operational review

UK defence

Performance across UK defence was mixed throughout the year with lower volumes across some key programmes, partly reflecting the pressures of COVID-19, being offset by increased activity on the Type 31 frigate programme. The Type 31 frigate programme has now completed both its preliminary and whole ship design reviews. This is a key indicator of the compliance, maturity and engineering risk in proceeding into production as we mature the design models of specific individual systems and equipment. The development and construction of a new state-of-the-art assembly hall at our Rosyth dockyard to support the build is due for completion towards the end of this summer with the steel on the first ship, HMS Venturer, to be cut in September 2021.

The Type 23 frigate life-extension programme at our Devonport dockyard saw a temporary halt to work in the early stages of the COVID-19 pandemic but was soon back to a full work schedule, with four ships undergoing life extension in parallel. HMS Portland was returned to the Royal Navy in the year after receiving its life extension including a first-in-class engine removal and repair. HMS St Albans is currently undergoing the largest Type 23 support period yet. We also provided a large support package for HMS Richmond ahead of her joining the UK's Carrier Strike Group.

We continue to support the development of the next generation of UK submarines. We secured both weapons handling and launch system (WHLS) and defensive aids suite (DAS) contracts in the period in support of the UK Dreadnought programme. The US/UK Common Missile Compartment programme output increased significantly during the period and will continue to do so throughout the next year as the programme ramps up.

In March 2021 we secured a five-year, £150 million logistic support contract with the MOD as part of the £3.2 billion Land Environment Tactical Communications and Information Systems (LE TacCIS) programme of opportunities to deliver the next-generation tactical communications and information systems. We have been down-selected for the next phase of the Skynet 6 Service Delivery Wrap contract supporting the next generation of UK military satellite communications, with a final submission expected in October 2021. We also await the outcome of the Maritime Electronic Warfare Systems Integrated Capability (MEWSIC) bid, which is expected in the coming months.

We were disappointed to be unsuccessful in our Project Selborne bid during the period. The delivery of FOAP training, which was included within the larger Project Selborne scope, finished on 31 March 2021. We continue to deliver training under the Astute Class Training contract at HMNB Clyde.

International defence

We support international defence markets from our UK operations and from our businesses in Canada, Australia, New Zealand, Oman and Korea.

In Canada, our customer exercised two one-year contract extension options to the Victoria In-Service Support Contract (VISSC) to take the contract out to June 2023. VISSC is one of the largest naval in-service support contracts in Canada and includes refits and deep maintenance periods for Canada's fleet of four submarines.

In Australia, we secured a contract with Naval Group to commence the second stage design and build of the Weapon Discharge System (WDS) for the Australian Future Submarine Programme (AFSP). AFSP is Australia's largest defence acquisition programme and will see 12 Attack Class submarines designed and built for the Royal Australian Navy, expected to enter service in the early 2030s.

In Korea, we secured a WHLS order for the fourth boat of the Jangbogo-III Submarine programme. We continue to develop our Busan facility to expand our presence in Korea to provide the programme with through-life support, as well as future Republic of Korea Navy development programmes.

Looking ahead we see several opportunities for export orders for our Arrowhead 140 frigate design chosen for the UK Type 31 programme and we are expanding our high frequency communications capability and capacity in Australasia, building on our work in the UK and New Zealand.

Energy and Marine

Our Energy and Marine business saw good revenue growth during the year, driven by increased commercial vessel work and continued strong demand for multiple liquefied gas handling and re-liquefaction system orders across the LPG, LNG and ethane markets.

In the period we signed frame agreements with Hyundai Heavy Industries, Hyundai Samho Heavy Industries and Hyundai Mipo Dockyard confirming Babcock LGE as preferred supplier for the design and supply of LPG cargo handling systems for very large gas carriers and midsize gas carriers.

Nuclear

We have supported the Continuous At Sea Deterrent for over 50 years

We sustain the entirety of the UK's submarine fleet

We have role across all civil nuclear: from new build, to operational support, to decommissioning

Revenue as % of Group

23%

HMS Vanguard approaches home port at Her Majesty's Naval Base Clyde © Crown Copyright 2021 Image: UK MOD

	31 March 2021	31 March 2020 Restated
Contract backlog	**£0.4bn**	£0.6bn
Revenue	**£975.9m**	£896.9m
Underlying operating profit	**£63.9m**	£113.3m
of which CPBS one-off impacts	***£(23.4)m***	
Underlying operating profit excluding CPBS one-off impacts	***£87.3m***	
Underlying margin excluding CPBS one-off impacts	***8.9%***	*12.6%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**896.9**	–	(3.5)	–	9.3	(21.8)	95.0	**975.9**
Underlying operating profit	**113.3**	–	0.5	(20.9)	(2.1)	(0.2)	(3.1)	**87.3**

Financial review

Organic revenue was 9% higher this year led by strong growth in defence. This growth came from increased work on submarine support and a further ramp up of infrastructure work. This revenue growth however was at a lower margin. The increase in revenue associated with COVID-19 relates to COVID related costs recovered from the customer.

The underlying operating profit of £63.9 million includes a £23.4 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating profit was £87.3 million. The table above shows the main variances year-on-year, the largest of which is the impact of a higher R&D tax credits in the last financial year due to a catch up on previous years' claims. The small decline in profit reflected in the other trading movements reflect the lower margin earned this year across programmes.

The sector's contract backlog reduced slightly year on year, reflecting the lower time period of committed revenue from MSDF, and is expected to increase significantly once the FMSP contract is agreed, as discussed below.

Operational review

Defence

The defence business saw increased activity in the year despite COVID-19 working pressures as critical work continued. We continued to support the Continuous At Sea Deterrent and the high availability of Attack Submarines from our operations at HMNB Clyde despite the challenges of the pandemic. Work on large submarine infrastructure programmes ramped up in the year, including planning for the first deep maintenance period of the Astute Class at Devonport in the next few years. In Devonport, we continue to work on the Revalidation Assisted Maintenance Period (RAMP) programme for the Trafalgar Class and work has continued on the first life extension of the Vanguard Class.

Our largest individual contract across the Group, the Maritime Support Delivery Framework (MSDF), operates across our Maritime and Nuclear sectors. The previous five year MSDF contract was due to expire on the 31 March 2020, however, MOD and Babcock agreed to exercise an option in the MSDF contract to extend the commercial arrangement by a year to 31 March 2021. This additional year included some scope increases but at a lower margin compared to the previous MSDF contract. This has been replaced by an Intention To Proceed (ITP) agreement which includes an output based requirement, covering the period 1 April 2021 to 31 July 2021. This transition period will allow MOD and Babcock to conclude negotiations on the four Future Maritime Support Programme (FMSP) single source contracts at HMNB Devonport and Clyde, replacing the current MSDF arrangements.

We are working with our customer to finalise the four replacement contracts. All are identified as being 'Qualifying Defence Contracts (QDC)' and fall under Single Source Contract Regulations (SSCR). Negotiations have not yet concluded, but we expect to finalise all elements of the four FMSP contracts over this summer.

