Chair's introduction

Ruth Cairnie
Chair

Dear Shareholder

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

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

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

Board changes

Board structure

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

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

Board membership

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

New leadership team

We have been very focused this year on finding successors to Archie Bethel as CEO and Franco Martinelli as CFO. David Lockwood took over the CEO role in September last year and was joined by David Mellors as CFO in November. I was pleased that the thorough and thoughtful process to select our new CEO and CFO progressed at pace despite the COVID-19 challenges, and that the whole transition was achieved without uncertainty or disruption within the organisation: an important consideration given the critical nature of our operations.

Board process and climate

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

New operating model

On joining the Group, David Lockwood and David Mellors undertook an in-depth review of our business model and operational design. As a result of the review, the Board recognised that Babcock's previous strongly federated and fragmented organisational design did not support Babcock's scale, breadth and complexity. As a consequence, David Lockwood has created a new operating model better able to underpin Babcock's more focused and purpose-driven future.

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

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

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

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

Board governance

- Refreshed Board to drive tone from the top
  - New Executive Directors
  - New Senior Independent Director
  - New Audit Committee Chair
  - New Remuneration Committee Chair
- Enhanced focus and accountability of Board Committees by reducing membership
- Refreshed the role of the Disclosure Committee and established the UK Security Committee
- Streamlined Board agendas and focused Board papers
- Approved the new risk management process
- Approved enhanced delegation of authority
- Reviewed letter of representation covering policy compliance from management every six months

Please see above and the following pages.

Financial control

- Simplification of income statement and cash flow management reporting
- Standardised management reporting across the Group
- Developed standards of financial control
- Revised Group accounting policies
- Revised Treasury controls and policies
- Revised sector business and balance sheet reviews

Please see page 47.

Operating model

- Launched new operating model
- Standardised bid review process
- Group-wide common approach to project management, project reviews and change control
- Refreshed Corporate Safety Leadership Team

Please see pages 13 and 47.

COVID-19 response

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

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

Strategy

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

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

Purpose and culture

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

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

ESG

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

Independent board evaluation

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

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

2022

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

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

Ruth Cairnie
Chair

Babcock Festival of Engineering for local Rosyth school children.

Board of Directors

Ruth Cairnie
Chair

Appointed: April 2019

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

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

David Lockwood OBE
Chief Executive Officer

Appointed: September 2020

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

Current external appointments: None

David Mellors
Chief Financial Officer

Appointed: November 2020

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

Current external appointments: None

Carl-Peter Forster
Senior Independent Director

Appointed: June 2020

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

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

Kjersti Wiklund
Independent Non-Executive Director

Appointed: April 2018

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

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

Russ Houlden
Independent Non-Executive Director

Appointed: April 2020

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

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

Prof. Victoire de Margerie*
Independent Non-Executive Director

Appointed: February 2016

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

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

Myles Lee*
Independent Non-Executive Director

Appointed: April 2015

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

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

Lucy Dimes
Independent Non-Executive Director

Appointed: April 2018

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

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

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

Appointed: November 2020

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

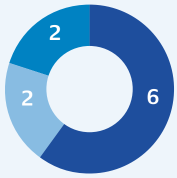
Current external appointments: Lord Chamberlain (head of the Royal Household), member of the House of Lords, Board Adviser to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

Appointment key

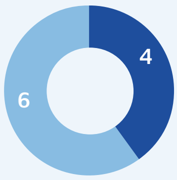
- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- D Disclosure Committee
- Board Committee Chair

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

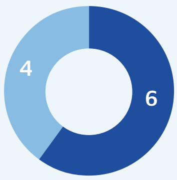
Board Diversity*



BY TENURE
- 0-3 Years
- 3-5 Years
- 5-9 Years



BY GENDER
- Female
- Male



BY NATIONALITY
- UK
- International

* July 2021.

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

Executive Committee

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

Will Erith
Chief Executive, Marine

Appointed: December 2020

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

Simon Bowen
Chief Executive, Nuclear

Appointed: April 2017

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

Tom Newman
Chief Executive, Land

Appointed: December 2020

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

Neal Misell
Chief Executive, Aviation

Appointed: April 2020

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

Nikki Fox
Chief Human Resources Officer

Appointed: January 2021

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

John Howie MBE
Chief Corporate Affairs Officer

Appointed: April 2016

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

Jon Hall
Chief Innovation & Technology Officer

Appointed: April 2017

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

Jack Borrett
Group Company Secretary and General Counsel

Appointed: July 2016

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

Collette McMullen
Chief of Staff

Appointed: June 2021

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

Statement of compliance

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

1. Board leadership and company purpose

The Directors of the Company are set out on pages 104 and 105.

Long-term value

Our business model is set out on pages 20 and 21 and our strategy can be found on pages 16 and 17. Principal risks are on pages 87 to 95.

Purpose and culture

Our purpose is set out in the Strategic report on page 7. The Board's consideration of our purpose and culture is described on pages 102 and 111.

Stakeholders

Our key stakeholders are set out in the Strategic report on pages 58 and 59, with the section 172(1) statement on page 79 with details of how the Board has engaged directly with stakeholders and how the Directors have had regard to stakeholders when undertaking their duties can be found on pages 114 to 116.

Workforce policies and practices

Our people strategy, described on pages 22 and 23, has been designed to support our values and long-term sustainable success.

2. Division of responsibilities

Role and independence of Directors

We are satisfied as a Board that all our Non-Executive Directors are independent and we have the right balance of executive and non-executives on the Board see page 109. We are also satisfied that the Non-Executive Directors have sufficient time to meet their Board responsibilities.

Board and Committee meetings

Information on the operations of the Board and its Committees can be found throughout this section, with a table detailing the number of meetings and Director attendance for the Board and the key Board Committees on page 109.

Directors' external commitments

Details of the Board's current external commitments are provided in their biographies on pages 104 and 105.

3. Composition, succession and evaluation

The Nominations Committee Report can be found on pages 117 and 118.

Director appointment and succession planning

The Nominations Committee has responsibility for ensuring that the Board has the correct balance of skills, experience and knowledge, and oversees succession planning. See page 118.

Diversity and inclusion

The Board's oversight of diversity is described on page 118 and details of the Group's diversity policy and objectives, together with the gender balance of senior management and other groups, is provided on pages 72 and 73.

Board evaluation

An evaluation of the Board, Board Committees and individual Directors is undertaken annually. A description of the externally led process undertaken this year is provided on page 111.

4. Audit, risk and internal control

The Audit Committee Report can be found on pages 119 to 131.

Internal controls

The result of the Board's review of the effectiveness of the Company's internal control systems is on page 158. The Board concluded that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office. For more information, see page 131.

Audit and integrity of financial reporting

For information on our external audit tender and for review of our financial information reporting processes see page 119 and pages 129 to 130.

Risk reporting

Our approach to risk management along with the Group's principal risks is set out on pages 84 to 95.

Other reporting requirements

The Board's approach to ensure a fair, balanced and understandable report is provided on page 124. The Going concern and viability statement can be found on pages 96 and 97. The Directors' responsibility statement is on page 158.

5. Remuneration

The Remuneration Committee Report can be found on pages 132 to 153.

Remuneration policies and practices

For an explanation of how our remuneration policies and practices support our strategy for long-term sustainable success, see pages 136 to 142.

Remuneration policy and its implementation

Our approach to developing Remuneration policy is described on pages 132 and 133 and a report of how it was implemented during the year on pages 143 to 153.

Our governance framework

The Board

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

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

Principal Board Committees

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

See pages 119 to 131.

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

See pages 132 to 153.

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

See pages 117 and 118.

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

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

Group Executive Committee

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

Principal Management Committees

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

See page 70.

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

See page 73.

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

See page 113.

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

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

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

Roles and responsibilities

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

Review of independence of Non-Executive Directors

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

Board of Directors

The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development. This was evidenced by the Directors attendance at additional meetings as required during the year.

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

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

Conflict of interests

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

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

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

Summary of key matters reserved for the Board

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

Meetings and attendance

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

Board induction and development

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

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

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

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

David Lockwood joined the Company in August after the end of the first COVID-19 lockdown. As such he was able to visit the Group's principal UK sites. He was also able to visit certain key sites in Europe. During these visits, he had the opportunity to meet and talk with a broad range of employees from sector management, local management and front-line employees. During his induction, he also met with the Group's auditors and external advisors. These meetings covered the full range of topics relating to the Company's business. As well as hearing from different levels of the Company, David Lockwood was keen to understand the views and priorities of the Company's external stakeholders. To this end, he met with the Company's principal shareholders as well as with the Company's key contacts in the UK Government, the Group's most significant customer, again to get a better understanding of their views.

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

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

Board performance review

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

Progress against last year

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

External Board evaluation 2021

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

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

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

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

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

How the Board monitors culture

Leading by example

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

Listening to our people

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

Cultural indicators

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

Ethics and whistleblowing

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

Key areas of Board focus

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

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

Stakeholder engagement

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

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

	Information flow to the Board	Direct Board engagement
Customers	• Monthly written reports from Executive Directors include material customer matters • Sector CEOs and the Executive Directors give briefings at Board meetings • Strategic Supplier Partnership briefings	During the year the Chair and the Executive Directors had regular meetings with the Group's key customers.
Investors	• Reports from Investor Relations • Treasury reports • Investor meetings/roadshow • In normal circumstances, availability at AGM	The Board engaged directly with its investors. David Lockwood and David Mellors have met institutional shareholders extensively since joining the Company during the year. In addition, the Chair regularly meets with shareholders. The Chair of the Audit Committee also met with shareholders during the year (see page 121) and, in the early part of the year, the Chair of the Remuneration Committee engaged with the Company's top shareholders in connection with the Company's new Remuneration policy. Directors usually meet shareholders at the AGM, which provides an opportunity for private investors to ask questions direct to the Board. It was not possible this year due to COVID-19 restrictions, although shareholders were encouraged to submit questions via email. Subject to prevailing Government restrictions, the Board intends to return to a physical AGM in September 2021, when shareholders will again have the opportunity to meet and ask questions of Directors.
Employees	• Report on the new people strategy by Chief Human Resources Officer underpinned by feedback from focus groups, employee forum and surveys • Chair of the Diversity and Inclusion Steering Committee attended and reported to a Board meeting • Whistleblowing reports	The CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email. The Chair introduced the ESG programme to all employees via a vlog. Members of the Board meet employees during site visits, although during the year these were severely restricted. The intention is to resume such visits as soon as circumstances allow and additionally this will be enhanced following the recent appointment of Lord Parker as director responsible for workforce engagement. Members of the senior leadership team regularly present to the Board.
Regulators	• Monthly reports as applicable	The Board relies on dedicated functions, at a Group, sector or business unit level and does not have direct contact with Regulators unless appropriate.
Suppliers	• Briefings from Group Head of Procurement • Audit Committee supplier risk review • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Statement	Principal engagement is undertaken by operational management and the Group procurement function.
Communities	• Health, safety and environment updates • Monthly sector reports where applicable • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is, with no direct engagement by the Board of Directors. The Board's engagement levels were considered as part of the stakeholder mapping exercise undertaken and found to be appropriate.

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

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

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

How the Board keeps s172 on its agenda

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

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

Nominations Committee Report

Dear Shareholder

There have been significant changes to the Board during the last financial year for which the Nominations Committee has taken a central role, on behalf of the Board, in the appointment processes.

Executive director changes

Arguably, the most important role of the Committee is to support the appointment of Executive Directors when required to do so. Following Archie Bethel's decision to retire from the Company, the Committee led the process to appoint his successor. Our approach placed a clear focus on the future needs of the Company, considering its strategic direction, as well as the key skills, qualities and experience that the post would require. The Committee appointed Savannah as lead search consultant due to its expertise and knowledge of the Group's sector; Savannah has no other connections with the Company or any Director. The Committee asked Savannah to prepare a long list that contained as diverse a range of individuals as possible, including international candidates. The Committee also reviewed the existing succession pipeline to identify potential internal candidates.

The Committee established a sub-group, led by the Chair, to manage the detailed review and selection process. The members of the sub-group met the shortlisted candidates in what had to be a mostly virtual process due to the COVID-19 restrictions. The sub-group used a structured assessment approach to frame its discussions of the candidates, which identified two preferred candidates for further consideration. The sub-group kept the full Committee updated on progress and consulted its members throughout the process.

Before making a final decision, the Committee reviewed extensive references from previous employers and peers as an important supplement to the selection process, given the limited in-person meetings that had taken place. The Committee also reviewed the quality of its selection process to confirm that it was thorough and structured, as well as broad and diverse.

In conclusion, the Committee was pleased unanimously to recommend to the Board the appointment of David Lockwood as CEO. David has extensive prior experience as a CEO in both the defence and technology sectors and is held in high regard by investors for his strategic insight and record of delivering value.

Following Franco Martinelli's decision to retire, the Committee followed a similar approach to finding his successor as CFO, working in conjunction with David Lockwood in identifying the key requirements and in assessing various candidates. Once again, the Committee made a unanimous recommendation to the Board to appoint David Mellors, who brings extensive experience in the defence sector, having previously been CFO of both QinetiQ and Cobham. I am particularly pleased with the way in which these recruitment processes were conducted and concluded at pace, despite the impacts of COVID-19.

Non-Executive director changes

As I discussed in last year's Nominations Committee Report, following search processes already completed, Russ Houlden and Carl-Peter Forster both joined the Board during this financial year, in April 2020 and June 2020 respectively. Russ took over as Chair of the Audit Committee after last year's AGM. At the same time, Carl-Peter became our Senior Independent Director, succeeding Sir David Omand, who

Quick facts

The Committee

- Ruth Cairnie chairs the Committee.
- The other members throughout the year were all the prevailing Non-Executive Directors. Please see pages 104 and 105 for biographies and page 109 for attendance.

Highlights

- Appointment of new CEO
- Appointment of new CFO
- Appointment of new SID
- Appointment of new Audit Committee Chair
- Appointment of new Non-Executive Director
- Managing the transition to new CEO and CFO

Key responsibilities

- Board and Committee composition
- Succession planning
- Talent and diversity pipeline
- Board appointment process

Activities undertaken by the Committee during the year

In the last financial year, the Committee considered the following key areas:

Matters considered	Discussion and outcome	More information
Board succession	The Committee conducted a search for a new CEO, a new CFO and a new Non-Executive Director.	See pages 104-105 for Board composition
Senior management succession	The Committee considered senior management succession and received a briefing from the Group's Organisation and Development Officer on talent and succession planning.	See below for more information
Terms of reference	The Committee reviewed its terms of reference.	Terms available on the Babcock website
Committee effectiveness	The Committee underwent an external review of its effectiveness.	See page 111 for more information

stepped down from the role. Sir David retired from the Board at the end of the financial year and I would like to thank him, not only for his long service to the Company, but also for his support and advice since my appointment as Chair.

