Babcock International Group PLC ('the Company') - Annual Report and AGM Documents

Copies of each of the following documents have today been posted or otherwise made available to shareholders and copies have been submitted to the National Storage Mechanism and will shortly be available for inspection at: www.morningstar.co.uk/uk/NSM.:-

1. Annual Report and Accounts for the year ended 31 March 2019

2. Notice of Annual General Meeting to be held on 18 July 2019

Copies of the above documents are also available on Babcock International Group PLC's website, www.babcockinternational.com.

Jack Borrett

Group Company Secretary and General Counsel
Babcock International Group PLC

13 June 2019

Compliance with Disclosure and Transparency Rule 6.3.5 ("DTR 6.3.5") - Extract from the 2019 Annual Report and Accounts

The information set out below is extracted from the Company's Annual Report and Accounts 2019 (page references are to pages in the Annual Report) and should be read in conjunction with the Company's Full Year Results 2019 announcement issued on 22 May 2019. Both documents can be found at www.babcockinternational.com and together constitute the material required by DTR 6.3.5 to be communicated to the media in unedited full text through a Regulatory Information Service. This material is not a substitute for reading the Company's Annual Report 2019 in full.

Principal risks and management controls

The following report is extracted from pages 70 to 81 of the Annual Report and Accounts.

Our principal risks and how we manage them

Babcock has an established process that aims to identify and evaluate risks and how they are to be managed. A range of internal control processes is in place as part of the risk management regime. The Board, principally through the Audit and Risk 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 ensures that it controls the risk appetite of the Group through its delegated authorities, which impose strict controls on the Group - for example, all acquisitions and disposals, all material capital expenditure, all material non-ordinary course tenders (material ordinary course tenders are approved by the Chief Executive and the Group Finance Director) and all financing arrangements (unless delegated to the Board's Finance Committee) must be approved by the Board. 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.

Principal risks, risk mitigation and controls

The risks and uncertainties described below through to page 81 are those that the Board currently considers to be of greatest significance to Babcock in that they have the potential to affect materially and adversely Babcock's business, the delivery of its strategy

and/or its financial results, condition or prospects. 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 and control processes in place to manage the risk (which should be read in conjunction with the information above about our risk management approach and general controls).

Babcock is, however, a large and developing group of businesses, and factual circumstances, business and operating environments will change with new risks being identified or the evaluation of the significance of existing risks changing or being better appreciated and understood. This means that the risks identified below are not and cannot be an exhaustive list of all principal risks that could affect the Group.

Risks and uncertainties which might affect businesses in general and that are not specific to the Group are not included, but Babcock, of course, faces such risks as well.

Our customer profile

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 our major customers are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded. Our single biggest customer is currently the UK Ministry of Defence (MOD).

These customers are affected by political and public spending decisions. Commercial customers are also affected by conditions in their market sector which affect their levels of, and priorities for, spending.

Risk Description

Policy changes (following a change of political administration or otherwise) and spending constraints on customers are material factors for the Group's business and outlook.

Whilst the Board believes that policy changes, spending reviews and restraints can offer significant opportunities to the Group to assist in the delivery of services to customers more efficiently and at lower cost, these factors inevitably also carry risk.

Large customers, whether public or private sector, have significant bargaining power and the ability (contractual or otherwise) to cancel contracts without, or on short, notice, often without cause, or they can exert pressure to renegotiate them in their favour.

The consequences for the Group's business of the UK vote to leave the European Union are difficult to predict, as there is likely to be a period of uncertainty over the effects on the nature, timing and scope of the policies and procurement plans of both our current and potential customers in the UK and overseas.

Potential impact

Periods of uncertainty or changes as to the course of customer policy and spending can result in the delay, suspension or withdrawal of tendering processes and the award of contracts.

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 cooperative, partnering approach to customer/supplier relationships; and
- 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.

Mitigation

We have extensive and regular dialogue with key customers, involving, as appropriate, our Chief Executive, sector Chief Executives and/or other members of the senior management team.

In respect of the UK Government, the Group has formalised its ongoing relationship by signing a 'Joint Ways of Working Charter' agreement as part of the UK Government/MOD Strategic Partner/Strategic Supplier Management Programme. The Programme outlines how the Group and the UK Government/MOD intend to work together and includes regular meetings at senior levels to ensure open dialogue between the Group and its principal customer. During the year, a new senior role in the Group was created, reporting to the Chief Executive, with responsibility for the Programme for the Company and to drive progress within the Group.