Civil

Revenue across civil was lower in the year reflecting major long-term projects with the NDA and AWE coming to a close and lower volumes on work with EDF partly as a result of challenges with the Advance Gas Reactor station fleet.

New build construction continues to be delayed at Hinkley Point C (HPC) resulting in a knock-on impact to the MEH Alliance. The alliance, launched in August 2019 with three other operators, aims to deliver all of the main Mechanical, Electrical and Heating (venting and air conditioning) (MEH) activity at HPC.

The civil nuclear decommissioning and new build market remains challenging in the short term and we made good progress in the year in reducing our overheads and simplifying our structure to adapt to these challenges. There are, however, significant opportunities in the medium term across the UK and potential opportunities in Canada and Japan, two markets where we already have a small presence.

Land

We ensure the British Army can focus on their missions safely by supporting vehicles

We enable the British Army to do their job with our technical training programmes

Our people support the British Army by contributing to front-line support and joining reserve forces

Revenue as % of Group

27%

British Army Challenger 2 tank at Bovington © Crown Copyright 2021 Image: UK MOD

	31 March 2021	31 March 2020 Restated
Contract backlog	**£3.0bn**	£3.5bn
Revenue	**£1,110.1m**	£1,522.5m
Underlying operating profit	**£(17.4)m**	£98.1m
of which CPBS one-off impacts	***£(69.3)m***	
Underlying operating profit excluding CPBS one-off impacts	***£51.9m***	
Underlying margin excluding CPBS one-off impacts	***4.7%***	*6.4%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**1,522.5**	(50.8)	(30.5)	–	(118.5)	(140.9)	(71.7)	**1,110.1**
Underlying operating profit	**98.1**	(4.8)	(1.7)	(3.1)	(15.1)	(9.8)	(11.7)	**51.9**

Financial review

On an organic basis, revenue was 22% lower in the year. This includes a significant impact from the CPBS, with an in-year reduction relating to lower revenue on our DSG contract and the de-recognition of revenue on our Phoenix contract as, from February 2020, the contractual terms changed from Babcock acting as principal to acting as agent. Revenue was also impacted by a significant COVID-19 impact of around £120 million across many parts of the sector as well as the lost contract for Heathrow in our Airports business and lower defence volumes.

The underlying operating loss of £17.4 million includes a £69.3 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating profit was £51.9 million. The table above shows the main variances year-on-year:

- Estimated impacts from COVID-19 as a result of lower activity and site closures in civil training, education, airports and in South Africa
- Recurring impacts from the CPBS primarily relating to a significantly lower margin recognised on our DSG contract
- Other trading reflects the loss of the Heathrow contract, increased operating costs and lower profitability on some contracts

The sector's contract backlog decreased by £0.5 billion in the year, reflecting the utilisation of multi-year backlog on long-term contracts, predominantly DSG, and also the reduction of backlog in Airports.

Operational review

Defence

Trading across our most of our defence businesses held up well during the year despite COVID-19. Activity slowed in some areas however, including training and short-cycle inventory work at DSG while our work supporting the British Army in Germany reduced in scope.

We continue to engage with the customer as they develop their Collective Training Transformation Programme and won the opportunity to participate in the British Army's 2021 Army Warfighting Experiment where we will be demonstrating a range of capabilities. During the year we secured an extension to our Training Maintenance and Support Services (TMASS) contract out to 2023 and we are in negotiations to extend the Defence College of Technical Training for the provision of training design and delivery (EMTC II) for a further three years, plus one option year.

Activity levels remained high across our Defence Support Group (DSG) business though reduced efficiency reduced the pace of progress. Following a review of the DSG contract as part of the CPBS, and taking into account the changes announced by the MOD in the Integrated Review in the year, we now recognise a significantly lower margin on the DSG contract.

Emergency services

Trading across our emergency services businesses was relatively flat in the year with lower volumes in firefighting training offset by the start of our new police training contract. Our fleet support contract for the Met Police performed well and we were awarded a two year contract extension worth around £60 million in the year. In January 2021, we launched the £300 million contract for the Met Police Education and Qualification Framework (PEQF). Our fleet support and training contracts for the London Fire Brigade continue to perform well.

Other civil markets

The impact of COVID-19 was most severe across many of our other markets in the Land sector, both in terms of revenue and operating profit. In our civil training business, the start of the COVID-19 pandemic saw customer facilities closed and no face-to-face training. The majority of our civil training workforce were initially placed on the UK Government's furlough scheme. Our airports businesses saw a dramatic reduction in volumes given the global decline in passenger numbers and our Heathrow airport baggage contract came to an end in October 2020. Work across our rail and power businesses held up well throughout the year.

Our South Africa business had a very tough first half of the year, hit by national lockdowns, but saw a stronger second half as activity increased.

In October 2020, we completed the sale of the Conbras business in Brazil for a net consideration of £7 million.

Aviation

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

We protect communities with our firefighting operations

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

Revenue as % of Group

20%

Airbus H160 helicopter

	31 March 2021	31 March 2020 Restated
Contract backlog	**£2.9bn**	£2.8bn
Revenue	**£854.4m**	£845.5m
Underlying operating profit	**£(130.4)m**	£31.8m
of which CPBS one-off impacts	***£(128.4)m***	
Underlying operating profit excluding CPBS one-off impacts	***£(2.0)m***	
Underlying margin excluding CPBS one-off impacts	***(0.2)%***	*3.8%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**845.5**	11.8	–	–	(44.6)	(19.0)	60.7	**854.4**
Underlying operating profit	**31.8**	(0.3)	–	(17.0)	(11.1)	(6.3)	0.9	**(2.0)**

Financial review
Organic revenue was flat this year as business growth and new contracts offset a COVID-19 impact of around £45 million from lower flying hours in the earlier stages of the pandemic.

The underlying operating loss of £130.4 million includes a £128.4 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating loss was £2.0 million. The table above shows the main variances year-on-year, being the estimated costs of COVID-19 and significant credits that benefited FY20.

The estimated COVID-19 impact includes the direct impact from lower flying hours in the early stages of the pandemic and the additional costs across the business. These costs included PPE, the refitting and segregation modification of aircraft and the inefficiencies of flying in a COVID-secure way, for example flying at lower capacity. In many cases these additional costs were not recovered in our contract pricing.

The recurring impacts to underlying operating profit from the CPBS of £6.3 million relate to the ongoing impact of various adjustments made.

As set out before, our civil aviation business has a cost structure too high for the revenue we generate under existing contracts. Our cost reduction programme started in the last financial year has begun to address this. In the prior year, reported performance benefited from various transactions that are not expected to repeat. These include multi-year indexation claims on contracts and accrual and provisions releases.

The positive impact of these in FY20 was around £17 million compared to nil in FY21. The small improvement in other trading reflects the benefits from the cost restructuring programme mostly offset by weaker trading.