With Sir David's planned retirement from the Board, the Committee considered how best to replace his extensive knowledge of the Group's principal customer, the UK Government. As this was a very specific requirement, the Committee decided not to use an external search consultant, but to rely on its own knowledge and networks. The Committee considered a range of potential candidates. In November 2020, the Committee was pleased to recommend the appointment of Sir Andrew Parker, now Lord Parker, the former Director General of MI5. Lord Parker brings outstanding experience of leading organisations through complex challenges, alongside his extensive experience of working at the highest level of public service.

Future Board composition

Myles Lee and Victoire de Margerie have announced their intention to retire from the Board at the end of this year's AGM. I would like to thank both Myles and Victoire for their contributions to the Company and the Board. The Committee has developed a Board skills matrix, which it will use to set the criteria for identifying their successors, including a strong focus on diversity.

Diversity and inclusion

The Committee shares the Board's belief in the importance of increasing diversity across the organisation. In its own selection and appointment work, the Committee asks its search consultants to prepare diverse long lists. The Committee also focuses on diversity when it reviews the Group's talent pipeline and supports and encourages the plans and initiatives being adopted to drive progress across the organisation. These include the work that the Company undertakes to support improvement in the under-representation of women in the engineering sector (please see pages 72 and 73). The Committee recognises that there is still much work to do but is encouraged that the new people strategy, currently under development as described on page 22, and the new integrated HR function and Group-wide approach will help to accelerate progress. In particular, the Committee welcomed the adoption of Group-wide diversity targets as set out on page 72, together with our gender balance statistics.

In the past, the focus on diversity has been mostly directed towards gender diversity. However, the Committee shares the view of the Board and management that diversity should encompass a wide range of factors, including gender, ethnicity, experience, background, perspective, skills and thinking styles, which, when combined, can contribute to a high-performing and effective organisation. The Committee has set itself the target of meeting the Parker Review recommendation to have one Director from an ethnic minority background by 2024.

For more information on the vision for diversity and inclusion see page 72.

Succession planning

As referred to above, the Committee oversees the Company's talent pipeline, as well as the Company's processes for developing talent.

In the year, the Committee met with the Group's Organisation and Development Director to review the Company's succession plans and its talent strategy. This review considered both the current succession pipeline to the Group's Executive Committee, as well as a review of more junior talent, in order to get a full picture of the depth of the pipeline. Subsequent to this review however, the Company's approach to talent management is being refreshed as part of the new people strategy. The Committee welcomes the fresh energy and focus being brought to talent management and to succession planning and looks forward to receiving presentations on the new approach.

Ruth Cairnie
Committee Chair

Audit Committee Report

Dear Shareholder

This is my first report as Chair of the Audit Committee. My main objective has been to review and improve the quality of financial reporting, audit and the oversight provided by the Audit Committee. We have made substantial progress but there is still more to do.

Audit committees have an important role in protecting the interests of shareholders and other stakeholders in relation to financial reporting and internal control arrangements, in ensuring effective internal and statutory audits and in constructively challenging the proposals of the management team relating to the content and disclosures within the financial reports.

Prior to my appointment as Audit Committee Chair in August 2020, I requested a review of difficulties encountered in the financial reporting and audit process for the year ended 31 March 2020. The outcome of this review was reported to the Audit Committee in July 2020 and progress on the recommendations was reported at the Audit Committee's meetings in September 2020 and March 2021. The actions taken have led to substantial improvements in the scope, quality and timeliness of management papers presented to the Audit Committee for review.

In September 2020, the Audit Committee concluded the process, referred to in last year's Annual Report, for the appointment of a new statutory auditor for the year ending 31 March 2022. As part of this process, we decided to require the new auditor to provide a review report on the half year results, which had not been part of the engagement with PwC . This should give greater confidence in the quality of half year reporting starting in the 2021/22 financial year. After a rigorous selection process outlined on pages 129 and 130 the Audit Committee recommended to the Board that, subject to shareholder approval, Deloitte should succeed PwC as the Company's statutory auditor. From the proposals received, the Committee is confident that it has selected the highest-quality audit proposal.

In November 2020, I agreed with PwC that we would be an early adopter of emerging best practice engagement level Audit Quality Indicators to monitor the quality of the 2020/21 audit. These were approved at the March 2021 Audit Committee meeting and used from March to July to improve the real-time monitoring of the quality and effectiveness of the audit.

Also in November 2020, the Audit Committee agreed that the new management team would consider best practice approaches in relation to the presentation of our financial results. Management presented its proposals for changes to the presentation of specific adjusting items including exceptionals, free cash flow and joint ventures in March and April 2021. The Committee approved these changes which we believe will make it easier for investors, analysts and other stakeholders to understand our business.

We announced in January 2021 that our new management team, with the support of an independent accounting firm, was conducting a contract profitability and balance sheet review. This wide-ranging review resulted in around 130 matters for consideration by PwC through the audit and by the Audit Committee. These were reviewed as they emerged during March, April, May, June and July, supplemented and challenged by PwC, reviewed by the Audit Committee, and amended as required. By the end of the audit in July, management, PwC and the Audit Committee had agreed 147 accounting adjustments relating to 128 matters. The total post tax profit impact of these accounting adjustments was around £2.0 billion, comprising changes in 2020/21 (£1,814 million post tax), the vast majority of which are changes in estimates, and prior year restatements resulting from the correction of 42 prior period errors (£171 million post tax) and one change in accounting policy (£60 million post tax).

As a result of the contract profitability and balance sheet review, the Group has been in correspondence with the FRC and FCA, details of which are set out on page 127.

In addition, partly through PwC's normal year end audit work and partly through the contract profitability and balance sheet review, we identified errors in the first half unaudited results. This reinforces the importance of the decision taken in August 2020 as part of the audit tender process to require our new auditor to give a review report on the half year results starting in 2021/22.

The substantial extra workload for management, PwC and the Audit Committee as a result of the contract profitability and balance sheet review, together with the impact of COVID-19 on the audit, caused us to defer the publication of our preliminary full year results from 26 May to 30 July 2021. We took a conscious decision to prioritise quality over speed.

Auditor independence is a key principle, and the Audit Committee was satisfied that PwC was independent for the purposes of their audit of the 2020/21 financial statements (see page 128) and that Deloitte will be independent for the purposes of their audit of the 2021/22 financial statements (see page 130). The Committee also ensured that the relationship between the Committee, the auditor and management is appropriate with no undue influence by any of the parties on any other, thereby ensuring the integrity of the audit process.

Whilst we have made substantial improvements in 2020/21, we are committed to continuous improvement and aim to take further steps to improve our financial reporting and the quality of the Audit Committee's oversight for the benefit of shareholders and other stakeholders:

- We will continue to focus on improving the quality of management papers reviewed by the Audit Committee.
- We will continue our emphasis on improving the quality of the statutory audit.
- We will monitor the implementation of the programme of improvement of internal and financial controls with a particular focus on Group Head Office, Aviation and Land.
- We will review the scope of internal audit and we will assess whether there is a better alternative to our current outsourced model.
- We will, as part of the wider Corporate Governance event highlighted in the Chair's introduction to the Governance section (see page 103), engage proactively with our larger shareholders regarding the Audit Committee's work in 2020/21 and plans for 2021/22.
- We will oversee the quality of implementation of digital financial reporting using the European Single Electronic Format.
- We will consider preparatory steps for the main, longer lead-time changes likely to result from the UK Government's proposals on "Restoring trust in audit and corporate governance".

I would like to thank my colleagues on the Committee for their support during this year of substantial change. We will continue our improvement journey in the year ahead.

Russ Houlden
Committee Chair

Quick facts

The Committee

- Russ Houlden has chaired the Committee since August 2020. He is a qualified accountant and a qualified corporate treasurer. He has served as CFO of a FTSE 100 company and an NZX50 company and as Audit Committee Chair of a WIG20 company. The Nominations Committee considers that Russ Houlden has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the Company operates.
- The other Committee members are Myles Lee (who is also a qualified accountant with experience as Finance Director of a FTSE 100 company and as Audit Committee Chair of a FTSE 350 company), Kjersti Wiklund and Lucy Dimes, all of whom are independent Non-Executive Directors. Ian Duncan chaired the Committee until he retired from the Board at the AGM in August 2020.
- Attendance at Committee meetings is set out on page 109, and the relevant Directors' biographies are on pages 104 and 105.
- The Committee regularly invites the CEO, the CFO, the Company Secretary and the Group Financial Controller, as well as representatives from the statutory auditor, PwC, and the internal auditor, BDO, to attend its meetings. None of these attendees are members of the Committee.
- PwC and BDO each have time with the Committee to share any concerns they or the Audit Committee may have without management being present.

Highlights

- Substantial improvements in papers presented to the Audit Committee.
- On-boarding of new internal auditor in 2020/21 and improvement in the process for setting the internal audit plan for 2021/22.
- Review of statutory auditor performance in 2019/20 and early adoption of best practice engagement-level Audit Quality Indicators for 2020/21.
- Selection of statutory auditor for 2021/22 and extension of scope to include a half year review report.
- Contract profitability and balance sheet review resulting in 147 accounting adjustments, some of which would probably have been discovered through normal year end processes.
- Improvements in presentation of adjusting items, joint ventures and free cash flow.

Key responsibilities

- Leading tenders for internal and statutory auditors, agreeing their fees and making recommendations to the Board for the appointments.
- Establishing policies for the provision of any non-audit services by the statutory auditor.
- Reviewing the scope and the results of the statutory audit and reporting to the Board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Reviewing the half year and annual financial statements and any announcements relating to financial performance, including reporting to the Board on the significant issues considered by the Committee.
- Reviewing the scope, remit and effectiveness of the internal audit function.
- Reviewing the effectiveness of the Group's internal control and risk management systems.
- Reviewing the Group's procedures for reporting fraud, bribery and corruption.

Shareholder engagement

Our Audit Committee Chair, Russ Houlden, is available to engage one-on-one with large shareholders on request through Babcock's Investor Relations team. Two large shareholders requested meetings with him in July and September 2020, prior to the first Audit Committee meeting that he chaired in September 2020. Topics discussed included: shareholders' observations about the Avincis acquisition in 2014, the management team in 2019/20 and financial reporting (including the goodwill impairment) in 2019/20; and Russ's observations on the Audit Committee and the plan to tender for a new statutory auditor for 2021/22, one year ahead of the legal requirement to change.

In 2021/22, Russ will engage proactively with large shareholders as part of the wider Corporate Governance event (see page 103) and will continue to be available on request for one-on-one discussions.

Reporting timetable

The timetable published at the beginning of the year envisaged the publication of the preliminary full year results on 26 May 2021.

As a result of the additional workload for management, auditors and the Audit Committee involved in addressing the unprecedented number of accounting adjustments (147) from the contract profitability and balance sheet review, compounded by the COVID-19 restrictions on face-to-face meetings on sites around the world, it was necessary to take more time to ensure that the results we published would be of the quality needed to restore trust and confidence in our corporate reporting. The need for careful consideration of the (128) matters by management, our auditor and the Audit Committee resulted in six extra meetings of the Audit Committee in April-July and the publication of our preliminary full year results on 30 July 2021.

Activities of the Committee for the 2020/21 financial year

The Committee has an extensive agenda of items of business focusing on the financial reporting, audit, assurance and risk management processes within the business, which it deals with in conjunction with senior management, the external auditor, the internal audit function and the financial reporting team. In doing so, it aims to deliver high standards of financial governance, in line with the regulatory framework as well as market practice for audit committees. Items of business considered by the Committee during the year are set out in the table below.

Matters considered	Discussion and outcome	Find out more
Financial reporting		
Year end financial reporting review	The Committee reviewed a paper on difficulties experienced in the financial reporting process for the year ended 31 March 2020 and approved the recommendations, all except one of which were implemented by 31 March 2021.	**See the Audit Committee Chair's letter on pages 119 and 120**
Fair, balanced and understandable	The Committee reviewed the 2021 Annual Report and the Group's interim and annual financial statements and received reports from the Company Secretary and the Group Financial Controller. After due challenge and careful consideration, the Committee recommended the approval of the fair, balanced and understandable statement by the Board.	**See page 124**
Key accounting matters	The Committee reviewed management papers on the key accounting matters in the Group's financial statements, challenging management's assumptions, interpretations and judgements where appropriate. After the reviews, the Committee supported the approval of the half year and full year financial statements.	**See pages 125 and126**
Free cash flow	The Committee reviewed a management paper on the definition and presentation of free cash flow in Group's Annual Report and Financial Statements for the year ending 31 March 2021 and approved the changes proposed.	**See pages 31 and 126**
Specific adjusting items including exceptional items	The Committee reviewed a management paper on the definition and presentation of specific adjusting items including exceptional items in the Group's Annual Report and Financial Statements for the year ending 31 March 2021 and approved the changes proposed.	**See pages 31, 125 and 127**
Joint ventures	The Committee reviewed a management paper on the presentation of joint ventures in the Group's Annual Report and Financial Statements for the year ending 31 March 2021 and approved the changes proposed.	**See pages 30 and126**