We actively monitor actual and potential political and other developments and spending constraints that might affect our customers' demand for our services.

We aim to be innovative and responsive in helping customers meet their needs and challenges.

The nature of our contracts, bid processes and markets

We seek to win relatively long-term contracts for the provision of complex and integrated services to our customers. Bidding for these contracts typically involves a protracted and detailed tendering process, often under public procurement rules. There are typically only a relatively limited number of customers in each of the market sectors we serve. The contracts we bid for often entail a substantial transfer of risk from the customer to the supplier.

Failure to realise the pipeline of opportunities and to secure rebids can mean missed opportunities for growth and loss of revenue.

Risk Description

Bidding requires a substantial investment in terms of manpower resource and is very expensive. Bids can be subject to cancellation, delays or changes in scope.

Contract award decisions made under public procurement rules can be subject to legal challenge by losing bidders.

Given the size and often long-term nature of the contracts we bid for and the relatively limited numbers of customers in the markets we serve, significant contracting opportunities tend not to arise on a regular or frequent basis.

When we are bidding for such contracts we have to price for the long term and for risk transfer, and the scope for later price adjustment may be limited or not exist.

Our contracts typically impose strict performance conditions and use key performance indicators (KPIs) that if not complied with trigger compensation for the customer and/or may result in loss of the contract.

Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained.

Potential Impact

If we lose a bid or a bid process is aborted by the customer or we withdraw due to scope changes as it progresses, this is a significant waste of limited resource and substantial expenditure that has to be written off.

If we win a public procurement bid and this is challenged, this could lead to delay in contract award, expensive legal proceedings or the competition having to be re-run.

Not winning a new bid can be a significant missed opportunity for growth which may not soon be replaced by another.

Not winning rebids could mean the loss of significant existing revenue and profit streams.

If we underestimate or under-price actual risk exposure or the cost of performance, this could significantly and adversely affect our future profitability, cash generation and growth.

Compensation to the customer for poor KPI performance could significantly impair profitability under the contract and damages following termination could be substantial.

Unsuccessful bids or rebids may adversely impact the strategic development and growth plans of the Group.

A lack of success in exporting the Group's business model outside the UK and its current core markets could adversely impact the growth prospects and strategic development of the Group.

Mitigation

We have a clear business strategy to target a large bid pipeline, both in the UK and internationally, and will only tender bids for contracts we consider have a clear alignment with the Group strategy and where we believe we stand a realistic chance of success, both in the UK and overseas.

There are formal and rigorous reviews and gating processes. Those at key stages of each material bid are intended to reduce the risk of underestimating risks and costs and ensure that limited bid resources are targeted at opportunities where we consider that we have the best prospects of winning or retaining business.

Group policies and procedures 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.

Reputation

Given the nature of our customers and the markets in which we operate, our reputation is a fun-damental business asset. Our businesses include activities that have a high public profile and/or if they were to involve adverse incidents or accidents, they could attract a high level of publicity.

Risk Description

We have a relatively limited number of customers and potential customers in our market sectors and they typically have high public profiles.

We are involved in the direct delivery to the public on behalf of our customers of high-profile and sensitive services. We also provide services which are critical to our customers' ability to discharge their own public responsibilities or deliver critical services to their customers.

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. The same would be true of high-profile incidents or accidents.

Attitudes to the outsourcing of services generally or in a particular sector can also be adversely affected by the poor performance or behaviour of other service providers or incidents in which we are not involved.

As well as our reputation for service delivery, our ethical reputation is key.

Potential Impact

Given our dependence on individual major customers and the relatively narrow customer base in the markets in which we currently operate, loss of our reputation (whether justified or not) with a major customer or more generally could put at risk substantial existing business streams and the prospect of securing future business from that or other customers in that or other sectors.

Non-compliance with anti-bribery and corruption laws could result in debarment from bidding as well as criminal penalties.

Mitigation

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere on pages 54 to 65. (See also health, safety and environmental risks on page 77.)

Regulatory and compliance burden

Our major businesses are dependent on being able to comply with applicable customer or industry-specific requirements or regulations. Following the UK vote to leave the European Union, the terms of British exit will have implications for the requirements or regulations that are applicable to the business of the Group, including where a licence to operate in the European Union is required.