The sector's contract backlog was broadly stable year-on-year with new work replacing contracts that ended.

Operational review
Defence
Activity across defence was broadly flat in the year with work continuing despite COVID-19. In the UK, support continued across both RAF station support and flying training. Additionally both our Hawk and Adour contracts, which underpin the delivery of critical UK fast-jet training to the RAF, were extended in year. Discussions continue on a longer-term Hawk support contract for the next decade.

In France, we continued to deliver on our Fomedec pilot training contract and we started our H160 contract to provide search and rescue aircraft and services for the French Navy. In June 2021, we were awarded a contract by the French MOD for an expansion of our existing defence aviation training activities. This five-year contract is worth around €500 million and started in June 2021.

In Canada, we have signed a letter of intent with Leonardo to bid together for the Future Aircrew Training programme (FACT).

Aerial emergency services
Revenue across our aerial emergency services businesses was slightly higher this year, helped by the start of new contracts and higher firefighting hours. Profitability was severely impacted by COVID-19 with the pressures of lower flying hours in much of the business and higher costs of delivery.

Performance in aerial emergency medical services was the most severely hit by COVID-19 in the earlier parts of the financial year. We were successful in securing contract renewals in Italy, Spain and France in the year.

Our firefighting operations across Europe and Canada saw higher activity levels compared to last year, particularly in Spain and Italy. We have increased our footprint in firefighting in Europe with new contract wins in Spain and we deployed aircraft in Chile with a small counter-season contract.

Oil and gas
Market conditions for our oil and gas business remained tough throughout the year. Flying hours were heavily reduced in the early part of the year in response to the COVID-19 pandemic but recovered as the year continued.

Building relationships

Customers

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

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

How Babcock engages
- Regular ongoing relationship engagement at all levels
- Contract negotiation, execution
- Strategic Partnership Programme
- Work on joint initiatives
- Provision of information on sustainability goals

Investors

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

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

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

Employees

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

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

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

Regulators

Why they matter to us

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

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Compliance
- Sustainability
- Site-specific issues

How Babcock engages

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

Suppliers

Why they matter to us

To support our business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers.

What matters to them

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

How Babcock engages

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

Communities

Why they matter to us

Our partnership with the communities in which we operate is at the core of our business. We have a responsibility to ensure that we support the communities in which we operate both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. Where we have major sites of operation, such as at Plymouth in the UK, we are often one of the largest employers in the local area. We are aware of the impact that we have on those communities.

What matters to them

- Employment
- Health and Safety
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for indigenous people
- Armed Forces Reservists Support
- Improved community infrastructure and resilience

How Babcock engages

- Sponsorship
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Engagement with local community programmes

For further information on how the Board engaged with the Company's stakeholders and took their interests into account in key decisions during the year under review, please see pages 114 to 116 which forms part of the s172(1) Statement on page 79.

Jasvinder Bancroft
Civil Engineer
UK

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 invitiatives 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.

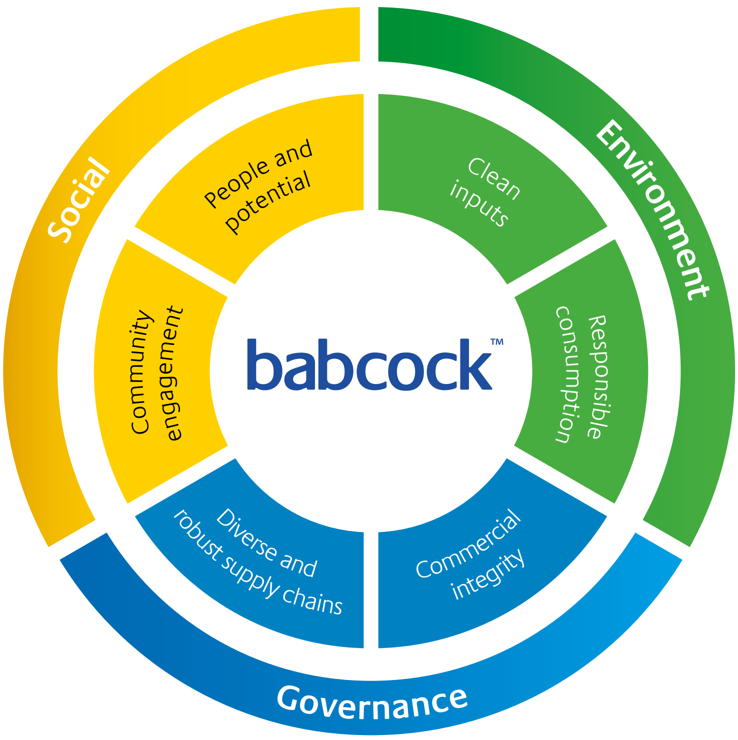
- By reducing our carbon emissions and focusing on cleaner energy, minimising waste and increasing recycling we will protect the environment
- Through an active corporate citizenship programme and sustainable procurement initiatives we will protect our communities and suppliers
- By providing a safe 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 CO_2e 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
Environmental	Affordable and Green Energy	Our intention is to ensure access to and use of affordable, reliable, sustainable and modern energy for Babcock.	• 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.	• 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.	• 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.	• 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 CO_2e. • 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.	• 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.	• 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.

	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.	• 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.
Social	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.	• 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
Social	Gender Equality	Our intention is achieve gender equality and empower all females through our partnerships and networks.	• 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.
Social	Decent Work and Economic Growth	Our intention is to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work.	• 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.
Social	Reduced Inequalities	Our intention is to reduce inequalities throughout our business and value chain.	• 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.	• We are aligning our processes and standards to ISO 20400 (Sustainable Procurement). • We are currently looking to develop a Group-wide approach to our support for communities and sponsorship initiatives, to be implemented in FY22.
Governance	Peace, Justice and Strong Institutions	Our intention is to ensure we and our value chain are effective, accountable and inclusive institutions.	• 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_2e	76,688.9	74,167.5	66,349.4	60,848.3
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	96,233.6	73,416.0	61,595.3	51,058.1
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	20,747.1	17,701.8	13,722.7	6,920.9
Total Emissions	**tCO_2e**	**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_2e	105,010.5	93,619.5	100,424.7	97,205.5
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	8,144.8	7,314.3	4,571.0	4,268.6
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	851.4	323.1	364.4	86.8
Total Emissions	**tCO_2e**	**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_2e	181,699.4	167,786.9	166,774.1	158,053.7
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	104,378.4	80,730.3	66,166.3	55,326.7
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	21,598.6	18,025.0	14,087.0	7,007.6
Total Emissions	**tCO_2e**	**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	**tCO_2e/£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	• 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	• 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	• We recognise the impact that greenhouse gas emissions have on our environment and we are committed to reducing our impact	• Ensure climate-related risks and opportunities are integrated into sector and geographic strategies • Develop approach to scenario analysis and assess organisational resilience
Risk Management	• Reviewed current approach to identify and capture climate-related risks	• 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	• 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	• 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.