Activities of the Committee in the 2020/21 financial year continued

Matters considered	Discussion and outcome	Find out more
Financial reporting continued		
COVID-19	The Committee considered the updated forecasts reviewed by the Board and ensured that they were appropriately reflected in accounting estimates used, for example, in the assessment of goodwill impairment, fixed asset impairment and deferred tax recoverability. The Committee also reviewed the estimate of the operating profit impact in 2020/21 of COVID-19 and approved the disclosure which aims to help shareholders and other stakeholders to gain a better understanding of business performance.	
Contract profitability and balance sheet review	The Committee reviewed the findings and recommendations from management's contract profitability and balance sheet review. This included the correction of prior year errors, one change in accounting policy and revisions to estimates resulting in impairment of goodwill and acquired intangibles, impairment of property, plant and equipment and right of use assets, and adjustments to current and non-current assets and current liabilities. After appropriate challenge by PwC and the Audit Committee, the amended recommendations were approved. The Committee also reviewed the judgements taken in analysing contract profitability and balance sheet adjustments in 2020/21 between "one off" and "recurring". Whilst recognising the subjectivity of these judgements, the Committee was satisfied that, overall, this disclosure should help shareholders and other stakeholders to gain a better understanding of business performance comparisons with prior and subsequent years.	**See pages 33, 126 and 127**
Going concern and viability	The Committee reviewed at its meetings in March, May, June and July 2021, the analysis supporting the Company's going concern statement and viability statement in the 2021 Annual Report for recommendation to the Board. The Committee raised questions and requested changes until it was satisfied with the analysis and conclusion, with areas of particular focus including the treatment of uncommitted facilities, the identification of severe but plausible scenarios and the linkage between the risk assessment presented to the Board and the analysis supporting the going concern and viability assessments.	**See pages 96 and 97 and127 and 128**
External audit		
Audit Quality Review Inspection	The Committee considered the AQR scores of PwC published in July 2020.	**See page 128**
Independence	The Committee considered PwC's independence and how it continued to meet the appropriate professional standards of independence as the Company's statutory auditor.	**See page 128**
2020/21 financial statements	The Committee received a series of reports from PwC on the results of the audit of the financial statements for the year ended 31 March 2021. The Committee considered each of the key judgements and risks in turn and questioned PwC in detail as to the level of challenge and investigation PwC had employed in respect of those judgements.	
Representation letter	The Committee requested a paper from management to enable proper consideration of the basis supporting the representations to PwC required for the statutory audit for 2020/21. After careful consideration of the evidence presented, the Committee supported management's recommendation that the representation letter be signed on behalf of the Board.	
Statutory audit evaluation	The Committee reviewed the results of an internal survey of opinions on the performance of PwC in the audit for the year ended 31 March 2020. Any significant issues raised were discussed with PwC to inform their approach to the audit for the year ended 31 March 2021.	**See page 128**

Matters considered	Discussion and outcome	Find out more

External audit continued

Matters considered	Discussion and outcome	Find out more
Audit plan	The Committee considered PwC's audit plan for the year ended 31 March 2021, including the key areas of focus, materiality levels, scope and coverage. The Committee monitored PwC's progress against its plan and supported changes in the plan as a result of the contract profitability and balance sheet review, including the addition of appropriate PwC resources to enable them to deliver a high quality audit in the new environment in which additional work was required, particularly in Aviation and in relation to the going concern statement.	**See page 128**
Non-audit fees	The Committee approved the policy on non-audit services provided by the auditor for 2020/21and approved the non-audit services and related fees provided by PwC for 2020/21.	**See page 129**
Audit Quality Indicators	In line with best practice in Canada and emerging best practice in the UK, the Committee agreed engagement-level Audit Quality Indicators with PwC and management in order to monitor the quality of the audit as it progressed.	**See "Audit Committee Guide to AQIs" (2018) published by CPA Canada, CPAB and ICD**
Statutory auditor selection for 2021/22	The Committee led a tender process at the end of which it recommended the appointment of Deloitte as the Group's statutory auditor with effect from the 2021 AGM. The Committee monitored the transition process for Deloitte to ensure that it would be ready to take on the role if shareholders approve Deloitte's appointment.	**See pages 129 and 130**

Internal controls and risk management

Matters considered	Discussion and outcome	Find out more
Internal and financial controls	The Committee reviewed the effectiveness of the Group's internal and financial controls by reference to a management paper on the subject, the reports of our new internal auditor (BDO) and our statutory auditor (PwC) and the findings of the contract profitability and balance sheet review. The Committee concluded that internal and financial controls had not been fully effective in certain parts of the Group, in particular, in Aviation, Land and Group Head Office. It therefore agreed with Group and sector management a programme of improvements in internal and financial controls. Group Head Office will implement a new operating model which will bring control benefits across the Group whilst in Aviation and Land the plans will address the specific issues in those sectors.	**See page 131**
Group risk management process	The Committee reviewed the Group risk management process and approved the proposed improvements in the process to raise the quality of risk management information presented to the Board. After implementation of the new approach the Committee was satisfied with the effectiveness of the Group's risk management process and made recommendations for further improvement in 2021/22. The Committee Chair reported its findings to the Board.	**See pages 85 and 131**
Specific risk review	During each year, the Committee receives a "deep dive" on a specific risk. This year, the Committee reviewed the bid and contract review processes of Marine and Land.	
Internal audit reports	The Committee received reports from BDO, the Company's internal auditor, in accordance with the agreed internal audit plan for 2020/21, as well as updates on the status of the resolution of any issues raised. It also reviewed the effectiveness of internal audit and reviewed a report by the Institute of Internal Auditors on the effectiveness of BDO's internal audit work for a range of clients.	**See pages 130 and 131**
Internal audit policy, scope and plan	The Committee approved the internal audit policy, the scope of internal audit and the plan for 2021/22, noting that refinements may be required in year for disposals and any new issues which may be identified. The Committee also requested a more fundamental review during 2021/22 to inform the scope and method of delivery for 2022/23 and beyond.	**See pages 130 and 131**

Matters considered	Discussion & outcome	Find out more
Governance and compliance		
Terms of reference	The Committee undertook its annual review of its terms of reference and recommended them to the Board for approval.	**See page 113**
Code of conduct	The Committee reviewed and approved the Company's procedures for compliance with the Company's Code of Conduct, fraud, bribery and anti-corruption policies.	**See page 77**
Performance review	The Committee reviewed the conclusions of the externally facilitated Board's annual evaluation as they related to the workings of the Committee.	**See pages 102 and 111**
Climate change	The Committee considered a management paper assessing the impact of climate change on the Company's financial statements in preparation for the drafting of the Company's Annual Report and Financial Statements for the year ending 31 March 2021. The Committee considered a management proposal for a journey of improvement in TCFD disclosures. The Committee supported the plan and encouraged management to consider assurance for the TCFD disclosures for 2021/22.	**See page 62**

Fair, balanced and understandable

Provision 27 of the UK Corporate Governance Code (2018) requires the Board to satisfy itself that the Annual Report provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and is fair, balanced and understandable. The Board delegates to the Committee the review of the Annual Report and Financial Statements so that the Committee may advise whether they comply with the provision.

To make this assessment the Committee received copies of the Annual Report and Financial Statements for review during the drafting process to ensure that the key messages in the Annual Report aligned with the Company's position, performance and strategy and that the narrative sections of the Annual Report were consistent with the Financial Statements. The Committee considered the significant issues and judgements applied in the 2021 Annual Report and Financial Statements. In addition, the Committee considered reports from the Company Secretary and from the Group Financial Controller on the procedures they used to ensure compliance with provision 27. The Committee discussed whether all the key events and issues reported to the Board in management's monthly Board reports during the year, both good and bad, were adequately referenced or reflected within the 2021 Annual Report and Financial Statements. Whilst recognising the inherent complexities resulting from the contract profitability and balance sheet review, the Committee was satisfied that the 2021 Annual Report and Financial Statements did provide a fair, balanced and understandable assessment of the Company's position and performance and reported this conclusion to the Board. The Board's statement on provision 27 for 2020/21 (which also covers business model and strategy) is on pages 158 and 159.

Significant issues considered by the Audit Committee in relation to the financial statements

Significant issue	Action taken
Accounting policies, definitions, interpretations and presentation	Reviewed changes in accounting policies, definitions, interpretations and presentation for specific adjusting items including exceptional items, free cash flow, joint ventures, maintenance and capitalised contract costs. After appropriate challenge and refinement of management's recommendations, the Committee approved the changes.
Contract accounting	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's recommendations, approved the changes in judgements and estimates, the correction of prior year errors and associated disclosures.
Goodwill impairment	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's recommendations, approved the changes in judgements and estimates, the correction of prior year errors and associated disclosures.
Property, plant and equipment impairment	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's recommendations, approved the changes in judgements and estimates, the correction of errors and associated disclosures.
Leases	Reviewed management's progress in addressing systems issues which had hindered the 2019/20 reporting process and obtained confirmation that the material issues had been satisfactorily resolved.
Specific adjusting items including exceptional items	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement, approved the items to be classified as specific adjusting items including exceptional Items and the associated disclosures. In addition, for 2020/21 only, it was agreed that the Strategic report should also present certain figures excluding the one-off impacts from the contract profitability and balance sheet review to enable a clearer understanding of business performance compared with prior and subsequent years.
Pensions accounting	Reviewed as part of the normal accounting issues and judgements papers. Assessed the inflation rate, discount rate and mortality assumptions used by management in the context of assumptions used in respect of the same factors by other companies. The Committee was satisfied that the assumptions fell within acceptable ranges.
Taxation	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's proposals, approved the changes in estimates and the correction of a prior year error in the calculation of deferred tax.
Impact of COVID-19	Ensured appropriate disclosure of the operating profit impact of COVID-19 in 2020/21 and that the updated forecasts reviewed periodically by the Board were appropriately reflected in accounting estimates.
Going concern and viability	Reviewed papers from management ensuring that they had considered appropriately the impacts of the contract profitability and balance sheet review, the budget and plan reviewed by the Board in March and May 2021, the risk assessments and mitigations reviewed by the Board in March 2021, clarification of the appropriate interpretation of certain covenants as at 31 March 2021, increases in covenant limits for 30 September 2021 and 31 March 2022 and the additional Revolving Credit Facility signed in May 2021.

Accounting policies, definitions, interpretations and presentation

The new management team reviewed its accounting policies and definitions for specfic adjusting items including exceptional items in order to help shareholders and other stakeholders to gain a clearer understanding of the underlying performance of the business; this addressed issues which the Committee had identified for improvement earlier in the year. Following discussion and refinement, management's proposal was supported (see page 31). In summary, it was agreed that exceptional items would need to meet a "size and nature" test (whereas previously "size or nature" had been sufficient) and adjusting items would be clearly specified and adjusted consistently from year to year, whether positive or negative.

The Committee also supported management's proposal to change the presentation of the underlying cash flow statement, including the definition of underlying free cash flow, as set out on pages 31-32. We believe this better aligns with normal market practice.

Finally, the Committee supported management's proposals to base the presentation of the results of joint ventures and associates and the presentation of IFRIC12 investment income on IFRS, as set out on page 30. We believe that shareholders and other stakeholders should welcome these simplifications.

In response to the discovery of inconsistencies in accounting between various sectors and legal entities in maintenance costs and capitalised contract costs, the Committee supported management's proposal to introduce a consistent set of policies, definitions and interpretations across the Group in these areas including one change in accounting policy to better represent Power By the Hour (PBH) maintenance arrangements in the Aviation sector.

Contract profitability and balance sheet review

The Company announced in January 2021 that the new management team was conducting a contract profitability and balance sheet review. This was a major undertaking, reviewing around 100 contracts representing around £2.6 billion of revenue each year (with differing levels of review applied to contracts based on their perceived risk). It involved substantial management time and effort supported by over 13,000 hours of work by an accounting firm independent from our statutory auditor. PwC also strengthened their team with experienced senior staff.

The Audit Committee held six extra unscheduled meetings (more than doubling its standard workload) to review all of the resulting materials. After review by PwC and the Audit Committee and refinement of proposals by management, this resulted in 147 accounting adjustments which required over 1,000 accounting entries to be made across various legal entities, covering all business sectors and Group. Some of these accounting entries may have been identified through normal year end processes but others would not.

In view of the unprecedented volume of issues to consider in parallel with a normal year end process, and the importance of many of those issues, the Committee adopted a systematic and rigorous approach to reviewing, refining and approving the recommendations for inclusion in the statutory financial statements and notes. The Committee reviewed several hundreds of pages of management papers and PwC papers and therefore we do not consider it helpful to discuss each item in detail but the outline below should give a good overview of the approach we took, the extent of challenge, the changes made and the implications from the perspective of internal and financial controls.

For all items, management first documented its analysis and recommendation clearly; then PwC reviewed the analysis and recommendations based on the audit evidence they had obtained and their interpretation of the relevant parts of IFRS.

As a result of the scale and timing of the review and the technical complexity of some of the adjustments, a healthy number of the classifications and/or quantifications were changed folllowing the PwC review performed as part of the audit. For example, changes in the method of calculating income from two joint ventures which management had originally judged to be prior year errors were, following PwC challenge, agreed to be changes in estimates on the basis that PwC remained satisfied with the justification of the estimates given as part of the audit process in 2019/20. On the other hand, a significant adjustment in the capitalisation of contract costs in Aviation, which management initially judged to be a change in accounting policy was later agreed to be a prior year error when PwC presented evidence that the previous treatment had not been consistent with IFRS 15.

For each of the 58 matters with a potential impact over £5 million (total impact on profit after tax of c£1.8 billion), the Audit Committee reviewed papers from management in a consistent format which included a balanced description of the facts, the proposed accounting classification based on IAS 8, the trigger event or control failure giving rise to the recommendation, the proposed accounting and consideration of accounting alternatives (if any). This enabled the Audit Committee to provide effective oversight of the larger items and to challenge both management and PwC where appropriate. The Audit Committee challenge was after PwC's initial opinions had been taken into account and so there were only a few items where the Audit Committee's challenges resulted in further changes, for example the treatment of the deferred tax adjustment in Spain.

For the 70 matters with a potential impact less than £5 million (total impact on profit after tax of c£0.2 billion), the Audit Committee required a paper only on those which were prior period errors, on the basis that items below that level would be dealt with in the normal course of the year end audit and only raised at the Audit Committee if there were irresolvable differences of opinion between management and PwC, of which there were none.

On contract accounting, there were prior year errors and adjustments in profit estimates on many contracts. Whilst the Committee supported the accounting changes, the findings raised concerns about the robustness of the management of contracts. The Committee noted that the Board would be considering management's plans to improve the contract management process across all segments for the future; whilst the accounting for contracts was now receiving more effective review at the Audit Committee supported by significantly better management papers, there would always be a significant reliance on management's judgement in estimating the cost to complete a long-term contract.

On the impairment of goodwill and acquired asset intangibles, the 2020/21 impairment of £1.3 billion related mostly to goodwill impairments in Aviation (£0.8 billion) and Land (£0.4 billion) and reflected reductions in forecasts of business performance in the light of experience in 2020/21 and an increase in the discount rate. In addition, there were prior year errors, the net effect of which was to reduce the 2019/20 impairment charge by £0.1 billion (see page 34).

On the impairment of property, plant and equipment and right of use assets, the 2020/21 impairment of £0.2 billion was mainly in Aviation, for example due to reduced estimates of the residual values of aircraft.

