

ENVIRONMENTAL



1 Reducing emissions and setting science-based targets to get to net zero

Across our operations we interact with a diverse range of environments and we are committed to reducing our impact on the environment. We seek to deliver to the highest standards of environmental management and protection, truly embedding our Principle of 'be kind' to ensure our impacts are minimised. We take our responsibilities seriously and ensure we are playing our part in the transition to a more sustainable future for all.

Our Group-wide Environmental Protection Working Group (EPWG) is working to conduct a holistic assessment of Babcock's approach to environmental management. We currently have 25 ISO 14001 Environmental Management Systems (EMS) across the organisation which capture over 75% of our global operations, and we have several more EMS seeking accreditation over the coming 12 months. We are committed to ensuring all Babcock operations are to be delivered within an EMS by 2024, delivering advanced environmental training to all relevant employees by 2025 and have set new targets for waste, water and bio-diversity (see page 59).

Babcock Group energy consumption and emissions

		Dec-18	Dec-19	Dec-20	Dec-21
UK / UK offshore					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	74,819	69,450	52,693	42,515
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	78,903	66,881	52,791	45,069
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	18,198	15,265	8,246	7,981
Total emissions	tCO₂e	171,920	151,596	113,730	95,566
Underlying energy consumption used to calculate emissions	kWh	561,818,680	531,968,134	418,292,992	365,816,822
Global (excluding UK / UK offshore)					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	93,333	99,579	110,591	100,644
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	2,461	6,743	4,569	4,426
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	457	410	213	68
Total emissions	tCO₂e	96,251	106,732	115,373	105,139
Underlying energy consumption used to calculate emissions	kWh	391,772,490	417,537,009	459,580,840	417,483,548
Babcock Group total (UK / UK offshore and global)					
Scope 1: Direct emissions from owned/controlled operations	tCO ₂ e	168,152	169,029	163,285	143,160
Scope 2: Indirect emissions from the use of electricity and steam	tCO ₂ e	81,364	73,624	57,360	49,496
Scope 3: Emissions – business travel, electric transmission and distribution	tCO ₂ e	18,654	15,675	8,459	8,050
Total emissions	tCO₂e	268,170	258,328	229,103	200,705
Underlying energy consumption used to calculate emissions	kWh	953,591,170	949,505,142	877,873,832	783,300,370
Underlying energy consumption	GJ	3,432,928	3,418,219	3,160,346	2,819,881
Fiscal year revenue FY19 - FY22	£m	4,474.8	4,428.5	4,182.7	4,101.8
Intensity ratio	tCO₂e/£1m Revenue	59.9	58.3	54.8	48.9

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. The reporting period for our energy consumption and carbon emissions is the calendar year (01 January to 31 December), this is opposed to financial year as we have previously reported. The transition to calendar year reporting has allowed more time to collate, analyse and report our environmental data, which has improved the accuracy and completeness of our data sets. 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). Emissions data for prior years have been adjusted to include data unavailable last year, and emission figures for this year include an element of estimated data. Prior year revenue figures have not been restated for removal of pass through revenue, identified in the financial review, to remain consistent with the emissions data recorded in prior years. 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 and USA). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures and improvements to our energy management practices have resulted in a reduction of both our carbon baseline and FY22 operational emissions. We are progressing well on our journey to net zero and aim to accelerate our carbon reduction over the coming years.

Plan Zero 40

We are committed to addressing the global climate crisis and leading the transition to net zero. Under the direction of our carbon strategy, Plan Zero 40, over the past 12 months we have made significant progress on our journey to net zero.

We have collaborated with a number of climate experts including Frazer-Nash and Energy Systems Catapult and developed our approach to decarbonisation. We have commenced the development of comprehensive and deliverable carbon reduction plans within our 'Pathfinder Boundaries' and are on schedule to scale the reduction plans across our global operations by the end of 2023.

We have developed a specialist central team to support the organisation and effectively manage the transition to net zero and are investigating opportunities to finance our net zero journey.