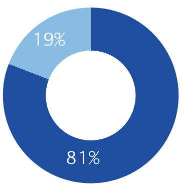
Our Diversity and Inclusion focus areas for the year ahead are: harnessing our data to drive insight and measure results; strengthening and broadening our employee networks; transforming our key people processes; creating a culture of wellbeing; and celebrating inclusion and diversity as our key differentiating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

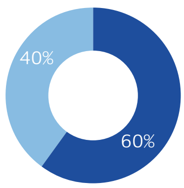
Gender Diversity

Total workforce
%



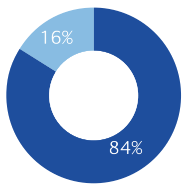
Male: 23,624
Female: 5,513

Board
%



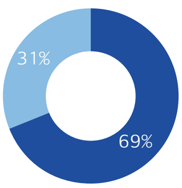
Male: 6
Female: 4

Executive Committee and Direct Reports in management roles %



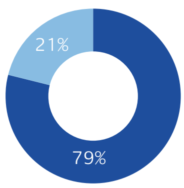
Male: 62
Female: 12

Graduate intake
%



Male: 179
Female: 79

Senior Management*
%



Male: 161
Female: 42

* 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.

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's198 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 DCPP 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* Energy policy* Procurement Environmental policy*	Clean inputs Responsible consumption Health, safety and environmental risk	67 68 91
Employees	Code of Conduct ** Health, Safety and Environment policy* Joint Ways of Working Charter Agile working framework*	People and potential Gender diversity and gender pay gap Commercial Integrity People risk Building relationships Stakeholder engagement Remuneration Note 28 – share-based payments	71 72 77 93 58 114 134 254
Human rights	Code of Conduct** Supplier Code of Conduct** Modern Slavery Statement**	Corporate Integrity Diverse and robust supply chains	77 78
Social matters	Anti-bribery and Corruption/Ethical policy** Code of Conduct** Diversity and Inclusion Charter* Canada Indigenous Peoples policy*	People and potential Commercial integrity Community engagement Building relationships Stakeholder engagement Remuneration Note 28 – share-based payments	71 77 75 58 114 134 254
Anti-bribery and corruption	Anti-Bribery and Corruption/Ethical policy** Whistleblowing structure Supplier Code of Conduct**	Diverse and robust supply chains Commercial integrity Principal risks and management controls Governance statement	78 77 84 100
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	• RT-AE-130a.1: (1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	◕
	Hazardous Waste Management	Waste & Hazardous Materials Management	• 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	• 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	• 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	• 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	• RT-AE-440a.1: Description of the management of risks associated with the use of critical materials	◔
Leadership & Governance	Business Ethics	Business Ethics	• 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

Andrew Taylor
Multi-Engine Pilot
Australia


SWITLIK
babcock

Our principal risks and how we manage them

The Board is accountable for effective risk management across the Group. The Board, along with the Audit Committee, keeps under review the risks facing the Group, including the appropriateness of the level of risk the Group may accept in order to achieve its strategic objectives. The Board's risk management approach includes:

- The review and approval of the Group's overall strategy
- The review and control of the Group's risk appetite through its delegated authorities
- The review of business performance
- The review of the Group's risk register
- The review of management's approach to identifying and managing risk
- The evaluation of the effectiveness of internal controls
- The evaluation of the effectiveness of internal and external audit.

The Board reviews the controls and mitigation plans in place; these are intended to manage and reduce the potential impact of the risks the Company takes to ensure, so far as possible, that the assets and reputation of the Group are protected. The Group's risk management and internal control systems can, however, only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss. Factual circumstances, business and operating environments will change. On an ongoing basis, the Group might identify new risks or better understand the significance of existing risks or a change in a risk. This means that the risks identified on pages 87 to 95 are not and cannot be an exhaustive list of all the principal risks that could affect the Group.

Principal and emerging risks, risk mitigation and controls

The Board confirms that it has carried out a robust assessment of the principal and emerging risks facing the Group and has identified the risks and uncertainties that it currently considers to be of greatest significance to Babcock which are described overleaf from pages 87 to 95. These risks have the potential to materially and adversely affect Babcock's business, the delivery of its strategy and/or its financial results, condition or prospects.

The risk process was enhanced during the period with

- a new Group Risk Management Framework, which provides guidance to the sectors to assist them with identifying key external and internal drivers and risk influencers;
- the assigning of a Group Executive Committee member as a sponsor for each principal risk;
- the introduction of a new expanded risk register for each business unit, sector and Group function to improve the granularity and detail on each risk; and
- the introduction of a dedicated quarterly review of the principal and emerging risks by the Group Executive Committee.

For each risk there is a short description of the Company's view of the possible impact of the risk on the Group were it to occur, and the mitigation in place to manage the risk (which should be read in conjunction with the information opposite and overleaf about our risk management approach and general controls). The Board has identified these principal risks, having reviewed the Group's risk register, a process that combines a bottom-up review, starting at business unit level, with challenge and review by senior management, as well as a top-down strategic review by Group management. These reviews include emerging risks, which are "new" risks that may challenge the Group in the future. They may begin to evolve rapidly or simply not materialise.

Group Risk Management

Board

The Board is ultimately responsible for the Company's risk management and internal control system. The Board reviews the Group's principal and emerging risks at least on an annual basis. The Board delegates oversight of certain risk management activities to the Audit Committee.

The Board ensures that it controls the risk appetite of the Group through its delegated authorities, which impose strict controls on the Group — for example, the Board must approve all acquisitions and disposals, all material capital expenditure, all material non-ordinary course tenders (material ordinary course tenders are approved by the CEO and the CFO) and all financing arrangements (unless delegated to the Board's Finance Committee). The Board performs 'deep dives' on principal risks on an ongoing basis.

Audit Committee

The Audit Committee reviews aspects of the risk management and control system at its meetings. At least once a year, the Committee formally reviews the system's effectiveness as a whole on behalf of the Board.

Group Executive Committee

The Group Executive Committee reviews quarterly a consolidated report prepared by the Group Risk and Insurance Manager. The report summarises the principal risks facing the Group. Executive Committee members now sponsor and own each principal risk and associated actions. Emerging risks and their causes, and potential mitigations will also be identified and where appropriate incorporated into the principal risks.

Sectors

Each business unit and then each sector identifies the risks, including emerging risks, relevant to their specific area, along with the controls and assurance activities in place to mitigate those risks.

Employees

Employees undertake a selection of risk management training programmes (for example, IT security and anti-bribery and corruption training) appropriate to their roles in order to increase awareness of potential risks.

Risk Assurance

Lines of Defence

The primary risk management mechanism is the Group's risk management process which is designed to identify, control, mitigate and report risks as part of the Group's internal control model.

Through the risk register this process provides a clear line of sight to the Company's principal risks.