There were also smaller impairments of other non-current assets and current assets, the introduction of (and increases in) liabilities, changes in estimates relating to income from joint ventures and associates and two material balance sheet reclassifications, as set out in the Financial Review on page 35.

On taxation, the main change related to deferred tax in Spain where, after Audit Committee challenge, it was agreed that this should be shown partly as a prior year error (as a result of the failure to correctly apply the relevant Spanish tax rules) and partly as a change in estimate (reflecting the changes in business forecasts, largely relating to long term contracts).

On specific adjusting items including exceptional items, the Committee reviewed the work of management (and PwC's audit conclusions) to ensure that the disclosures were appropriate. The Committee also considered the analysis of the impact of the CPBS adjustments on the 2020/21 underlying operating profit and supported the disclosure in the Strategic Report of "one-off CPBS adjustments" of £250 million and "recurring CPBS adjustments" of £25 million in the way described on page 33, notwithstanding the definitional difficulties, because we felt that this would help users of our financial statements to gain a better understanding of business performance in 2020/21 compared with prior and subsequent years than they would have had without these additional disclosures.

Of the 147 adjustments, 67 related to Aviation, 17 related to Land and 16 related to Group. In response to these findings, together with the results of the internal and external audits, the Audit Committee agreed with management internal and financial control improvement plans for Group and for Aviation and will agree a plan for Land shortly following the input of the new sector CEO and FD. In addition, as normal, management will be expected to respond to all of the control recommendations made by our internal auditor (BDO) and external auditor (PwC). Progress in all five areas will be monitored by the Committee at its meetings every six months starting in September 2021 until all material control issues have been satisfactorily addressed.

FRC review of financial statements for the year ended 31 March 2020

The FRC wrote to the Company in January 2021 following its review of our financial statements for the year ended 31 March 2020. The main areas of enquiry related to contract modifications, estimation uncertainty and recoverability of investment in subsidiary and intercompany receivables. The Company responded in February 2021 and the FRC was broadly satisfied by the Company's responses, subject to consideration of the results of the contract profitability and balance sheet review and a request for further disclosures on the estimation uncertainty relating to revenue and profit recognition on contracts. Since the audit of the Group financial statements (incorporating the appropriate accounting changes resulting from the contract profitability and balance sheet review) had not been completed until 30 July 2021 the FRC's final conclusions from its review of the Group's 2019/20 financial statements were not available on the date the 2020/21 financial statements were approved by the Board.

FCA enquiries regarding the contract profitability and balance sheet review

The FCA wrote to the Company in January 2021 requesting information on the contract profitability and balance sheet review and has since written asking for updates on its progress, The Company has kept the FCA updated and will supply further information on request.

Going concern and viability statements

The Code requires the Board to state whether it considers it appropriate to adopt the going concern basis of accounting in preparing its financial statements and to identify any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

In making its assessment, the Committee considers the Group's ability to continue as a going concern, taking into account the budget and forecasts, borrowing facilities, cash flows and risks before making a recommendation to the Board. For the 2020/21 Annual Report and Financial Statements, this involved careful consideration of the impacts of the contract profitability and balance sheet review, discussions with banks regarding covenant definitions and a new Revolving Credit Facility (which was entered into in May) and changes in the Group's risk assessment. After ensuring that these matters had been properly reflected in the going concern analysis, the Committee recommended that it adopt the going concern basis of preparation for the 2020/21 Annual Report and Financial Statements. The going concern statement for 2020/21 is on pages 96 and 97.

The Code also requires the Board to make a viability statement to indicate whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. The Company's period for the viability assessment is three years, being the period over which relevant financial forecasts are available.

The Committee advises the Board in respect of this statement. In order to do so, it considers the longer-term viability of the Company, reviewing and challenging management analysis to support the viability statements in the Company's Annual Report and Financial Statements. This analysis includes stress tests based on the Company's most recent risk assessment. It also involves reverse stress testing to understand whether this revealed sufficiently plausible scenarios which would require qualifications to the viability statement. After careful consideration, the Committee made its recommendation to the Board which resulted in the viability statement on pages 96 and 97.

Effectiveness of the statutory audit process

The Code requires the Committee, on behalf of the Board, to review and monitor the effectiveness of the audit process. The Committee regards audit quality as the principal requirement of the annual audit process.

On completion of the 2019/20 annual audit process, all members of the Committee, as well as key members of the senior management team and those who have regular contact with the auditor, completed a feedback questionnaire seeking their views on PwC's performance. The questionnaire covered the audit team's qualification, expertise, resources, effectiveness, independence and leadership. The Committee considered and discussed the feedback from the questionnaire, noting that the disruption caused by COVID-19 had impacted the timescale of the completion of the audit. Overall, the feedback did not raise any major concerns about PwC's performance. The Committee noted the individual comments and would use them to improve the Group's and the auditor's processes.

In addition, the Committee considers the assessment by the Financial Reporting Council ("FRC") through its Audit Quality Review ("AQR") process of a selection of the audits performed by the leading firms of auditors in the UK. Whilst the sample sizes are small and not necessarily representative, this provides valuable information to the Committee in assessing the firms over time and compared with their competitors. The Committee noted that PwC had launched a Programme to Enhance Audit Quality in June 2019 and that PwC had committed to investing more into audit quality, including an additional £30m per year for training, people and technology initiatives.

In September 2020 PwC presented to the Committee its audit plan and scope for the financial year 2020/21, highlighting any areas which would be given special consideration. PwC reported against this audit scope at subsequent Committee meetings, providing an opportunity for the Committee to monitor progress and raise any questions. Private meetings are also held at each Committee meeting between the Committee and representatives of the auditor without management being present in order to encourage open and transparent feedback by both parties. In addition, during the annual audit process PwC meets with management at regular intervals. In March/April 2021, in the light of reduced forecasts and the emerging findings from the contract profitability and balance sheet review, the Committee agreed an increase in the scope (to include two more legal entities) and a reduction in the audit materiality (from £21.4 million in 2019/20 to £15.9 million in 2020/21) to enable an effective audit for 2020/21.

In line with emerging best practice being promoted in the UK by the FRC, the Committee agreed engagement-level Audit Quality Indicators ("AQIs") with PwC for the first time ever. These were used in real-time during the year end audit process from March to July 2021 to give a greater insight into the expected level of audit quality on the 2020/21 audit. This was considered a valuable addition to the quality control process. The AQIs will be further refined with our proposed new statutory auditor, Deloitte, for use in the 2021/22 audit process.

Independence of the statutory auditor

As required by the Code the Committee reviews the independence of the external auditor. The Committee considers the information and assurances provided by the auditor which confirm that all its partners and staff involved with the audit are independent of any links to the Company. In the year PwC confirmed that this was the case. PwC also reconfirmed its independence at the planning stage of the audit and at regular intervals as the audit progressed.

The Committee also maintains a policy on the non-audit services and associated fees that its auditor may provide. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (such as the Company) that are closely linked to the audit itself or that are required by law or regulation. The Committee Chair must approve any non-audit work subject to the CFO being able to approve any single engagement of £10,000 or less, provided that in aggregate during any one financial year he does not approve more than £50,000.

Our auditor is never offered work listed in appendix B of the FRC's revised ethical standard 2019 including the design or operation of financial information systems, internal audit services, maintenance or preparation of accounting records or financial statements that would be subject to external audit, or work that the Committee considers is reasonably capable of compromising its independence as auditor.

Taking into account its findings in relation to the independence of PwC and the strict limitation of non-audit services (see below), the Committee concluded that it was satisfied that PwC was independent and free from any conflict of interest with the Company.

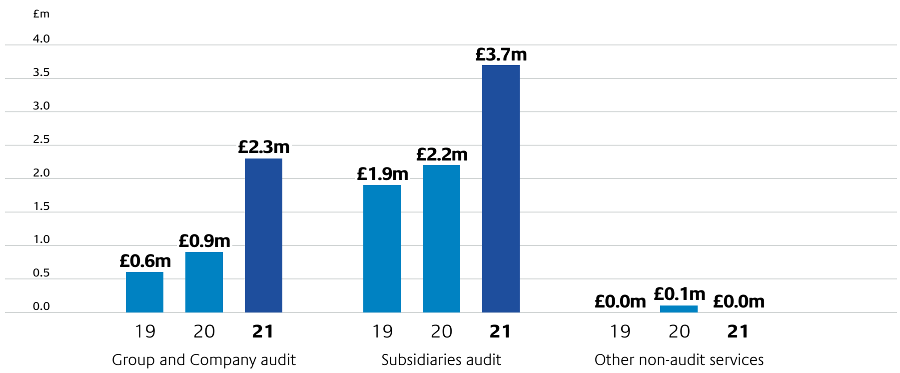
Audit fees and non-audit fees

The audit fees payable to PwC for 2020/21 were £6.0 million, a significant increase compared with £3.1 million in 2019/20, largely because of the extra work required to assess the issues highlighted by the contract profitability and balance sheet review and the extra work required to assess the going concern and viability statements.

The non-audit services fees payable to PwC for 2020/21 were £41,000, similar to £0.1 million in 2019/20, in line with the Group's policy of limiting such services to those where there is no actual or perceived conflict of interest.

An analysis of the 2020/21 fees is shown in the notes to the financial statements on page 223 and the history for the last three years is shown in the chart below.

Audit fees and Non-audit service fees



Statutory audit tender process and transition management

PwC has audited the Group for 19 consecutive years from 2002/03 to 2020/21. The current lead Engagement Partner, John Waters, joined at short notice in February 2019 and led the audit for 2018/19 , 2019/20 and 2020/21. The audit was retendered in 2020, as had been planned for some time.

The Committee led the tender process during the year. PwC did not participate in the process. The Committee's primary objective throughout the tender process, was to select the firm expected to deliver the highest quality audit (for an acceptable level of fees).

In conducting the tender, the Committee was mindful that the new auditor should have sufficient time to cease to provide non-audit services, as set out in the FRC's Revised Ethical Standard (2019), prior to commencing their tenure and to observe the performance of management and PwC during the 2020/21 audit.

The Committee confirms that the Group complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Chair of the Committee established a selection panel to ensure that a wide range of views was taken into account and that appropriate financial expertise supported the Committee in the decision-making process. The Committee Chair led the process and kept the Committee as a whole appraised of the progress of the tender. The criteria for evaluation of the proposals were set out in advance as follows:

	Maximum marks available
Lead partner and key delivery teams	**12**
Capabilities, skills and experience, industries and geographies	
Global account management	**12**
Ability to deliver consistent and efficient experience globally	
Ability of lead partner to influence overseas partners to achieve this	
Audit approach	**24**
Overall level of resources, including proportion of senior staff	
Audit methodology including planned use of technology	
Overall audit quality and audit quality record of lead partner, team and firm	
Review of accounting policies and key accounting judgements	
Audit coverage	**8**
Consistent with current coverage, treatment of JVs	
Transition	
Structured approach, prior experience, references	**10**
RFP response / presentation	
Standard of proposal document	**12**
Standard of presentation	**12**
Independence	**5**
Fees	**5**
Total	**100**

The participating firms provided a written tender document and face-to-face presentations. The quality of the proposals submitted by the participating firms impressed the panel. After the presentations, the Committee met privately to discuss the bidders' proposals and to make its assessment against the criteria above. The Committee agreed unanimously that Deloitte provided the most convincing evidence that it would provide the best audit quality. The Committee put its recommendation to the Board which accepted the Committee's recommendation. The Board will recommend that shareholders approve the appointment of Deloitte at the 2021 AGM.

Timeframe	Tender activity
January – July 2020	Pre-audit qualification and independence enquiries to six firms
August 2020	Request for proposals from firms which met the independence requirement and which indicated that they were willing and able to bid
August – September 2020	Initial meetings with lead partners of tendering firms Data room open Fact finding process for tendering firms
September 2020	Tender process presentations by tendering firms Assessment and recommendation of Deloitte to the Board
October 2020	Board endorsed the recommendation of the Audit Committee
January – June 2021	Audit transition activities
September 2021	Appointment of Deloitte as the new auditor, subject to shareholder approval

The main steps taken to ensure an effective transition from PwC to Deloitte were:

- Review of non-audit services provided to the Group by Deloitte and steps to achieve audit independence from 31 March 2021
- Agreed interaction between Deloitte and PwC during the 2020/21 audit cycle, including attendance at key audit meetings and observing the year end audit
- Deloitte held meetings and interaction with the Audit Committee Chair, Group CEO, Group CFO, Group and sector management to facilitate knowledge building, audit scoping and planning
- Deloitte worked with BDO as internal auditor to understand their work programmes to inform the 2021/22 statutory audit plan
- Deloitte attended Audit Committee meetings in November 2020, March 2021, April 2021, May 2021, June 2021 and July 2021 and reported on independence and audit transition plan status.

Internal audit function

The Group's internal audit is entirely outsourced to BDO. Each year BDO, after discussions with management, propose a strategy and plan for the internal audit to the Committee for approval. The plan covers business units and countries, financial risk and other risk themes. Once approved the internal auditor implements the plan and reports back to the Committee at each of its meetings. The internal audit function is a key element of the Group's corporate governance framework. It provides independent and objective assurance, advice and insight on governance, risk management and internal control to senior management, the Committee and the Board. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the Group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees and reports to the Committee on progress made at every meeting.

The Committee keeps the relationship with BDO under review to ensure the independence and effectiveness of the internal audit function is maintained and meets the internal auditor without management being present. The Committee reviewed an assessment by the Institute of Internal Auditors of the effectiveness of the quality of the internal audit services provided more broadly by BDO as a firm, which was satisfactory.

In reviewing the effectiveness of BDO in its first year as our internal auditor, the Committee noted that 7 out of 17 internal audits had a "limited assurance" rating in either design or operational effectiveness or both and that, within these figures 4 out of 5 internal audits in Aviation had a "limited assurance" rating and 3 out of 6 audits in Land had a 'limited assurance' rating. This reinforced messages also apparent from the contract profitability and balance sheet review. Having reviewed BDO's effectiveness, the Audit Committee was satisfied with the work performed by BDO in 2020/21 and encouraged BDO to review the plan for 2021/22 in the light of the risk assessment presented to the Board in March, the contract profitability and balance sheet review and the new operating model.