In April 2021, we signed the Business Ambition Pledge and committed to a 2030 science-based target in line with a 1.5°C degree pathway. We are on track to meet our goal and over the next 12 months we aim to submit our targets for approval by the Science Based Targets initiative (SBTi).

Within our carbon reduction plans we are identifying carbon reduction, energy efficiency and renewable energy opportunities across our operations.

At Rosyth Dockyard we have identified the opportunity for renewable energy systems with generating capacity of over 10MW, which will meet a significant percentage of the energy demand for the site, reduce the footprint of our operations and provide resilience to fluctuating energy

prices. We have also conducted estate-wide renewable energy surveys to identify the opportunity for the installation of solar photovoltaics.

We are also seeking accreditation to the Carbon Trust's new 'Route to Net Zero Standard' by the end of April 2023.

During 2021 Babcock conducted a strategic review of our estate and built environment. The review identified cost savings and environmental improvements which could be delivered through estate rationalisation. We have subsequently proceeded to consolidate our estate which has delivered a reduction in our carbon baseline and operational emissions, along with delivering a broad range of environmental and organisational efficiencies.

Scope 3 emissions

Given the diverse and complex nature of Babcock's operations, Scope 3 emissions presents a range of challenges. We have, however, made significant progress investigating and mapping our Scope 3 emissions. This includes assessment of our Scope 3 upstream emissions utilising the Environmentally Extended Input Output (EEIO) approach, hotspot analysis of our supply chain and publication of our new Supplier Sustainable policy.

Our work to date is driving proactive engagement and will ensure sustainable and low-carbon considerations are embedded throughout the value chain.

We have commenced investigations into our Scope 3 downstream footprint and have completed an initial assessment as a pathfinder. We are working to conduct further downstream assessments to identify hotspots across our global operations and are on track to develop a

detailed understanding of our Scope 3 footprint with associated net zero pathway by 2025.

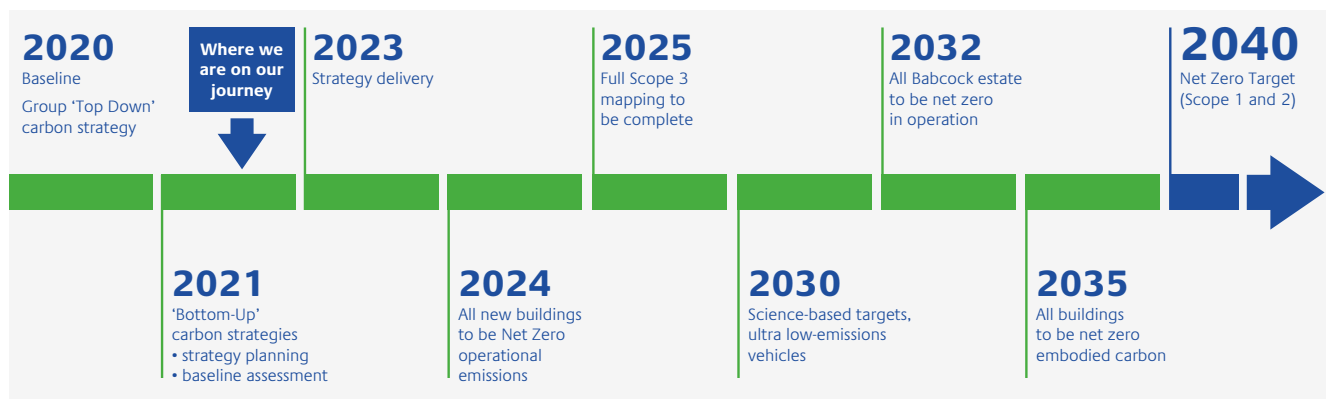
We are taking proactive action and collaborating with our customers, peers and suppliers to ensure there is a consistent approach to calculating and managing Scope 3 emissions across the defence and aerospace industry. We are active members of a range of industry forums investigating sustainable solutions and alternative fuels.