The Company uses the "three lines of defence" model to assure itself about the management of the risks that it faces.

This model defines the first line of defence as management controls, policies and procedures together with management oversight. The second and third lines of defence are considered as assurance related – with the second line of defence being internal assurance activities, such as the review of Sector risk assessments by Group senior management; and the third being assurance obtained from external sources, such as internal audit.

1 First line of defence

Risk owners: Managers identify, mitigate, control and monitor the risks.

The Company has written policies, covering a range of matters intended to mitigate risk, such as health and safety, information security, contracting requirements and accounting policies. The Board annually approves a schedule of delegated authorities setting out specific levels of decision-making authority delegated by it to the business.

Managers report on a monthly basis up through their business units and sectors to the Group Executive Committee. The CEO and CFO report to each Board meeting on operating performance and other matters of significance to the Group. Managers prepare annual budgets and medium-term financial plans for review by sector and then by Group. The Board reviews and approves the Group annual budget and medium-term financial plans. Managers prepare updated forecasts for the year on a quarterly basis. The Board receives details of monthly actual financial performance compared to budget, forecasts and the prior year.

2 Second line of defence

Internal assurance: Internal functions (such as HR, legal, tax and treasury) provide internal review and control of risks within their areas.

Certain risks are monitored by specific committees. The Corporate Safety Leadership Team leads the development and implementation of policies, standards and expectations for health, safety and environmental issues. The Group Security Committee oversees the Group's security and information assurance management infrastructure.

A whistleblowing hotline is available to all employees to allow them to report any concerns that they may have without fear of any action being taken against them.

The Group maintains an insurance programme, preferring to transfer risk to the insurance market, where available on acceptable terms. The Group Risk and Insurance Manager reports annually to the Board on the strategic approach to insurance and on the placing of the programme.

3 Third line of defence

External assurance: Internal audit provides assurance of the effectiveness of the Group's control environment. Internal audit reports directly to the Audit Committee.

The Group is audited or inspected by a number of external regulators and other bodies, including national civil aviation authorities, the Office of Nuclear Regulation, the Office for Rail and Road and the International Office for Standardisation.

Principal risks, risk mitigation and controls

Existing markets

Probability: High **Impact:** High

We rely heavily on winning and retaining large contracts with a relatively limited number of major customers, whether in the UK or overseas, many of whom are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded.

Potential impact

Major customers, such as our single biggest customer, the UK Ministry of Defence (MOD), have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As many of our major customers are government owned or publicly funded, they are affected by political and public spending decisions. For example, the MOD has published its Integrated Strategic Review, which sets the UK Government's national security and international policy objectives to 2025. Another example may be the UK's exit from the EU, the consequences of which remain difficult to predict, as UK companies may not be able to bid on EU programmes or have to trade on different terms as a non-EU member or experience difficulties holding operating licences.

Whilst customer policy changes or spending constraints can potentially offer more outsourcing opportunities for us to pursue, they can also be a risk in that they could lead to changes in customer outsourcing strategy and spend, which could include:

- reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities
- in the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour
- favouring the retention or return of in-house service provision, either generally or in the sectors in which we operate
- favouring of small or medium-sized suppliers or adopting a more transactional rather than a co-operative, partnering approach to customer/supplier relationships
- imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with, or that might involve significant extra costs, thereby impacting the profitability of doing business with them.

A significant number of our contracts with the MOD are subject to the Single Source Contract Regulations (SSCR), which are administered by the Single Source Regulations Office (SSRO). The SSRO sets the baseline profit rate for single source contracts let by the MOD on an annual basis. These regulations and their implementation are subject to review by the UK Government, which could lead to lower returns for industry.

Mitigation

Our focus on the aerospace, defence and security markets, together with our geographical spread, provides a degree of portfolio diversification. We are in ongoing dialogue with our key customers in order to understand their requirements, objectives and constraints, so that we can remain as aligned with them as possible. We continue to monitor expenditure changes in our markets in order to allow us to make the appropriate adjustments. We maintain a public listing as we believe it is an important factor in winning and retaining our business position, particularly with government customers.

We have a clear business strategy to target a large bid pipeline, both in the UK and internationally. We tender bids for contracts we consider have an alignment with the Group strategy and where we believe we stand a realistic chance of success due to, for example, customer understanding, domain knowledge or technical expertise, both in the UK and overseas. We maintain a dialogue with our customers to understand their intentions regarding their pipeline.

Following the COVID-19 outbreak, we have continued to work closely with our customers in order to understand their priorities in response to the pandemic. All our businesses have implemented the necessary plans in consultation with our key customers to continue to deliver on our contracts where possible. The Board will continue to monitor the impact and disruption caused by COVID-19 and will continue to implement a range of measures to mitigate the operational, financial and commercial impacts as they emerge.

The Group remains in dialogue with the SSRO and MOD regarding future planned changes to the SSCR.

Contract and project performance

Probability: High **Impact:** High

We operate large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices.

Potential impact

We seek to win and operate long-term high-value contracts for the provision of complex and integrated services to our customers. This has a number of key risks.

There are usually only a relatively limited number of customers in each of our market sectors and our market sectors can be highly competitive. Because of their strong market power, our customers can require bidders to accept a substantial transfer of risk from the customer to the supplier. For example, it is not unusual in defence and aerospace markets that the contracts that we tender for may impose strict conditions and clauses, including unlimited liabilities, termination without cause and strict performance conditions, which, if not complied with, may trigger compensation for the customer.

If we (or our supply chain) underestimate or under-price actual risk exposure or the cost of performance, or if, during the contract, cost inflation diverges from revenue inflation, or if unforeseen additional costs are incurred, for example, due to the UK's exit from the EU or COVID-19, this could adversely affect our future profitability, cash generation and growth. For example, mobilisation of the contract may be difficult, or the transitioning from mobilisation to business as usual may not be effective. We may not deliver the contractual requirements due to ineffective contract management, cost or quality control or the failure to manage our supply chain. These may lead to contract overruns or unfulfilled contractual obligations, especially if the contract is fixed price. COVID-19 may increase the likelihood of each of these key risks arising as it makes our operations less efficient or effective. Failure to deliver contractual requirements may result in the imposition of penalties, the need to devote additional resource to deliver the contract, the early termination of the contract with the imposition of damages, or reputational damage, which may cause strain on the customer relationship, undermining not only the current contract, but also future contracts.

Long-term contracts often have changes, or updates, to scope. If we do not properly manage contract changes, we may incur additional costs or failure to deliver our contractual requirements, which may reduce overall profitability or lead to penalties or contract termination.

Mitigation

We have formal and rigorous reviews and gating processes at key stages of each material bid to reduce the risk of underestimating risks and costs and to ensure that we target limited bid resources at opportunities where we consider that we have the best prospects of winning or retaining business. Group policies and procedures continue to set a commercial, financial and legal framework for all bids.