The audit plan for 2021/22 was approved in May 2021 after consideration of the impacts of the revised risk assessment and the lessons learned from the contract profitability and balance sheet review. It was also agreed that during 2021/22 management should perform a more fundamental review and make proposals for the internal audit scope and method of delivery for 2022/23 and beyond for review by the Audit Committee in the second half of 2021.

Risk management and internal control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of the Company's risk management and internal control systems. The Company's management of risk is described on pages 84 to 86 and its principal risks on pages 87 to 95.

In reviewing the effectiveness of the risk management system, the Committee noted that management had improved the approach to risk management in 2020/21 and that the first output using the new approach was presented to the Board in March 2021. The Committee was satisfied that the improved process was working effectively, whilst recommending some further enhancements. The Committee also asked management to ensure that the risk map presented to the Board was appropriately reflected in the going concern and viability assessments and in the description of principal risks on pages 87 to 95.

In reviewing the effectiveness of the Group's internal control system, the Committee reviewed a management paper on the subject and considered the Group's risk management system and reports, its delegated authorities, its management and financial reporting and forecasting, its internal and statutory audit programmes and reports, its business continuity plans, its whistleblowing processes and reports, its ethical compliance programme and the management papers relating to the contract profitability and balance sheet review. In view of the findings of the new internal auditor (BDO), the contract profitability and balance sheet review and the reports of the new management team, the Committee concluded that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office.

Since January 2021, the Company has implemented a number of improvements including a review of the Group's delegated authorities, a requirement for the sectors to provide a formal letter of representation covering policy compliance, standardisation of management reporting across the Group and the simplification of the income statement and cash flow management reporting. In addition, the Committee has agreed with management improvement plans for Aviation, Land and Group Head Office. Provided that these plans are effectively implemented, the Committee believes that internal and financial controls should become fully effective. The Committee will monitor the implementation of these plans in 2021/22.The resulting statement regarding the effectiveness of the Group's internal controls is on page 158.

Review of the effectiveness of the Audit Committee

We conclude each Audit Committee with a private session without management, external audit or internal audit to review our effectiveness. The feedback from these sessions has been very encouraging about the progress made and supportive of further developments.

We also benefitted this year from the independent, external review of the effectiveness of the Board and its Committees (see page 111). This concluded that the effectiveness of the Committee had been improved through well-structured and comprehensive agendas, better documentation, more time for discussion on all key items and clarity on the division of responsibility for different aspects of risk governance.

Next steps

Whilst we have made substantial improvements in 2020/21, we are committed to continuous improvement and aim to take further steps to improve our financial reporting and the quality of the Audit Committee's oversight for the benefit of shareholders and other stakeholders:

- We will continue to focus on improving the quality of management papers reviewed by the Audit Committee.
- We will continue our emphasis on improving the quality of the statutory audit.
- We will monitor the implementation of the programme of improvement of internal and financial controls with a particular focus on Group Head Office, Aviation and Land.
- We will review the scope of internal audit and we will assess whether there is a better alternative to our current outsourced model.
- We will, as part of the wider Corporate Governance event highlighted in the Chair's introduction to the Governance section (see page 103), engage proactively with our larger shareholders regarding the Audit Committee's work in 2020/21 and plans for 2021/22.
- We will oversee the quality of implementation of digital financial reporting using the European Single Electronic Format.
- We will consider preparatory steps for the main, longer lead-time changes likely to result from the UK Government's proposals on "Restoring trust in audit and corporate governance".

Remuneration Committee Report

Kjersti Wiklund
Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I present the Directors' Remuneration Report ("DRR") for the year ended 31 March 2021. This was my first full year as Chair of the Remuneration Committee, with the year being dominated by the COVID-19 pandemic and the contract profitablity and balance sheet review. As a Committee we share the disappointment expressed by Ruth in her Chair's introduction with the results of the contract profitability and balance sheet review. We have paid careful attention to how these outcomes should be factored into our decisions for remuneration in 2020/21. These decisions are set out in this report.

Remuneration across Babcock

At last year's AGM, we proposed our new Remuneration policy for shareholders' approval. I was pleased that the policy was supported by a 99.5% vote, which the Committee has since worked hard to apply. When applying our Remuneration policy, the Committee receives input and advice from internal and external sources so that the Committee can take into account the priorities of the Company's stakeholders. For example, the Committee always considers wider employee remuneration when determining pay arrangements for the Executive Directors. Previously, the Committee received periodic reports from senior management who attended the Babcock Employee Forum, to help the Committee in understanding the views of employees. We will look to enhance our engagement by asking Lord Parker to report to the Committee in his role as Non-Executive Director designated for employee engagement.

The Committee supports the Board's ambition of improving the representation of diverse candidates at senior levels. In the 2020/21 Gender Pay Gap 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.

Leadership changes

We were pleased to welcome David Lockwood, who joined the Company in August 2020, before becoming CEO in September, and David Mellors who joined the Group as its new CFO in November 2020. These appointments followed the retirements of Archie Bethel and Franco Martinelli. The remuneration of both appointments is consistent with our Remuneration policy, with salaries set at £800,000 and £560,000 for the CEO and CFO respectively, and annual bonus and PSP award opportunities of 150% and 200% of salary respectively. The pension opportunity for both executives is set at 10% of salary, consistent with that of our workforce more broadly. For more detail, please see the single total figure table on page 144.

When setting the salary levels for the new Executive Directors we took into account the salaries of the previous incumbents in the roles as well as market levels based on companies of similar size, complexity and sector to the Company. We also needed to consider the significant prior executive director experience of both appointees, the substantial level of challenge anticipated in driving the reset of the business, and also the competitive recruitment environment with a number of comparable searches underway at the time of appointment.

Remuneration in 2020/21

The results of the contract profitability and balance sheet review were a key consideration in the Committee's discussion of remuneration in 2020/21. The Committee believes that the remuneration outcomes, which are summarised below

Quick facts

The Committee

- Kjersti Wiklund has chaired the Committee since April 2020. She is also chair of the Remuneration Committee of Trainline plc.
- The other Committee members are Carl-Peter Forster, Russ Houlden and Victoire de Margerie. Jeff Randall also sat on the Committee until his retirement from the Board in August 2020. Please see pages 104-105 for biographies and page 109 for attendance.

Highlights

- Approval of the Company's new Remuneration policy
- Appointment of new CEO and CFO
- Introduction of a post-cessation shareholding policy

Key responsibilities

- Oversight of reward matters across the Group
- Maintenance of a strong link between stakeholder experience and Executive Director reward
- Approval of reward outcomes for the Executive Directors

and in this report, reflect the Company's performance and the broader context, including shareholders' experience and interests. After due consideration, the Committee approved the following outcomes:

Salary: Although the Group made only limited use of the UK furlough scheme, the Committee accepted the proposal by the then Executive Directors to reduce their salaries by 20% for as long as the Group participated in the scheme. In line with the Executive Directors, the Non-Executive Directors also agreed to reduce their fees by 20% on the same basis. In addition, the Non-Executive Directors did not receive an increase in their fees in the year. From September 2020, the time that the Group ceased to participate in the scheme, the salaries and the fees of the Directors were restored.

2020/21 annual bonus: The 2020/21 annual bonus for Executive Directors was based 80% on underlying financial performance measures. As the Committee wanted to incentivise the focus on cash generation, the weighting on OCF was increased to 40%, with the remaining 40% based on PBT. In line with past practice, the percentage allocated to non-financial measures was maintained at 20%. With guidance withdrawn, the Committee met the challenge of setting targets by widening the range for the performance measures and retaining discretion to ensure that the outcome aligned to the Group's stakeholder experience. As the Company's performance did not meet the threshold levels set for the financial performance measures, there was no payout under those measures. The Committee did assess the performance of the Executive Directors against their non-financial measures. In respect of David Lockwood and David Mellors, the Committee concluded that they had made very positive steps towards the Group's recovery, which would have warranted a payout in respect of the non-financial measures. However, both of them had confirmed that they wished to waive any award. In respect of the other plan participants, including the former Executive Directors, the Committee believed that the financial performance of the Company did not merit a payout under the non-financial measures. Please see page 145 for more detail.

2018 PSP awards: The vesting of PSP awards granted in 2018 was based on performance measured over 1 April 2018 to 31 March 2021, with EPS, ROCE (both measured on an underlying basis) and TSR equally weighted. Performance against the targets set at the start of the cycle for each element was below threshold, resulting in the 2018 PSP awards lapsing in full. In assessing the outcome of the PSP awards, no discretion was applied by the Committee. Please see page 146 for more detail.

2020 PSP awards: The Committee delayed the 2020 PSP award due to the impact of COVID-19 pandemic on the business and uncertainty about how it might develop. The grant was made in December 2020, despite continued uncertainty and ongoing withdrawal of guidance, due to the need to establish some incentives for the new Executive Directors. In light of the prevailing circumstances, the Committee believed that the most appropriate measures for the grant were relative TSR and cumulative free cash flow, both equally weighted. As the Committee considers the range for cumulative free cash flow to be commercially sensitive, the range has not been disclosed, but the Committee intends to disclose it as soon as the range is no longer commercially sensitive which is expected to be on the return to giving guidance. The performance period for free cash flow is the three financial years starting with 2020/21. As David Lockwood and David Mellors, both external hires, had only recently joined the Group, the Committee determined the start date of the TSR performance period would run for the three years commencing on the PSP grant date. Our analysis indicated that there was no material advantage or disadvantage to participants by using this start date, and this neutrality was important to ensure the awards are motivational for our new leaders.

However, the Committee felt that it was appropriate due to the performance of the share price since the last grant to reduce the size of award by 10% to 180% of salary. The Committee further noted that it may need to use its discretion to review the outcome of the awards in 2023 to take into account the level of uncertainty at the time of award. As always, final decisions would include a check to ensure alignment with the shareholder experience. For further detail, please see pages 146 and 147.

Implementation of remuneration for 2021/22

When considering the implementation of our Remuneration policy for 2021/22, the Committee has taken into account the impact of the contract profitability and balance sheet review to reach decisions that incentivise the new Executive Directors and align with shareholder interests.

Salary: The Committee has delayed its review of the Executive Director salaries until September 2021, consistent with the approach for other employees.

2021/22 annual bonus: The structure of the Executive Director annual bonus for 2021/22 is consistent with that for 2020/21, with measures based on OCF, PBT and non-financial objectives. However, in the event of a payout under the bonus for 2021/22, the 60% of the annual bonus usually paid in cash will be deferred into awards over Company shares for one year. This is to reflect the fact that in this reset year no dividend will be paid. The remaining 40% will be deferred into awards over Company shares for three years as usual. The measures and targets have been set and will be disclosed in full in next year's Annual Report on Remuneration. Please see page 148 for more detail.

2021 PSP awards: The Committee has granted awards under the PSP to the Executive Directors in 2021 covering the three-year period FY22-FY24. The Committee decided to use the same measures as used for the 2020 PSP award, being relative TSR and free cash flow, as they align with our focus on cash generation during the reset of the business, as well as shareholder interests. The Committee reviewed targets for both measures to ensure that they would be appropriately stretching. In respect of the free cash flow target, the Committee set a three-year cumulative range. The Committee considers this range commercially sensitive, but intends to disclose it as soon as it no longer is so which is expected to be on the return to giving guidance. In respect of relative TSR the Committee decided to retain the same performance range as for 2020 PSP awards.

I hope that you have found this letter clear and useful in summarising the workings of the Committee.

Ruth has mentioned in her introduction to the governance section that we plan to hold a governance event for our largest shareholders, and I look forward to that opportunity to share more about our approach to remuneration.

Kjersti Wiklund
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over the 2020/21 financial year and the remuneration received by our Executive Directors. Full details can be found in the Annual Report on Remuneration on pages 143 to 153.

2020/21 remuneration outcomes

Annual bonus

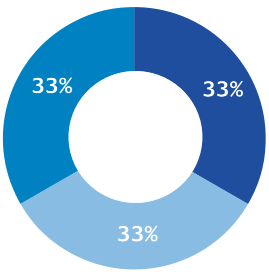
The annual bonus for the 2020/21 financial year was based on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below:

Measures	Warranted payout (% of max. bonus)				Performance targets
	D Lockwood		D Mellors		
Group Profit Before Tax (PBT)	40% Max	**0% Actual**	40% Max	**0% Actual**	Threshold £249.7m; Target £277.4m; Stretch £322.9m; **Actual £209.9m**[2]
Group Operating Cash Flow (OCF)	40% Max	**0% Actual**	40% Max	**0% Actual**	Threshold £236.3m; Target £262.5m; Stretch £315.0m; **Actual £230.1m**[2]
Non-financial[1]	20% Max	**0% Actual**	20% Max	**0% Actual**	The Committee would have awarded David Lockwood and David Mellors an award in respect of the non-financial measures, but both confirmed to the Committee that they waived any award.
Total	100% Max	**0% Actual**	100% Max	**0% Actual**	

1. Several measures have been merged into an overall assessment in this table for disclosure purposes.
2. Please see the Annual bonus table on page 145 for more detail.

2018 PSP

The 2018 PSP vests subject to three performance measures, the targets for which (and actual performance against these) are summarised below:



Measure and weighting	Performance range: Threshold (16.7% vesting)	Performance range: Stretch (100% vesting)	Outcome	Warranted vesting (% of total award)
EPS growth (3-year CAGR)	4% pa	11% pa	-25.9% pa	0%
Return on Capital Employed (ROCE) (3-year average)	12%	14%	4.8%	0%
Relative Total Shareholder Return (TSR) (vs FTSE 350)	Median	Median +9% pa	Below median	0%
TOTAL				**0%**

Based on the performance outcomes set out above, 2018 PSP awards shall lapse in full.

Implementation of the Remuneration policy in 2021/22

For the current financial year, the Committee's intention at the time of writing this report is for the Remuneration policy to be implemented as set out in the table below.

Element of remuneration	Implementation for 2021/22
Base salary	David Lockwood: £800,000 David Mellors: £560,000 The Committee has delayed its review of the Executive Director salaries until September 2021, consistent with the approach for other employees.
Pension	10% of salary.
Benefits	Unchanged from 2020/21.
Annual bonus and DBP	The bonus structure is consistent with that used for 2020/21 with awards of up to 150% of salary, based on the achievement of financial targets, PBT and OCF, (each a 40% weighting) and non-financial measures (20% weighting). Normally, 40% of any bonus earned would be deferred in shares for three years. This year, in addition to the 40% of any bonus earned being deferred in shares for three years, the remaining 60% usually paid in cash will be deferred into shares for one year.
PSP	PSP awards of 200% of salary with vesting based on the financial measures the Committee believes most appropriate: free cash flow and relative TSR, equally weighted. As the free cash flow targets are commercially sensitive, the Committee intends to disclose them as soon as they are no longer so, which is expected to be on the return to giving guidance.