Reducing the impacts of our products and services is a key aim for the organisation. As a priority, the Group Executive Committee is ensuring the delivery of appropriate training and development for our employees and stakeholders, embedding circular economy principles and leading on the development of 'Green Ports'. We are working in collaboration with industry and academic partners to investigate approaches to environmental lifecycle assessments and whole-life models.

Sustainable transport

Sustainable transport is an important factor in our transition to net zero. Our Sustainable Transport strategy addresses our key transportation impacts including: the Babcock fleet, business travel, employee commuting and transportation & distribution (upstream and downstream). We are developing specific transportation targets in line with our ambitions under Plan Zero 40 and our science-based targets. We are seeking to transition our fleet to 100% ultra low-emission vehicles (ULEVs) by 2030 and have a range of programmes aimed at raising awareness and promoting varying modes of sustainable transport.

Our journey



As a flagship, we have recently launched an electric vehicle (EV) salary sacrifice scheme for our UK operations.

This scheme will promote and accelerate the uptake of EVs across our workforce, which will lead to a reduction in the footprint and impact of our operations.

Raise awareness of environmental and sustainability issues

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

Data management

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

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

2 Integrating environmental sustainability into programme design

Climate action Executive Committee priorities

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

Waste

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

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

We have set three waste targets;

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

Water

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

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

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

Biodiversity

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

We have set two biodiversity targets;

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

Task Force on Climate-related Financial Disclosures

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

Governance

Board oversight of climate-related risks and opportunities

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

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

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

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

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

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

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

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

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

Strategy

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

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

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

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

- Delayed transition risks with higher subsequent physical risks

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

- Limited or no transition risks but runaway physical risks

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

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

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

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

Risks

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

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

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

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

Examples of key risks and control measures

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

Impact

● Insignificant / Moderate ● Moderate ● Major ● Severe

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

Opportunities

We also recognise there will be opportunities in the transition towards a greener economy. Through our Liquid Gas Equipment (LGE) business, we aim to continue to develop our ammonia fuel gas supply system, as well as solutions for the transportation and storage of CO₂ in line with customer and legislative requirements. This will ensure that we are optimising efficiency while developing zero-carbon solutions.

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

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

Risk management

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

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

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

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

Metrics and targets

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

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

TCFD progress vs priorities

	FY22 progress	FY23 priorities
Governance	<ul style="list-style-type: none"> Group Executive Committee and the Board completed the 'Chapter Zero' survey Group Executive Committee completed the Executive Education session run by Edinburgh University ESG updates to the Board included climate action In FY22 the Remuneration Committee included specific ESG objectives and measures in the FY23 annual bonus, see page 114 	<ul style="list-style-type: none"> Board to continue the discussion on the topic of sustainability
Strategy	<ul style="list-style-type: none"> Climate-related risks and opportunities have been integrated into 'business as usual' processes, through inclusion of climate-related questions within the Group enhancement strategy process undertaken by each sector and region 	<ul style="list-style-type: none"> Further assess approach to scenario analysis and assess organisational resilience Further define financial implications of climate-related risks and opportunities and seek to include mitigation steps in strategic planning Ensure climate-related impacts are considered in all material new business decisions and associated contract negotiations/KPIs
Risk management	<ul style="list-style-type: none"> Physical and transitional climate-related risks and opportunities have been identified and scored through sector and region workshops in the short, medium and long term using Babcock's approach to risk Climate-related risk management has been integrated into Babcock's overall risk management process through the addition of a climate-related risk register 	<ul style="list-style-type: none"> Assess progression of climate-related risk registers and ongoing management Further validation of financial impacts Complete an assessment of critical suppliers' climate-related risks and associated impact on Babcock by autumn 2022
Metrics and targets	<ul style="list-style-type: none"> Progressed 11 pathfinder boundary projects and baselining phase 	<ul style="list-style-type: none"> Establish baseline and submit carbon reduction targets to Science Based Targets initiative by April 2023 Progress on Plan Zero 40 by scaling across the rest of the organisation

Technology plays a critical role in our efforts to minimise the environmental impact of our business. Scan this code to watch a video to find out more about the work we are doing in this area.