Contractual performance is continuously under review (at a business unit, sector and/or senior Group executive level as appropriate) with a view to highlighting at an early stage risks to delivery and profitability. Where we identify poor performance, the business will implement a remediation plan. These reviews also consider the performance of our supply chain. In the current circumstances, the reviews consider the impact of COVID-19. We also regularly review project costs to complete to ensure accuracy of the financial profile of the contract.

New markets

Probability: Medium **Impact:** High

We seek new markets and contracts for our services both with existing and new customers, whether in territories where we are already established or in territories where we are not.

Potential impact

We may not be successful in securing those new opportunities for a number of reasons, including: customer funding constraints; our services not being relevant due to the non-acceptance of our business model by customers; our failure to anticipate future market requirements or future changes in technology; our failure to find the appropriate quantity and quality of resource; our bid strategy failing to align with the customer's strategy; or increased competition in our markets. In addition, COVID-19 or the UK's departure from the EU or other geopolitical development may give rise to economic nationalism and a reluctance from international customers to award contracts to a non-domestic company. A lack of success in exporting the Group's business model outside the UK and our current core markets could adversely affect the growth prospects and strategic development of the Group. Failure to convert our bidding pipeline into contracts may put pricing pressure on the remaining pipeline.

Mitigation

We aim to target our resources in those new markets where we believe our services are relevant and we believe we have a good chance of being awarded the opportunity. As appropriate, we aim to invest in innovation and people to prepare for new ways of working or delivering our services. We maintain ongoing dialogue with our customers in order to understand their requirements and their budgets.

Financial resilience

Probability: High **Impact:** High

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks).

Potential impact

A lack of financial resilience may hinder us in being able to raise debt funding to invest in the securing of existing or future business. The weakness also may cause our existing banks to increase the cost of our funding. If our debt is denominated in a currency other than Sterling, movements in exchange rates may make that debt more costly when we repay it. Customers and/or suppliers may question our long-term sustainability if we have a weak balance sheet. This may tighten the terms of business that they are prepared to contract with us on. Credit rating agencies may downgrade our rating, which would increase our cost of borrowing. Certain pension scheme financial thresholds may be triggered, requiring further resource to be allocated to the schemes. We could face capital allocation constraints and be left with reduced capital to invest in the business to meet all our obligations or to pay a dividend.

Mitigation

The alignment of the Group portfolio has triggered a programme of potential disposals. We expect to raise £400 million in the next 12 months which will contribute towards the strengthening of the balance sheet. We have already secured an additional debt facility of £300 million to provide additional liquidity and a temporary relaxing of financial covenants. We are proactive in our dealings with credit rating agencies and lenders. The Board reviews the financial position of the Group on a monthly basis against the Board approved three- year plan.

Business interruption

Probability: Medium **Impact:** High

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

Potential impact

A range of events, for example, extreme weather, natural hazards (such as floods or earthquakes), political events, financial insolvency of a critical supplier, scarcity of materials, loss of data, fire or infectious disease could cause business interruption. The consequences of these events could have an adverse impact on our people, our facilities, our supply chains, or our ability to meet our contractual obligations. The COVID-19 pandemic is an example of such an event. The pandemic has had a significant impact on our business and the markets that we serve over the financial year 2021. For our customers, the pandemic may reduce their current or future budgets or cause them to deploy their budgets in different ways, changing our markets. For our employees, the pandemic has changed the ways that we work. These measures may create inefficiencies in some of our businesses. The pandemic may also affect our suppliers and lead to failures in the supply chain, which may adversely affect our ability to deliver our programmes. An outbreak of another contagious disease or a new variant of the COVID-19 may still have an adverse effect on the Company's business, financial condition and prospects.

Mitigation

Throughout the pandemic, we have looked to prioritise the key programmes of our customers to demonstrate the mission critical nature of our services. For employees, our priority has been their wellbeing and safety. We have adapted working practices and facilities, including social distancing, PPE requirements, improved cleaning regimes and increased remote working, to seek to keep our people safe and well throughout this crisis. We continue to manage the situation closely and follow Government and health authority advice to help prevent the spread of the virus. For general business continuity, we have in place IT disaster recovery and business continuity processes. We also maintain relevant and appropriate insurance.

Operational resilience

Probability: High **Impact:** High

We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new people strategy, as well as undertaking the alignment of both the business portfolio and our property portfolio.

Potential impact

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

If we fail to deliver the change programmes, we will not be able to achieve our strategic goals as set out on page 16. Failure to deliver the change programmes would undermine the confidence of key stakeholders in our future growth and plans.

Mitigation

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

Health, safety and environmental

Probability: Medium **Impact:** High

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

Potential impact

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

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

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

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

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

Mitigation

Our goal is for everyone to go “Home Safe Every Day”. Accordingly, health, safety and environmental performance receives close and continuous attention and oversight from the senior management team.

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

The Board receives reviews of health and safety performance.

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

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

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

Regulatory and compliance burden

Probability: Low **Impact:** High

Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate.

Potential impact

The laws and regulations that we are subject to include anti-bribery laws, import and export controls, tax, procurement rules, human rights and data protection regulations.

Failure to maintain compliance with applicable requirements could result in: fines and criminal prosecution; the removal of a licence to operate; reputational damage; cost of rectification; debarment from bidding; loss of access to markets; and, the loss of substantial business streams (and possible damages claims) and opportunities for future business.

If an applicable law or regulation changes, it may cause us substantial expenditure in order to comply, which may not be recoverable (either fully or at all) under customer contracts.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all. For example, our Aviation business is subject to a high degree of regulation relating to aircraft airworthiness and certification, as well as regulations relating to ownership and control requirements. Regulation (EC) No.1008/2008 (the Regulation) requires all air operators in the EU to be majority-owned and controlled by European Economic Area nationals.

Given the nature of our customers and the markets in which we operate, as well as the services that we provide, we believe that our reputation, not only in terms of delivery but also in terms of behaviour, is a fundamental business asset. Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally.

Mitigation

We maintain internal policies and procedures in order to ensure that the Group complies with all applicable laws and regulations. We also have suitably qualified and experienced employees and/or expert external advisors to advise and assist on regulatory compliance. We have management systems involving competent personnel with clear accountabilities for operational regulatory compliance.

In order to address the requirements of the Regulation, we have restructured the operations of the relevant operations so that a new sub-group, which is majority owned and controlled by an EU-based holding company holds those parts of the business that fall under the Regulation . The Board believes that this current structure satisfies the nationality requirements of the Regulation. However, as the ultimate decision to grant or revoke a licence rests with the EU aviation authorities, there can be no guarantee that this continues to be the case.

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our Code of Conduct, together with our Ethics policy, sets out the clear expectations that we have of our employees. We seek to reinforce these values with all employees through a number of different processes, for example, our training. We encourage all our employees to use our whistleblowing reporting lines where they see evidence of behaviour, which is not in keeping with our values. The Board monitors and reviews all reports and their investigations.

People

Probability: Medium **Impact:** Medium

We operate in many specialised engineering and technical domains, which require appropriate skills and experience.