Risk Description

The cost of compliance can be high. Requirements can change.

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 and also to ownership and control requirements (for example, European air operators must be majority-owned and controlled by European Economic Area nationals).
- Our civil and defence-related nuclear businesses operate in a highly regulated environment.

Geopolitical factors, for example the terms of the UK's exit from the EU, could lead to significant tensions between trading countries.

Potential Impact

Failure to maintain compliance with applicable requirements could result in the loss of substantial business streams (and possible damages claims) and opportunities for future business.

A change in requirements could entail substantial expenditure which may not be recoverable (either fully or at all) under customer contracts.

Changing international circumstances could result in the rise of trade protectionism and reduce the Group's access to non-UK markets.

Mitigation

We seek to maintain a clear understanding of ongoing regulatory requirements and to maintain good working relationships with regulators.

We 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.

However, during the year under review, we have restructured our EU Aviation business in order to take account of the EU requirement that all European air operators must be majority-owned and controlled by European Economic Area (EEA) nationals. Under Regulation (EC) No. 1008/2008 (the Regulation), no undertaking may carry passengers, mail and/or cargo for remu-neration and/or hire unless it has an operating licence from an EU aviation authority. One of the terms of such a licence is that the relevant undertaking must be majority-owned and majori-ty-controlled by EEA nationals. Our Aviation sector currently holds eight such operating licences, which cover certain of the Aviation sector's operations in those territories. If the UK were to leave the EU, the Company, depending on the terms of any exit, may no longer be considered as an EEA national and this could mean that the EU aviation authorities may revoke operating licences, which would have a material adverse effect on the business, financial condition and operations of the Group. In order to mitigate this risk, the operations of those Babcock companies which hold an EU operating licence have been reorganised to separate those parts of their business which need to be conducted by a licensed undertaking from those parts which do not. The companies holding the licences were, once reorganised, transferred to a new sub-group, parented by an EU based holding company. Subsequently, an EU investor subscribed for 50.2% of the voting shares in the EU holding company. 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 aviation authorities, there can be no guarantee that this will prove to be the case.

Health, safety and environmental

Some of our operations entail the potential risk of significant harm to people, property or the environment.

Risk Description

Many of our businesses (for example, our nuclear operations) involve working in potentially hazardous operations or environments, which need to be properly managed and controlled to minimise the risk of injury or damage.

Some, 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 and offshore oil and gas crew change services) or the environments in which they operate (low-altitude flying in adverse weather, terrain or operational conditions).

Potential Impact

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.

To the extent that we have caused or contributed to an incident as a result of failings on our part, or because as a matter of law we would be strictly liable without fault, the Group could be exposed to substantial damages claims, not all of which exposure may be insured against, and also to criminal proceedings which could result in substantial penalties.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously and adversely affect the reputation of the Group or its brand (whether that would be justified or not), which could lead to a significant loss of business or future business opportunities.

Mitigation

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 and extensive and ongoing education and training programmes for staff.

The Board receives half-yearly reviews of health and safety and environmental performance and the management reports tabled at each of its meetings also address health, safety and environmental issues on an ongoing basis.

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

Nuclear risks: we believe, having regard to the statutory regime for nuclear liability in the UK, the terms on which we do nuclear engineering business and the terms of indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD in respect of the nuclear site licensee companies in which we are interested, that the Group would have adequate protection 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.

People

Our business delivery and future growth depend on our ability adequately and successfully to plan for management succession and for our continuing and future need to recruit, develop and retain experienced senior managers, business development teams and highly skilled employees (such as suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups).

Risk Description

Competition for the skilled and experienced personnel we need is intense and they are likely to remain in limited supply for the foreseeable future. This poses risks in both recruiting and retaining such staff.

Potential Impact

Competition for the skilled and experienced personnel we need is intense and they are likely to remain in limited supply for the foreseeable future. This poses risks in both recruiting and retaining such staff.

Mitigation

We give a high priority and devote significant resources to recruiting skilled professionals, training and development, succession planning and talent management.

The Board, the Nominations Committee and the Group Executive Committee regularly receive reports on and/or discuss these matters.

Apprentice and graduate recruitment programmes are run in all sectors.

Further information about this subject and how we address it is on pages 59 to 61 of this Annual Report.

