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 1.5°C	Scenario 2°C	Scenario 3°C+	Control measures
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 CO_2 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	• 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	• Board to continue the discussion on the topic of sustainability
Strategy	• 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	• 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	• 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	• 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	• Progressed 11 pathfinder boundary projects and baselining phase	• 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.