Potential impact

Our business delivery and future growth depend on our ability to recruit, develop and retain experienced highly skilled employees (such as suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups).

Competition for the personnel we need is intense and is likely to remain so for the future. This may be exacerbated by nationality restrictions, which may prevent us from accessing talent from the EU or worldwide. This poses risks in both recruiting and retaining such staff.

If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation and the risk of contract claims.

The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions. This could affect our contract profitability.

Mitigation

We undertake workforce and succession planning to identify skill gaps and to form plans to address them. We have programmes to develop our employees so that they have the right skills and experience.

We are developing a new people strategy, led by the Group's first Chief Human Resources Officer. This strategy will establish a common approach across the Group. The new approach includes a new 'agile' way of working, a review of the rewards and remuneration structure and improved people management.

Pensions

Probability: High **Impact:** High

The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members.

Potential impact

Member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time have to meet the cost of the defined benefit obligations.

The level of our contributions is based on various assumptions, which are subject to change, such as life expectancy of members, gilt yields, investment returns, inflation, and regulatory changes. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes' assets below the calculated cost of the pension obligations. For example, pension liabilities can increase due to rising life expectancy, higher than expected inflation rates in the future and lower interest rates.

If the assets in the pension schemes are judged insufficient to meet pension liabilities or if our balance sheet strength does not meet the pension trustee expectations, we may be required to make increased contributions and/or lump sum cash payments into the schemes or provide additional security from the Group. Trustee's perspectives may be influenced by toughening stances taken by the UK Pension Regulator. This may reduce the cash available to meet the Group's other obligations or business needs, and may restrict the future growth of the business.

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

Accounting standard rules governing the measurement of pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macroeconomic circumstances beyond the control of the Company. Actuarial valuations used for funding are not calculated on the same basis as IFRS accounting standards. This means the future cash contributions are difficult to derive from the Group's IFRS balance sheet.

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

Mitigation

Group senior management undertakes continuous strategic monitoring and evaluation of the assets and liabilities of the pension scheme. Management aims to increase its engagement with the scheme trustee chairs and with the pension regulator.

Pension liability increases are mitigated by the pension scheme having investment strategies that hedge against interest rate and inflation risk and using longevity swaps to limit exposure to increasing life expectancy. Trustees use professional advisors to assist in the hedging of risks.

IT and security

Probability: Medium **Impact:** High

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

Potential impact

We hold data that is confidential and needs to be secure against a background of increasing cyber threat. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security breaches or cyber attacks being successful in their attempts to penetrate our network security and misappropriate confidential information or otherwise cause harm to the Group, for example through denial of service. In addition, failure to invest in our IT infrastructure, for example, in legacy systems, may also create a weakness that may lead to a breach. The risk of loss of information or data by other means is also a risk that cannot be eliminated.

A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations, significant data breaches or losses could also lead to litigation and fines for breach of applicable regulations such as data protection laws. This could have an adverse effect on the Group's operations and its ability to win future contracts, which may affect our overall financial condition.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally. We seek to assure our data security through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. We have formal security and information-assurance governance structures in place to oversee and manage cyber-security and similar risks. We conduct comprehensive internal and external testing of potential vulnerabilities.

The Group maintains business continuity plans that cover a range of scenarios (including loss of access to IT). We regularly test the plans that relate to IT.

Acquisitions and disposals

Probability: Medium **Impact:** High

We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time consuming and expensive. If we believe that a business is not 'core', we may decide to sell that business.

Potential impact

As we are not currently seeking acquisition opportunities, we may not identify potentially value- or skill-enhancing transactions and miss an opportunity to grow shareholder value.

Where we have acquired companies, we may not realise the financial benefits of the acquisition as expected, due to poor integration or to acquisition business cases relying on market conditions or other business assumptions that subsequently do not materialise, challenging the logic of the acquisition decision. Before making any future acquisition, we will learn the lessons from the Avincis acquisition.

Those companies that we consider as non-core and therefore disposal candidates, may become distracted or demotivated or lose key employees, which may lead to poor performance whilst also undermining their value to their customers and a potential buyer.

A key assumption in the strengthening of our balance sheet is the planned disposals which should raise a minimum of £400 million. Disposal timing and price are not within the full control of the Group. There could be a lack of market interest or a delay in the planned processes, which may make disposals harder to complete. Some countries are increasing government oversight of disposals in sectors deemed of national importance (for example, the UK National Security and Investment Bill). Such oversight could add delay or even block a planned disposal.

Mitigation

Our focus is currently on operational execution, rather than acquisitions, with the possible exceptions of 'bolt-on' acquisitions.

We will work to enhance our acquisition and integration capability so that we are ready at the appropriate time in the future.

We will clearly communicate our disposal strategy and put in place the appropriate transaction resource to prioritise the disposals.

Going concern and viability statement

Overview

The Directors have undertaken reviews of the business financial forecasts, in order to assess whether the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting. The Directors have also looked further out to consider the viability of the business to test whether they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due.

For assessing going concern, the Board considered the 12 month period from the date of signing the Group's financial statements for the year ended 31 March 2021. For viability, the Board looked at a three year view as this is the period over which the Group prepares its strategic plan forecasts.

The annual budgets are compiled using a bottom-up process, aggregating the budgets for the individual business units into Sector budgets. The Sector budgets and the consolidated Group budget is then reviewed by the Board and used to monitor business performance.

The impacts of the recent contract profitability and balance sheet review ('CPBS') and the planned restructuring as a result of the change in operating model have been incorporated into the budgets.

The Board considered the budgets alongside the Group's available finances, strategy, business model, market outlook and principal risks. The process for identifying and managing the principal risks of the Group is set out in our Annual report. The Board also considered the mitigation measures being put in place and potential for further mitigation.

Available financing

As at 31 March 2021, net debt excluding operating leases was £771.5 million and the Group therefore had liquidity headroom of £1.2 billion, including net cash and cash equivalents of £0.5 billion and undrawn facilities of £0.8 billion.

As of July 2021, the Group's committed facilities and bonds totalling £2.4 billion were as follows:

- €550 million bond, hedged at £482 million, maturing 6 October 2022
- New £300 million 3-year RCF maturing 20 May 2024 (signed on 20th May 2021)
- £775 million revolving credit facility (RCF) maturing 28 August 2025
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- A committed overdraft facility of £50 million

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) (ii) and EBITDA to net interest (interest cover).

These are measured twice per year – on 30 September and 31 March. The lending banks have agreed to raise the covenant limit for the gearing ratio from 3.5x to 4.5x for the measurement periods ending 30 September 2021 and 31 March 2022 in order to provide sufficient downside protection for the Group as the turnaround in performance takes place – and particularly as a key assumption in strengthening the Group's balance sheet is the planned divestment programme which aims to generate a minimum of £400 million of proceeds within the next twelve months. For all subsequent periods, the gearing ratio covenant returns to 3.5x. The definition was clarified to specifically exclude the one-off impacts of the CPBS review from the covenant calculations.