Pensions

The Group has significant defined benefit pension schemes. These provide for a specified level of pension benefits to scheme members, the cost of which is met from both member and employ-er contributions paid into pension scheme funds and the investment returns made in those funds over time.

Risk Description

The level of our contributions is based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation, regulatory environment, etc. 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.

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.

Potential Impact

Should the assets in the pension schemes be judged insufficient to meet pension liabilities, we may be required to make increased contributions and/or lump sum cash payments into the schemes. 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.

Accounting standards for pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macro-economic circumstances beyond the control of the Company.

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

Continuous strategic monitoring and evaluation is undertaken by Group senior management of the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.

The Company and the schemes' trustees have agreed a long-term investment strategy and risk framework intended to reduce the potential impact of the schemes' exposure to changes in inflation and interest rates.

Longevity swaps have been used to limit the potential impact of the schemes' exposure to increasing life expectancy.

IT and security

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.

The Group is rolling out a new Enterprise Resource Planning (ERP) application for our 'back of-fice' operations which also provides some front end functionality.

Risk Description

Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent all risk of security breaches or cyber-attacks being successful in their attempts to penetrate our network security and misappropriate confidential information. The risk of loss of information or data by other means is also a risk that cannot be entirely eliminated.

Installing major new IT systems carries the risk of key system failures and disruption.

Potential Impact

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. This could have an adverse effect on the Group's ability to win future contracts and, consequently, on our results of operations and overall financial condition.

Failure adequately to plan and resource the implementation of the new ERP systems or difficulties experienced in doing so could cause both trading and financial reporting difficulties that could be material.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally.

We have formal security and information assurance governance structures in place to oversee and manage cyber-security and similar risks.

The Board receives reports at least quarterly on security and information assurance matters.

The ERP implementation project is overseen and closely monitored by steering and working groups, is regularly reported on to the Group Executive Committee and will be implemented in a phased approach (with parallel running of old and new systems for a period) to what we believe is a realistic timetable.

Currency exchange rates

As we expand outside the UK, our financial results are increasingly exposed to the impact of currency exchange rates.

Risk Description

We prepare our consolidated results in Sterling and translate the value of assets, liabilities and turnover reported or accounted for in non-Sterling currencies.

Exchange rate movements can therefore affect the Sterling financial statements and results of the Group.

Expenses or commitments may be incurred in a currency that is different from the related turnover or income needed to discharge them.

Non-Sterling currencies to which we are currently most exposed are the Euro, US Dollar, South African Rand and, increasingly, Australian Dollar, Canadian Dollar, Norwegian Krone, Omani Rial and Swedish Krona.

Potential Impact

If the currencies in which our non-UK business is conducted are weak or weaken against the value of Sterling, this will adversely affect our reported results and the value of any dividend income received by the Company from non-UK operations. If the cost of an operation or a contractual commitment is denominated or incurred in a currency different from the currency of the income received from that operation or that is being relied on to discharge that commitment, movements in exchange rates can reduce the profitability of the operation and increase the effective cost of discharging the commitment.

Mitigation

We seek to mitigate exposure to movements in exchange rates in respect of material foreign currency denominated transactions (for example, through use of derivative instruments). However, we do not use derivatives to hedge against the currency effect of translating our financial state-ments or our net assets and income of non-UK subsidiaries and long-term equity accounted in-vestments. We maintain some foreign currency borrowings to limit, in part, the net foreign currency exposure.

Acquisitions

The Group has grown and expects to continue to grow by making acquisitions as well as organically.

Risk Description

The financial benefits of acquisitions may not be realised as quickly and as efficiently as expected.

Potential Impact

Failure to realise the anticipated benefits of an acquisition, or delay or higher than expected costs in so doing, could adversely affect the strategic development, business, financial condition, results of operations or prospects of the Group.

The diversion of management attention to unexpected difficulties encountered with acquisitions could adversely affect the Group's business.

Post-acquisition performance of the acquired business may not meet the financial performance expected at the time the acquisition terms were agreed and could fail to justify the price paid, which could adversely affect the Group's future results and financial position.

Mitigation

Full financial and other due diligence is conducted as far as may reasonably be achievable in the context of each acquisition and a detailed business case, with forward looking projections, is submitted to the Board in respect of each acquisition. Integration risk is considered at an early stage as part of the review of acquisition opportunities and detailed integration planning takes place before completion of the acquisition.