Alignment of the Remuneration policy

The Committee believes that the policy complies with the pillars set out in paragraph 40 of the 2018 Corporate Governance Code.

Clarity: The Committee believes that the disclosure of the remuneration arrangements is transparent with clear rationale provided on its maintenance and any changes to policy. The Committee remains committed to consulting with shareholders on the policy and its implementation.

Simplicity: The policy and the Committee's approach to implementation is simple and well understood. The performance measures used in the long-term incentive plans, along with those in the bonus, are well aligned to Babcock's strategy.

Risk: The Committee has ensured that remuneration arrangements do not encourage and reward excessive risk-taking by setting targets to be stretching and achievable, with discretion to adjust formulaic bonus and PSP outcomes.

Predictability and proportionality: The link of the performance measures to strategy and the setting of targets balances predictability and proportionality by ensuring outcomes do not reward poor performance.

Culture: The policy is consistent with Babcock's culture as well as strategy, therefore driving behaviours which promote the long-term success of the Company for the benefit of all stakeholders.

Compliance statement

This report has been prepared in compliance with all relevant remuneration reporting regulations in force at the time and in respect of the financial year under review.

This report contains both auditable and non-auditable information. The information subject to audit is so marked.

Remuneration Policy Report

The Remuneration policy set out in this section was approved by a binding shareholder vote at the 4 August 2020 AGM, and can also be found at www.babcockinternational.com/who-we-are/leadership-and-governance. It is intended that this policy will apply for three years from that date.

Key principles of the Remuneration policy

Our policy for Executive Directors reflects a preference that we believe is shared by the majority of our shareholders – to rely more heavily on the value of variable performance-related rewards, rather than on the fixed elements of pay, to incentivise and reward success. The focus of our executive remuneration is, therefore, weighted towards performance-related pay with a particular emphasis on long-term performance. We believe that, properly structured and with suitable safeguards, variable performance-related rewards are the best way of linking pay to strategy, risk management and shareholders' interests.

Remuneration policy for Executive Directors

Base salary	
Purpose and link to strategy	To recruit and retain the best executive talent to execute our strategic objectives at appropriate cost.
Operation	Base salaries are reviewed annually, with reference to the individual's role, experience and performance; salary levels at relevant comparators are considered, but do not in themselves drive decision-making.
Opportunity	In respect of existing Executive Directors, it is anticipated that decisions on any salary increases will be guided by the increases for the wider employee population over the term of this policy. In certain circumstances (including, but not limited to, a material increase in job size or complexity, market forces, promotion or recruitment), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.
Performance metrics	Business and individual performance are considerations in setting base salary.

Pension	
Purpose and link to strategy	To provide market competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Executive Directors receive pension benefits up to the value equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market as may be in effect or amended from time to time.
Performance metrics	Not performance-related.

Benefits	
Purpose and link to strategy	Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.
Operation	A range of benefits is provided which may include (but is not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home to work travel and related costs; accommodation benefits and related costs. Other benefits (eg relocation) may be offered if considered appropriate and reasonable by the Committee.
Opportunity	Benefit values vary by role and are periodically reviewed and set at a level that the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the period of this policy. The Committee retains the discretion to approve a higher cost in certain circumstances (eg relocation) or in circumstances where factors outside the Company's control have changed materially.
Performance metrics	Not performance-related.

Annual bonus	
Purpose and link to strategy	To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of bonus into Company shares strengthens the link to long-term sustainable growth.
Operation	Performance targets are set at the start of the year and reflect the responsibilities of the Executive in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which these targets have been achieved. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and it may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. At least 40% of annual bonus payments for Executive Directors is deferred into Company shares for three years. Dividend equivalents accrued during the deferral period are payable in respect of deferred shares when (and to the extent) these vest. Malus and clawback provisions apply to cash and deferred bonus awards: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or caused the Committee to exercise any discretion differently.
Opportunity	Maximum bonus opportunity is 150% of salary. For achievement of threshold, up to 15% of maximum bonus is earned; for achievement of target, up to 55% of maximum bonus is earned.
Performance metrics	Performance is determined by the Committee on an annual basis by reference to Group financial measures, eg PBT, OCF, as well as the achievement of non-financial objectives. The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Performance Share Plan (PSP)	
Purpose and link to strategy	To incentivise delivery of top-quartile shareholder returns and earnings growth over the longer term. Long-term measures guard against short-term steps being taken to maximise annual rewards at the expense of future performance.
Operation	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The award levels and performance conditions, on which vesting depends, are reviewed from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that would have been paid over the vesting period on awards that vest. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. An additional two-year holding period will apply to Executive Directors' vested PSP awards before they are released. Malus and clawback provisions apply to PSP awards: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.
Opportunity	Maximum annual PSP award opportunity is 200% of base pay. 16.7% of the maximum award opportunity will vest for threshold performance.
Performance metrics	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. It is intended that PSP awards made during the life of this policy will be based on the achievement of stretching financial targets such as EPS, cash flow, TSR and ROCE targets. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.

All-employee plans – Babcock Employee Share Plan	
Purpose and link to strategy	To encourage employee ownership of Company shares.
Operation	Open to all UK tax-resident employees, including Executive Directors, of participating Group companies. The plan is an HMRC-approved share incentive plan that allows an employee to purchase shares out of pre-tax salary which, if held for periods of time approved by HMRC (currently three to five years), are taxed on a favourable basis. The Company can match purchased shares with an award of free shares.
Opportunity	Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every 10 shares purchased. The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.
Performance metrics	Not performance-related.

Approach to recruitment remuneration

In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the components of remuneration (and subject to the same limits) set out in the policy above.

In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its shareholders. The Committee may also make an award in respect of a new external appointment to 'replace' incentive arrangements forfeited on leaving a previous employer over and above the limits set out in the policy in the table above. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. In order to facilitate like-for-like compensatory awards on recruitment, the Committee may avail itself of the relevant Listing Rule, if required.

When appointing a new Executive Director by way of promotion from an internal role, the pay structure will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate, these would be expected to transition over time to the arrangements stated above.

When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director and Chairship of the Audit and Remuneration Committees.

Payments from existing awards and commitments

Executive Directors are eligible to receive payment from any award or other commitment made prior to the approval and implementation of the Remuneration policy detailed in this report.

Performance measure selection and approach to target-setting

The measures used under annual bonus plans are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set taking into account a range of reference points, including the Group's strategic and operating plan.

The Committee considers at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards as well as the financial targets to attach to share awards to ensure they continue to be: (i) relevant to the Group's strategic objectives and aligned with shareholders' interests, mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee believes that a combination of TSR, EPS, cash flow and ROCE are effective measures of long-term performance for the Company, providing a good balance between shareholder value creation and line of sight for Executives.

The Remuneration Committee has the discretion to make adjustments to the calculation of short- and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include: changes in accounting standards and certain major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, acquisitions and disposals.

The Committee reviews the performance conditions for share awards prior to the start of each cycle to ensure they remain appropriate. No material reduction in long-term incentive targets for future awards would be made without prior consultation with our major shareholders.

Executive Director and general employee remuneration

The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The Remuneration policy for our Executive Directors is considered with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect local market practice and seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the policy for executives as set out above but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair having regard to such factors.

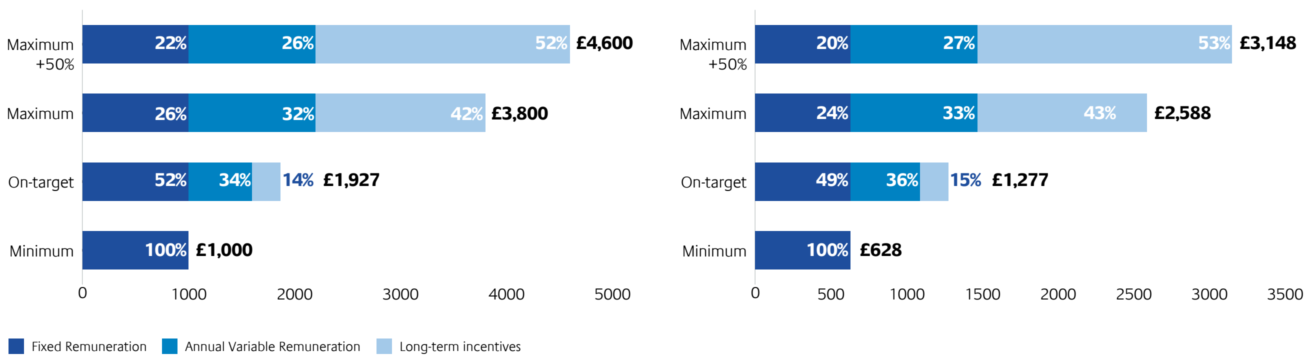
Balance of remuneration for Executive Directors

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-target', 'Maximum' and 'Maximum+50%'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in 2021/22, as outlined in the Committee Chair's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2021. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

Chief Executive
David Lockwood (£'000)

Chief Financial Officer
David Mellors (£'000)



The 'Minimum' scenario shows base salary, pension (and/or pay in lieu of pension) and benefits (ie fixed remuneration). These are the only elements of the Executive Directors' remuneration packages that are not at risk.

The 'On-target' scenario reflects fixed remuneration as above, plus a payout of 55% of the annual bonus and threshold vesting of 16.7% of the maximum award under the PSP.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of all incentives (150% of salary under the annual bonus, 200% of salary under the PSP).

The 'Maximum+50%' scenario reflects fixed remuneration, plus full payout of all incentives with the value of the PSP also reflecting an increase of 50% in the share price from grant.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for the Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO). Executive Directors are expected to retain at least half of any shares acquired on the exercise of a share award that remain after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs) until the guideline level is achieved and thereafter maintained.

The shareholding requirements include a post-cessation extension such that departing Executive Directors will be required to hold vested Company shares, received through the Company's PSP, for two years at a level equal to the lower of their actual shareholding on cessation and the in-post shareholding requirement. Any shares purchased by an Executive Director will not be part of this holding requirement.

Details of Directors' service contracts and exit payments and treatment of awards on a change of control

The following summarises the key terms (excluding remuneration) of the Executive Directors' service contracts:

Executive Directors

Name	Date of service contract	Notice period
David Lockwood (Chief Executive)	29 July 2020	12 months from Company, 12 months from Director
David Mellors (Chief Financial Officer)	29 September 2020	12 months from Company, 12 months from Director

The latest service contracts are available for inspection at the Company's registered office and will also be available at the Company's Annual General Meeting.

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. Under the Executive Directors' contracts, the Company may choose to make the payment in lieu by monthly instalments and mitigation applies such that the Committee may decide to reduce or discontinue further instalments.

In addition to the contractual provisions regarding payment on termination set out above, the Company's incentive plans contain provisions for termination of employment, where the Committee has the discretion to determine the level of award vesting.

Name	Treatment on a change of control	Treatment for a good leaver*	Treatment for other leavers
Annual bonus	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise.	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid at the year end, with Committee discretion to treat otherwise.	No annual bonus entitlement, unless the Committee exercises discretion to treat otherwise.
Deferred bonus awards	Awards may be exercised in full on the change of control, with Committee discretion to treat otherwise.	Entitled to retain any award which will generally vest at the normal vesting date, with Committee discretion to treat otherwise.	Outstanding awards are forfeited unless the Committee exercises its discretion to treat otherwise.
PSP	Awards generally vest immediately and, for performance-related awards, will be pro-rated for time and remain subject to performance conditions, with Committee discretion to treat otherwise.	Entitled to retain a time pro-rated proportion, which remains subject to performance conditions tested at the normal vesting date. In very exceptional circumstances, the Committee has discretion to allow immediate vesting but time pro-rating will always apply.	Outstanding awards are forfeited, unless the Committee exercises discretion to treat otherwise.

* An individual would generally be considered a 'good leaver' if they leave the Group's employment by reason of injury, ill-health, disability, redundancy or retirement. The treatment of share awards held by Directors who leave on other grounds is entirely at the discretion of the Committee and in deciding whether (and the extent to which) it would be appropriate to exercise that discretion the Committee will have regard to all the circumstances.

External appointments of Directors

The Directors may accept external appointments with the prior approval of the Chair, provided that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Any fees for outside appointments are retained by the Director.

Chair and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment (subject to annual re-election)
Ruth Cairnie (Chair)	3 April 2019	2 April 2019	AGM 2022
Myles Lee	1 April 2015	17 May 2018	AGM 2021
Victoire de Margerie	1 February 2016	1 April 2019	AGM 2021
Lucy Dimes	1 April 2018	28 May 2021	AGM 2024
Kjersti Wiklund	1 April 2018	28 May 2021	AGM 2024
Russ Houlden	1 April 2020	4 February 2020	AGM 2023
Carl-Peter Forster	1 June 2020	6 April 2020	AGM 2023
Lord Parker	10 November 2020	9 November 2020	AGM 2024

The Group's Non-Executive Directors serve under letters of appointment as detailed in the table above, normally for no more than three-year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director. All Non-Executive Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code.

The latest written terms of appointment are available for inspection at the Company's registered office and at the Company's Annual General Meeting. The expected time commitment of Non-Executive Directors is set out in their current written terms of appointment.

Details of the Non-Executive Directors' terms of appointment are shown in the table. The appointment and re-appointment, and the remuneration of Non-Executive Directors are matters reserved for the Nominations Committee and Executive Directors, respectively.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit Committee, and Chair of the Remuneration Committee. Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of nominal travel and accommodation expenses). Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. This may result in higher fee levels for overseas Directors.	Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review. Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None

Consideration of employee views

When reviewing Executive Directors' remuneration, the Committee is aware of the proposals for remuneration of all employees. When considering executive pay, the Committee takes into account the experience of employees and their pay. These matters are considered when conducting the annual review of executive remuneration.

The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required. The Committee engages with employees through the Babcock Employee Forum, which is attended by representatives from across the Group's business operations. The Committee's policy on remuneration for Executive Directors is presented to the Forum together with an explanation as to how it aligns with the wider Company pay policy. The representatives not only give feedback on the policy, but also explain it to their business operations. The Committee takes the feedback it receives into account in its decision-making on executive remuneration.