The RCF lenders are fully committed to advance funds under the RCF to the Group, provided that the Group has satisfied the usual ongoing undertakings, and the credit worthiness of the Group's relationship banks is closely monitored. Based on their credit ratings we have no credit concerns with our relationship banks.

Given the importance of the RCFs to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review.

COVID-19 impact

The COVID-19 pandemic created increased uncertainty across our business during the financial year, particularly in the UK and European operations. The impacts were most severe for our non-defence businesses (e.g. civil aviation and civil training) where operations in some cases were stopped. The defence businesses incurred some interruption and increased cost initially with the heightened uncertainty. Subsequently most defence programmes and sites were re-opened, albeit with social distancing restrictions and higher levels of employees working from home where possible. In response to this, the Group took steps to mitigate the financial impact and improve the Group's liquidity including:

- Deferring non-essential operating and capital expenditure
- Furloughing staff in a number of areas such as our airports and civil training businesses
- Senior executive management taking a temporary 20% reduction in basic salary with their annual bonus and pay rise deferred
- Non-Executive Board members taking a temporary 20% reduction in fees with no annual increase
- Taking the decision not to pay an interim dividend for the 2020 financial year

Subsequently the Group has been in discussion with certain customers regarding cost recovery and contract performance relief where appropriate.

As the year progressed, it became clear that there was a significant impact from COVID-19 and that the Group's financial performance was tracking behind original expectations. Overall, the net financial impact of COVID-19 on the Group in the year was a reduction of operating profit of approximately £45 million as explained on page 38.

As there are now vaccination programmes in most of the geographies in which the Group operates, it has been assumed that there will be a gradual removal of pandemic measures such as social distancing and that all our operations will eventually be able to work on sites as before. However, there remains the risks of new variants, potential future lockdowns and business interruptions, so the Board has taken a cautious view as to how quickly the return to pre-pandemic ways of working will happen over the forecast period.

Base case scenario

In addition to the trading assumptions outlined above, key assumptions in our base case budget include:

- £400 million of cash proceeds from disposals during FY22
- c.£50 million of restructuring costs in FY22 being c.£40 million relating to the operating model change and c.£10 million of previously announced restructuring (e.g. in Aviation)
- £56 million of VAT deferred from FY21 to be paid in FY22

- Additional pension deficit contributions previously agreed with trustees (over and above the normal levels) of £60 million in FY22 and £52 million in FY23
- A gradual unwind of the historical year end working capital ‘push’ over the period, to close the gap between average monthly net debt and the much lower period end net debt
- A continuation of debt factoring for certain Southern European contracts within Aviation at similar levels to FY21
- Dividends not paid for FY21 or FY22

The base case budget shows significant levels of headroom against both financial covenants and liquidity headroom based on the current committed facilities outlined above (without assuming any refinancing of the €550 million bond in October 2022).

Reverse stress testing of the base case

To assess the level of headroom within the available facilities, a reverse stress test was performed to see what level of performance deterioration against the base case budget (in both EBITDA and net debt) was required to challenge covenant levels. Of the remaining measurement points within the three year period, the lowest required reduction in forecast EBITDA to hit the covenant level was 36% and the lowest net debt increase was 56%. Given the mitigating actions that are available and within management’s control, such movements are not considered plausible.

Severe but plausible downside scenarios

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget for the duration of the assessment period. These sensitivities include – separately - a reduction in bid pipeline closure (business winning), a reduction in the assumed restructuring savings, a deterioration in large programme performance across the Group, a deterioration in the Group’s working capital position and a regulator imposed cessation in flying two of the largest aircraft fleets in the Group. Furthermore a sensitivity was run which modelled the removal of all uncommitted working capital facilities available to the Group. As stated above, a key contributor to the strengthening of the balance sheet is the divestment programme which is expected to generate a minimum of £400 million of proceeds in FY22. For this reason a further sensitivity was run removing all planned divestments entirely and keeping the Group portfolio as it currently is throughout the forecast period. Unsurprisingly, removing the divestments entirely – however unlikely it may be to happen – left the gearing ratio with too little headroom against the financial covenants. Whilst all of these separate scenarios showed compliance with the financial covenants throughout the period, the measurement periods ending 30 September 2021 and 31 March 2022 had the highest covenant gearing ratios. This is a reflection of the significant cash out flows in this period (e.g. programme capital expenditure, restructuring costs and the extra pension deficit contributions) occurring before the proceeds from the planned divestments are received. It is for this reason that the Board approached and has agreed with our lending banks to increase the covenant level gearing ratio from the usual 3.5x to 4.5x for those two measurement periods.

As with any company or group, it would be possible, however unlikely, to model individual risks or combinations of risks that would threaten the financial viability of the Group. The Board has not sought to model events where it considers the likelihood of such events not to be plausible. In preparing a combined severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.80 profit and cash flow risks identified. A simple aggregation of all of these risks is not considered plausible as the Group operates businesses and contracts which run largely independently of each other, albeit with a relatively small number of customers within each geography. The majority of these identified risks were seen as ‘sector independent’ (i.e. there is no direct read across from one sector to another). A small number are deemed ‘non independent’ e.g. COVID-19, inflation, FX etc. The Board decided to include in its combined SBP downside all the ‘non independent’ risks without reduction, but reduced the aggregation of the ‘sector independent’ risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period. The SBP scenario also deferred all disposal proceeds by 12 months, significantly reduced the financial benefits of the operating model restructuring and assumed a much reduced level of receivable factoring in the Aviation business.

If such a severe downturn were to occur in the Group’s performance, the Board would take mitigation measures to protect the group in the short term. Such profit and cash mitigation measures that are deemed entirely within the control of the Group and identified as part of the sector budgeting exercise have been included in the SBP scenario (e.g. cancelling pay rises and bonus awards, curtailing uncommitted capital expenditure and operational spend including R&D and other investment).

Despite the severity of the above combined SBP scenario, the Group maintained a sufficient amount of headroom against the financial covenants within its borrowing facilities, albeit that this is less after the gearing covenant level reverts to 3.5x in September 2022, and sufficient liquidity when compared against existing facilities.

Additional mitigation options

While the new bank liquidity facility and the temporary relaxation of the covenant levels are deemed appropriate to cover the potential impacts of plausible risks, the Group has considered additional mitigation measures that could be undertaken should the need arise. These may include measures under the control of the Board as outlined above. Further measures which are not wholly under the control of the Board might include additional divestment plans; and in extremis seeking a further covenant amendment from our RCF lenders and/or utilising alternative financing sources, such as a hybrid bond or equity.

Going concern assessment and viability conclusion

Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements. As such, these financial statements have been prepared on the going concern basis. The Directors do not believe there are any material uncertainties to disclose in relation to the Group’s ability to continue as a going concern.

In concluding on the financial viability of the group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2024.

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