The following extract from the Annual Report and Accounts is Note 34 on pages 201 and 202.

Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 14.

2019	2019 Revenue to £m	2019 Purchases from £m	2019 Year end debtor balance £m	2019 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	69.6	(0.1)	-	-
ABC Electrification Limited	-	-	4.6	-
First Swietelsky Operation and Maintenance	9.9	-	-	(0.8)
FSP (2004) Limited	-	(0.1)	-	-
Ascent Flight Training (Management) Limited	1.1	-	5.0	-
Rotary Wing Training Limited	3.3	-	-	-
Fixed Wing Training Limited	4.6	-	0.4	-
Advanced Jet Training Limited	2.4	-	0.3	-
Rear Crew Training Limited	1.0	-	-	-
AirTanker Services Limited	12.3	-	0.3	-
Alert Communications Limited	4.1	-	0.4	(0.2)
Naval Ship Management (Australia) Pty Limited	4.9	-	-	-
Cura Classis (UK) Limited	1.7	-	-	-
Cura Classis (US) LLC	1.5	-	-	-
Cura Classis Canada (Hold Co) Inc.	3.9	-	-	-
Cavendish Dounreay Partnership Limited	5.5	(0.1)	0.2	-
Cavendish Fluor Partnership Limited	32.9	(0.1)	0.2	-
Cavendish Boccard Nuclear Limited	3.4	-	-	-
	162.1	(0.4)	11.4	(1.0)

2018	**2018 Revenue to £m**	**2018 Purchases from £m**	**2018 Year end debtor balance £m**	**2018 Year end creditor balance £m**
Joint ventures and associates				
Holdfast Training Services Limited	**72.0**	**-**	**0.3**	**-**
ABC Electrification Limited	**-**	**-**	**3.8**	**-**
First Swietelsky Operation and Maintenance	**10.5**	**-**	**0.5**	**(0.8)**
FSP (2004) Limited	**-**	**(0.3)**	**-**	**-**
Ascent Flight Training (Management) Limited	**0.5**	**-**	**-**	**-**
Ascent Flight Training Holdings Limited	**0.8**	**-**	**-**	**-**
Fixed Wing Training Limited	**9.6**	**-**	**-**	**-**
Rear Crew Training Limited	**4.2**	**-**	**-**	**-**
AirTanker Services Limited	**9.1**	**-**	**0.5**	**-**
Alert Communications Limited	**7.3**	**-**	**0.7**	**-**
ALC (Superholdco) Limited	**-**	**-**	**5.3**	**-**
Naval Ship Management (Australia) Pty Limited	**4.6**	**-**	**-**	**-**
Cura Classis (UK) Limited	**3.7**	**-**	**-**	**-**
Cura Classis (US) LLC	**5.0**	**-**	**-**	**-**

Cura Classis Canada (Hold Co) Inc.	**12.9**	**-**	**-**	**-**
Cavendish Dounreay Partnership Limited	**3.9**	**-**	**0.3**	**-**
Cavendish Fluor Partnership Limited	**32.3**	**(0.2)**	**0.6**	**-**
Cavendish Boccard Nuclear Limited	**2.4**	**-**	**0.3**	**-**
Duqm Naval Dockyard SAOC	**-**	**-**	**1.0**	**-**
	178.8	**(0.5)**	**13.3**	**(0.8)**

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 25 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 7.

(d) Transactions in employee benefits trusts are shown in note 24.

Directors' responsibility statement

The following statement is extracted from pages 138 and 139 of the Annual Report and Accounts.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Company financial statements in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Group's financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' report, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

- In the case of each Director in office at the date the Directors' report is approved:
- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Each of the Directors listed below (being the Board of Directors at the date of this Annual Report and these financial statements) confirms that to the best of his or her knowledge:

- the Group financial statements (set out on pages 152 to 207 which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and the Strategic report and Directors' report contained on pages 1 to 139 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In addition, each of the Directors listed below considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position, performance, business model and strategy.

Mike Turner	Chairman
Ruth Cairnie	Non-Executive Director
Sir David Omand	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director
Ian Duncan	Non-Executive Director
Lucy Dimes	Non-Executive Director
Myles Lee	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
Jeff Randall	Non-Executive Director
Archie Bethel	Chief Executive
Franco Martinelli	Group Finance Director
John Davies	Chief Executive, Land