Consideration of shareholder views

When determining remuneration, the Committee takes into account views of leading shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee welcomes feedback from shareholders on the Remuneration policy and arrangements and commits to undertaking consultation with leading shareholders in advance of any significant changes to the Remuneration policy. In developing the policy set out in this report, we consulted with shareholders representing a total of c.60% of our issued share capital, as well as shareholder representative bodies. We had a high level of engagement and are pleased to report that virtually all investors who provided feedback indicated support for the approach initially proposed.

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

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The Committee

The members of the Committee are appointed by the Board on the recommendation of the Nominations Committee and, in accordance with the UK Corporate Governance Code, the Committee is made up of independent Non-Executive Directors. The membership of the Committee during the year to 31 March 2021 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown on page 109. In total there were eight meetings in the year to 31 March 2021. The Chair and the CEO normally attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief HR Officer also attends meetings.

The terms of reference for the Committee are available for inspection on the Company's website and were reviewed during the year. Duties of the Committee include the review of the policy for the remuneration of the Executive Directors and the Chair, as well as their specific remuneration packages. In determining the Remuneration policy, the Committee takes into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and that they are rewarded for their individual contributions to the success of the Company in a fair and responsible manner. The composition of the Committee and its terms of reference comply with the provisions of the UK Corporate Governance Code.

Advisors

Mercer Kepler (which is part of the MMC group of companies) advised the Committee during the year until 31 December 2020, when the Committee transferred the advisory role to Ellason following the departure of the lead advisors from Mercer Kepler, to Ellason. Ellason reports directly to the Committee Chair and provides objective and independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. A representative from Ellason typically attends Committee meetings. Ellason also provides participant communications, performance reporting, and Non-Executive Directors' fee benchmarking services to the Company. Ellason and Mercer Kepler are members of the Remuneration Consultants Group and signatories to the Code of Conduct for consultants to remuneration committees of UK listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Ellason and Mercer Kepler adhere to this Code of Conduct. The fees paid to Ellason and Mercer Kepler in respect of work for the Committee carried out in the year under review totalled £31,330 and £63,260 respectively on the basis of time and materials, excluding expenses and VAT.

The Committee will review Ellason's involvement each year and will consider any other relationships that it has with the Company that may limit its independence. The Committee is satisfied that the advice provided by Ellason is objective and independent.

Matters considered

The Committee considered a number of matters during the year to 31 March 2021, including:

- reviewing the Remuneration policy against market trends and corporate governance best practice
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing share ownership guidelines for senior executives
- reviewing the Directors' Remuneration Report
- reviewing the continued appointment of the Committee's independent advisors
- making share awards under the Company's share plans
- reviewing the performance measures and targets to be applied under the Company's share plans
- agreeing Executive Director salaries for the next financial year
- finalising performance targets and non-financial objectives for the 2020/21 annual bonus plan
- agreeing the level of vesting of PSP awards granted in 2017
- considering performance against the measures applied to, and level of payout of, the 2019/20 annual bonus
- agreeing the level of, and targets for, 2020 PSP awards.

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy, and the advisory vote on the Annual Report on Remuneration, at the 2020 AGM:

	2020 Remuneration policy		2020 Annual Report on Remuneration	
Votes cast	Total number of votes	% of votes cast for and against	Total number of votes	% of votes cast for and against
For (including discretionary)	358,523,814	99.48%	374,839,939	99.47%
Against	1,866,823	0.52%	1,995,057	0.53%
Total votes cast (excluding withheld votes)	360,390,637	100%	376,834,996	100%
Votes withheld	16,471,678		27,320	
Total votes cast (including withheld votes)	376,862,315		376,862,316	

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director

	David Lockwood[9] £'000		David Mellors[9] £'000		Archie Bethel[10] £'000		Franco Martinelli[10] £'000	
Fixed remuneration	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20
Salary[1]	**438**	n/a	**188**	n/a	**321**	796	**276**	446
Benefits in kind and cash[2]	**65**	n/a	**6**	n/a	**102**	223	**1**	1
Pension[3]	**44**	n/a	**19**	n/a	**78**	199	**64**	112
Annual variable remuneration								
Annual bonus (cash)[4]	**–**	n/a	**–**	n/a	**–**	100	**–**	64
DBP (deferred annual bonus)[5]	**–**	n/a	**–**	n/a	**–**	67	**–**	43
Withholding of bonus[6]					**(167)**		**(107)**	
Long-term incentives								
PSP[7]	**n/a**	n/a	**n/a**	n/a	**–**	–	**–**	–
Dividends[8]	**n/a**	n/a	**n/a**	n/a	**–**	–	**–**	–
Total (of which)	**547**	n/a	**213**	n/a	**334**	1,385	**234**	666
Fixed remuneration[1,2,3]	**547**	n/a	**213**	n/a	**501**	1,218	**341**	559
Total variable remuneration[4,5,6,7,8]	**–**	n/a	**–**	n/a	**(167)**	167	**(107)**	107

The figures have been calculated as follows:

1. Salary: base salary amount paid in the year, after the waivers offered by the Executives due to the pandemic. Archie Bethel waived £39.8k and Franco Martinelli £22.3k. As both David Lockwood and David Mellors joined the Board after the Company ceased accessing the UK Furlough Scheme triggering the restoration of executive pay, the table above shows no waiver for them.
2. Benefits in kind and cash: the value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, car and fuel benefits and costs in connection with accommodation. David Lockwood as an Executive Director in 20/21 received £64,632 in connection with his accommodation costs in London; Archie Bethel, whilst an Executive Director, received £100,616 (19/20: £221,210) in connection with his accommodation costs in London for the period he served as a Director. Both were, at the Company's request, to enable them to lead the business effectively.
3. Pension: the numbers above represent for each year the value of the cash supplement, which for Archie Bethel and Franco Martinelli was 21.5% of base salary (without deduction of the waivers offered by the Executives due to the pandemic) and for David Lockwood and David Mellors was 10% of base salary.
4. Annual bonus (cash): this is the part of total annual bonus earned for performance during the year (see page 145) that is not required to be mandatorily deferred into shares under the DBP (see page 135) and is paid in cash.
5. DBP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
6. The payment of the bonus declared for FY20 was delayed until the Board had made a decision around the FY20 dividend. In February 2021 the Committee determined the FY20 bonus previously determined for Archie Bethel and Franco Martinelli would be cancelled as no FY20 dividend had been declared.
7. PSP: for 20/21, represents the lapsing in full of the 2018 awards that were subject to performance to 31 March 2021 (see page 146).
8. Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory deferral of bonus awards under the DBP) vesting on performance to 31 March 2021 (for 20/21) and 31 March 2020 (for 19/20), payable in cash on exercise of the award.
9. David Lockwood and David Mellors were not Directors of the Company in FY19/20. David Lockwood joined the Company on 17 August 2020 as CEO designate and joined the Board as CEO on 14 September 2020. David Mellors joined the Company as CFO designate on 1 November 2020 and joined the Board as CFO on 30 November 2020. Amounts for FY20/21 are based on their service as Directors.
10. Archie Bethel and Franco Martinelli stepped down from the Board on 14 September 2020 and 30 November 2020 respectively. Amounts for FY20/21 are based on their service as Directors. In FY21, Archie Bethel received a base salary of £765,487, benefits of £300,290 and a pension supplement of £173,137 and Franco Martinelli a base salary of £428,903 and a pension supplement of £97,008. Please see page 148 for more details.

None of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2021. They instead received a cash supplement equal to 10% of salary for David Lockwood and David Mellors and 21.5% of salary for Archie Bethel and Franco Martinelli of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

At the time of their respective retirements from the Board in September and November 2020 Archie Bethel's and Franco Martinelli's cash supplements in lieu of pension benefits were transitioning from the arrangements immediately prior to the new policy (25% of salary) to alignment with the workforce, as per the new policy, by 1 April 2023. Consequently until November 2020 the Company was not compliant with provision 38 of the Code, requiring the pension rates for Executive directors, or payments in lieu, to be aligned to those available to the workforce. However, our new policy, under which David Lockwood and David Mellors were appointed during the year, ensured that we were compliant for the remainder of the year and will be in the future.

Supplements paid in lieu of pension do not count for pension, share award or bonus purposes.

Babcock International Group Pension Scheme (the Scheme) (audited)

Archie Bethel was an active member of the executive tier of the Scheme until 31 March 2012. Franco Martinelli was an active member of the executive tier of the Scheme until 31 March 2015. Whilst still members of the Scheme, Archie Bethel and Franco Martinelli accrued benefits at the rate of one-forty-fifth of pensionable salary for each year of service, with a cash supplement on earnings over the applicable scheme earnings cap. Archie Bethel transferred his benefits out of the Scheme during the 2017/18 financial year on the standard terms offered under the Scheme.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2021 are set out in the following table:

Director[1]	Accrued pension at 31 March 2021 £'000 pa	Normal retirement age[2]
Franco Martinelli	**68**	65

1. No Executive Director was an active member of the scheme during the year.
2. Age from which payment can be drawn with no actuarial reduction.
3. There are no additional benefits in the event of early retirement under this scheme.

Note: The figures in the above table make no allowance for the cost of death in service benefits under the Scheme, or for any benefits in respect of earnings in excess of the earnings cap. In calculating the above figures no account has been taken of any retained benefits that the Director may have from previous employments.

Directors also benefit from life assurance cover of four times base salary. The cost of providing that life assurance cover was:

Director	2020/21 £'000 pa	2019/20 £'000
David Lockwood	**4**	n/a
David Mellors	**3**	n/a
Archie Bethel	**4**	5
Franco Martinelli	**2**	3

Annual bonus

2020/21 Annual bonus (audited)

The 2020/21 annual bonus was based on a mix of financial and non-financial measures. The financial element, weighted 80%, was based on the Group's underlying OCF and PBT performance (based on budgeted FX rates). The non-financial measures were principally based on the key themes that the Committee considers to be of material importance to the continued success of the Company.

Due to the impact of the COVID-19 pandemic and the withdrawal of guidance, the Committee was obliged to set the 2020/21 annual bonus on the basis of the Company's Q1 forecast. Accordingly, for Archie Bethel and Franco Martinelli, the Committee reduced their maximum opportunity from 150% to 112.5% of salary to reflect the delay in setting targets. In respect of David Lockwood and David Mellors, their bonus opportunity for 2020/21 was based on their pro-rated salary, as they joined the Company part way through the financial year. Notwithstanding the strong performance delivered by the incumbent Executive Directors against their non-financial measures, in the context of the lapsing of the financial elements of the bonus and the wider stakeholder experience during FY21, Messrs Lockwood and Mellors requested the waiver of any bonus assessed payable for the non-financial measures. The table below summarises performance against each financial measure, and the bonus outcome. In respect of Archie Bethel and Franco Martinelli, along with other plan participants, the Committee believed the financial performance of the Company did not merit a payout under the non-financial measures.

Bonus element	Threshold[1]	Target	Maximum	Actual outturn		David Lockwood	David Mellors	Archie Bethel	Franco Martinelli
Achieving budgeted Group cash flow[2]	90% of Q1 forecast	Q1 forecast (£262.5m)	120% of Q1 forecast	£218.8m[3]	Maximum potential (% of salary)	**37.2%**	**25.2%**	**45%**	**45%**
					Outturn (% of salary)	0%	0%	0%	0%
Achieving budgeted Group PBT[4]	90% of Q1 forecast	Q1 forecast (£277.4m)	120% of Q1 forecast	£209.9m[5]	Maximum potential (% of salary)	**37.2%**	**25.2%**	**45%**	**45%**
					Outturn (% of salary)	0%	0%	0%	0%
Non-financial objectives[6]					Maximum potential (% of salary)	**18.6%**	**12.6%**	**22.5%**	**22.5%**
					Outturn (% of salary)	0%[7]	0%[7]	0%	0%
Total					Maximum potential (% of salary)	**93%**	**63%**	**112.5%**	**112.5%**
					Outturn (% of salary)	0%	0%	0%	0%

1. Threshold vesting is: 18.8% of maximum for the Group PBT and cash flow elements. In line with our policy, overall vesting at threshold is no more than 15% when all measures are taken into account.
2. Operating cash flow after capital expenditure before pension payments in excess of the income statement charge.
3. To calculate outturn, the Group's FY21 operating cash after capital expenditure has been adjusted (i) to exclude the deferral of VAT, which the Q1F had assumed would be paid in FY21, (ii) to take into account the reclassification of the Group's Supply Chain Financing Facilities as bank and other borrowings rather than trade payables, and (iii) to take into account the change in treatment of the capital elements of lease payment cash flows.
4. Before amortisation of acquired intangibles with the treatment of exceptional items at the discretion of the Committee.
5. To calculate outturn, the Group's FY21 profit before tax has been adjusted to add back specific adjusting items as well as the impacts of the contract profitability and balance sheet review.
6. Further details on the non-financial objectives set for 20/21 are set out below.
7. David Lockwood and David Mellors each waived any entitlement to bonus for performance against the non-financial measures set at the time they respectively joined Babcock and relating to their key priorities for 2020/21. Notwithstanding this waiver, the Remuneration Committee reviewed their performance against the objectives set, and determined that these had been met in full.

Non-financial measures

The Committee set non-financial objectives for Archie Bethel and Franco Martinelli at the start of the year around strategic and risk management 'Themes' of Growth, Technology/Processes, Resources and Reputation. At the end of the bonus year, the Committee reviewed their performance against those objectives. In respect of David Lockwood and David Mellors, who joined the Company during the course of 2020/21, the Committee set them targets that were aligned to the Company's turnaround. Achievement of the objectives are summarised below.

David Lockwood	David Mellors	Archie Bethel/Franco Martinelli
Strategy Developed a new strategy	Financial Created a more appropriate financial baseline for future financial performance Improved clarity of reporting	Growth Initial progress on divestments International growth limited
Business Model Introduced a new Operating Model	People Reset finance function as part of the new Operating Model	Technology/Processes Progress on technology capabilities in some areas
People Launched a new Company purpose and developing a new People Strategy	Customers Established positive relations with key external stakeholders	Resources Plans to meet growth targets not achieved, in part due to COVID-19
Customers Established positive relations with the Company's principal customer		Reputation Progress on MOD's strategic partner programme, but impacted by COVID-19 and FMSP renegotiation focus

The 2020/21 bonus outcomes for each Executive Director are as follows:

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus
David Lockwood	0%	0%	0%	£0
David Mellors	0%	0%	0%	£0
Archie Bethel	0%	0%	0%	£0
Franco Martinelli	0%	0%	0%	£0

Long-term incentive schemes (PSP)

2018 PSP awards vesting for the period ending March 2021 (audited)

Archie Bethel and Franco Martinelli were granted PSP awards in 2018, which were subject to three-year TSR, EPS and ROCE targets for the period ending 31 March 2021. Performance against these measures is as follows:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Actual performance	% of each element vesting
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	33%	Median TSR	Median TSR + 9% p.a.	Below median	0%
3-year adjusted basic underlying EPS growth to 31 March 2021	33%	4% p.a.	11% p.a.	(165.9)% p.a.	0%
3-year average ROCE	33%	12%	14%	5.4%	0%
Total vesting					0%

The Committee was satisfied that the outcomes against the measures were reflective of the underlying performance of the Company and so no discretion was applied. As a result, the Executive Directors' 2018 PSP awards will lapse in full.

PSP awards granted during 2020/21 (audited)*

The Executive Directors were granted PSP awards in 2020. Due to the fall in the share price since the previous PSP grant, the Committee decided that 2020/21 PSP awards should be scaled back by 10% in value to 180% of salary.

Director	Number of shares	Face value[1]	Face value (% of salary)[2]	% of award receivable for threshold performance
David Lockwood	408,545	£1,440,000	180%	16.7%
David Mellors	285,981	£1,008,000	180%	16.7%

1. Based on three-day average share price (of 352p) at time of grant.
2. Expressed as a percentage of salary at the date of the award (1 December 2020).
* In the form of nil-cost options.

In the Company's Annual Report and Accounts for the year ending 31 March 2020, the Company stated in its Remuneration Committee Report that it was delaying the grant of the PSP awards due to the impact of the COVID-19 pandemic. At that time, the intention was to base any award to Executive Directors on four measures. However, after further consideration and taking into account the recent appointments of David Lockwood and David Mellors, the Remuneration Committee decided that the best alignment with shareholders and the Company's strategy would be to base those awards on free cash flow and relative TSR, with each measure having equal weighting. The performance period for these awards is based on the three financial years through to 31 March 2023 for cumulative FCF, and the three years starting on the date of grant (1 December 2020) for relative TSR. The Committee defines FCF as all cash flows of the Company, including exceptional items (unless the Committee decides otherwise), but excluding disposals, on an IFRS 16 basis as stated in the Company's Annual Report and Financial Statements.

Given the reset of the Company and the absence of guidance, the Committee considers the performance range for the cumulative three-year FCF measure to be commercially sensitive, but intends to disclose it once it ceases to be so, which is expected to be on the return to giving guidance. The Committee may need to use its discretion to review the outcome of the awards in 2023 to take into account the level of uncertainty at the time of award. As always, final decisions would include a check to ensure alignment with the shareholder experience. The relative TSR performance range is described below:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% p.a.

Deferred Bonus Plan awards made during 2020/21 (audited)

Neither Archie Bethel nor Franco Martinelli was granted DBP awards in 2020, as the Company did not pay their 2019/20 bonus due to the Company not paying a dividend in the year.

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the total remuneration received by each Non-Executive Director:

	Base fee £'000		Additional fee[1] £'000		Total £'000		Total fixed remuneration		Total variable remuneration	
Fixed remuneration	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20
Ruth Cairnie	**319**	253	**–**	n/a	**319**	253	**319**	253	**–**	–
Sir David Omand[2]	**61**	72	**–**	–	**61**	72	**61**	72	**–**	–
Myles Lee	**62**	65	**–**	–	**62**	65	**62**	65	**–**	–
Victoire de Margerie	**62**	65	**–**	–	**62**	65	**62**	65	**–**	–
Lucy Dimes	**58**	61	**–**	–	**58**	61	**58**	61	**–**	–
Kjersti Wiklund	**58**	61	**15**	–	**73**	61	**73**	61	**–**	–
Russ Houlden	**58**	n/a	**10**	n/a	**68**	n/a	**68**	n/a	**–**	–
Carl-Peter Forster[3]	**55**	n/a	**–**	n/a	**55**	n/a	**55**	n/a	**–**	–
Lord Parker[4]	**24**	n/a	**–**	n/a	**24**	n/a	**24**	n/a	**–**	–
Ian Duncan[5]	**18**	61	**5**	15	**23**	76	**23**	76	**–**	–
Jeff Randall[5]	**18**	61	**–**	15	**18**	76	**18**	76	**–**	–

1. Relating to role as Chair of the Audit Committee (Russ Houlden) with effect from August 2020 and Remuneration Committee (Kjersti Wiklund) with effect from April 2020.
2. Sir David Omand was Senior Independent Director until the 2020 AGM, when Carl-Peter Forster stepped up to the role.
3. Carl-Peter Forster joined the Board in June 2020 and stepped up to be Senior Independent Director at the 2020 AGM.
4. Lord Parker joined the Board in November 2020.
5. Ian Duncan and Jeff Randall retired from the Board after the AGM on 4 August 2020.

Sourcing of shares

Shares needed to satisfy share awards for Directors are either shares that are newly issued to the Group's employee share trusts to meet share awards or purchased in the market by the trusts using funds advanced by the Company. The source selection is finalised on or before vesting, the choice being based on what the Board considers is in the best interests of the Company at the time, and what is permissible within available headroom and dilution limits.

Executive Directors' remuneration for 2021/22

The Committee has set the remuneration for Executive Directors for 2021/22 in line with the Company's approved Remuneration policy.

Fixed pay

Executive Directors' base salaries are normally reviewed each year with any changes usually taking effect from 1 April. However, given the continued uncertainty of the impact of the COVID-19 pandemic, the Committee has decided to delay its review of Executive Director salaries until September 2021, in line with the approach for other employees. The Executive Directors will participate in the same pension arrangements as in FY21 (ie at 10% of salary) and the same benefits as in FY21.

	2021/22*	2020/21
David Lockwood	**£800,000**	£800,000
David Mellors	**£560,000**	£560,000

* Subject to review in September 2021

2021/22 Annual bonus

The structure of the Executive Director annual bonus for 2021/22 is consistent with that for 2020/21, with measures based on OCF, PBT and non-financial objectives. The Committee have agreed the measures and targets but, due to their commercial sensitivity, will only disclose them in next year's Annual Report on Remuneration.

40% of any earned bonus will be deferred into shares for three years, with the remaining 60% deferred into shares for one year.

2021 PSP awards

The Committee has granted awards under the PSP to the Executive Directors in 2021 covering the three-year period FY22-FY24, with measures consistent with those used for the 2020 PSP award, being relative TSR and free cash flow, equally weighted. As in the 2021 PSP award, the relative TSR performance range is set on the basis of the Company's three-year TSR outperformance of the constituents of the FTSE 350 index (excluding investment trusts and financial services). Threshold vesting (of 16.7% of maximum) requires the Company's TSR to be median for the benchmark, with maximum vesting requiring an outperformance of median TSR by 9% pa. Given the reset of the Company and the absence of guidance, the Committee considers the FCF performance range to be commercially sensitive, but intends to disclose it once it ceases to be so which is expected to be on the return to giving guidance.

Payments for loss of office (audited)

Archie Bethel retired from the Company on 31 March 2021, having previously stepped down as an Executive Director on 14 September 2020. Archie received his base salary (£444,301), pension (£95,525) and benefits (£199,674 including accommodation and accrued holiday pay) through to his retirement, and was eligible to receive a bonus for FY20/21, but none was paid. He received no further payments for loss of office and no discretion was required in determining this outcome.

Franco Martinelli stepped down as an Executive Director on 30 November 2020 and is due to retire from the Company on 30 September 2021. Franco will continue to receive his base salary (£152,903 in FY20/21), pension (£32,875 in FY20/21) and benefits through to his retirement and was eligible to receive a bonus for FY20/21 but none was paid. He will receive no further payments for loss of office and no discretion was required in determining this outcome.

The Committee considered the consequences of the contract profitability and balance sheet review and, as a result, decided to reduce to zero the PSP awards granted to Archie Bethel and Franco Martinelli in June 2019 and December 2020.

Both Archie Bethel and Franco Martinelli have outstanding DBP awards. In accordance with DBP rules, the awards will vest on their normal vesting dates. They will receive a cash sum equivalent to the dividends that accrue on the shares that vest.

Payments to past Directors (audited)

John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2017 PSP award lapsed in full. His 2017 DBP award (the value of which was disclosed in the 2017 Directors' Remuneration Report) vested on 14 June 2020.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. Bill's 2017 PSP award lapsed in full. His 2017 DBP award (the value of which was disclosed in the 2017 Directors' Remuneration Report) vested on 14 June 2020.

Peter Rogers retired from the Company on 31 August 2016. His 2017 DBP award (the value of which was disclosed in the 2017 Directors' Remuneration Report) vested on 14 June 2020.

Non-Executive Directors' fees (including the Chair)

There are no changes to the fees for the Chair and the Non-Executive Directors for the 2021/22 financial year.

Annual rate fee	Year to 31 March 2022 £	Year to 31 March 2021 £	% change since last review (% p.a.)
Chair	**336,000**	336,000	0%
Senior Independent Director (inclusive of basic fee)	**72,000**	72,000	0%
Basic Non-Executive Director's fee (UK-based Directors)[1]	**61,000**	61,000	0%
Chair of Audit Committee[2]	**15,000**	15,000	0%
Chair of Remuneration Committee[2]	**15,000**	15,000	0%

1. Fees for non-UK based Directors will be set having regard to the extra time commitment involved in attending meetings. For Myles Lee, appointed 1 April 2015 and based in Ireland, and for Victoire de Margerie, appointed 1 February 2016 and based in France, the fee has been set at £65,000 for the year to 31 March 2022.
2. Fees for chairing Board Committees are paid in addition to the basic applicable Non-Executive Director's fee. No additional fees are paid for membership of Committees.

Percentage change in the remuneration of all Directors compared to the workforce

The table below shows the percentage change in remuneration from the prior year for each Director compared to the average UK employee, as required under The Companies (Directors' Remuneration policy and Directors' Remuneration Report) Regulations 2019. This analysis will be built up in subsequent years until it displays a five-year history.

The Regulations require this disclosure to provide a comparison of year-on-year changes in Director remuneration compared to all other employees of the parent company in the Group. However, Babcock International Group PLC does not have any employees, on which basis there would be no data to disclose for the broader employee population. The Committee has therefore elected to compare the change in Director remuneration against the change in remuneration for the average of the UK employee population, as a suitable comparator group for this purpose.

The Committee monitors carefully this information to ensure that the trend over time in fixed pay is appropriately aligned between Executive Directors, Non-Executive Directors and UK employees.

	% change 2019/20 to 2020/21		
	Base salary / fees	Taxable benefits	Single-year variable
Executive Directors			
David Lockwood[1]	n/a	n/a	n/a
David Mellors[1]	n/a	n/a	n/a
Non-Executive Directors[2]			
Ruth Cairnie[3]	26%	n/a	n/a
Sir David Omand	-15%	n/a	n/a
Myles Lee	-5%	n/a	n/a
Victoire de Margerie	-5%	n/a	n/a
Lucy Dimes	-5%	n/a	n/a
Kjersti Wiklund	18%	n/a	n/a
Russ Houlden[1]	n/a	n/a	n/a
Carl-Peter Forster[1]	n/a	n/a	n/a
Lord Parker[1]	n/a	n/a	n/a
Former Executive Directors[4]			
Archie Bethel[5]	-4%	35%	n/a
Franco Martinelli[5]	-4%	0%	n/a
Former Non-Executive Directors			
Ian Duncan	-5%	n/a	n/a
Jeff Randall	-24%	n/a	n/a
Average for all UK employees	2%	0%	-100%

1. Joined during 2020/21, and hence no year-on-year comparison is available.
2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.
3. Year-on-year change reflects appointment during 2019/20 as Chair of Babcock.
4. The percentage change in salary, benefits and single-year variable for former Directors reflects annualised values for 2020/21 remuneration, to facilitate a comparison with 2019/20 on a like-for-like basis.
5. Archie Bethel and Franco Martinelli did not receive an annual bonus in either 2019/20 or in 2020/21.

Relative importance of spend on pay

	2020/21	2019/20	% change
Distribution to shareholders[1]	**£0m**	£152m	-100%
Employee remuneration	**£1,611m**	£1,606m	-1.1%

1. Distributions to shareholders includes all amounts distributed to shareholders, being only dividends.

CEO pay ratio

The table below provides disclosure of the ratio between the CEO's total remuneration and that of the lower quartile, median and upper quartile UK-based employee.

Figures for the CEO are based on the data from the Executive Directors' single figure table on page 144 and is a combination of Archie Bethel's and David Lockwood's remuneration for the periods that each was CEO during the financial year. Total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees were determined on 31 March 2021 using the 'single figure' methodology as at 31 March 2021, providing a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the pay ratio – Options A, B and C. The most statistically accurate approach is Option A, which we were able to adopt this year, due to the centralisation of our payroll and HR systems, allowing sufficient time to collate the necessary information. Total full-time equivalent remuneration was calculated for all UK employees throughout the 20/21 financial year, which was then ranked, and 3 employees representing P25, P50 and P75 were identified.

As with last year, bonus payments were excluded from the calculations because it was not feasible to identify which payments were explicitly for services delivered within the financial year, and because not all bonus pay relating to financial year 20/21 are known at the time of publication. Analysis of past data indicates that the three employees would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

To validate that the figures presented are representative of the pay and benefits of the UK workforce, the pay and benefits of a number of employees centred on each of the three employees was also considered. Whilst there can be variation in the pay mix for individuals throughout the organisation, the Committee believes that the information presented fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year and none received an exceptional incentive award which would otherwise inflate their pay figures. No adjustments or assumptions were made by the Committee with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the CEO.

The median CEO pay ratio in the last financial year was 22:1 compared to 37:1 in FY19/20. The decline in the ratio reflects a significant reduction in the CEO total remuneration, primarily due to the annual bonus not paying out in 20/21, but also a result of the 20% salary reduction for the CEO from June to September. At the same time, employee pay saw an increase from FY19/20.

The CEO pay ratio is based on comparing the CEO's pay to that of Babcock's UK-based workforce. The Committee expects that the ratios will be largely driven by the CEO's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at other levels who, consistent with market practices and the Company's reward policies across the organisation, have a greater proportion of their pay linked to fixed components. The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and Babcock takes seriously the need to ensure competitive pay packages across the organisation.

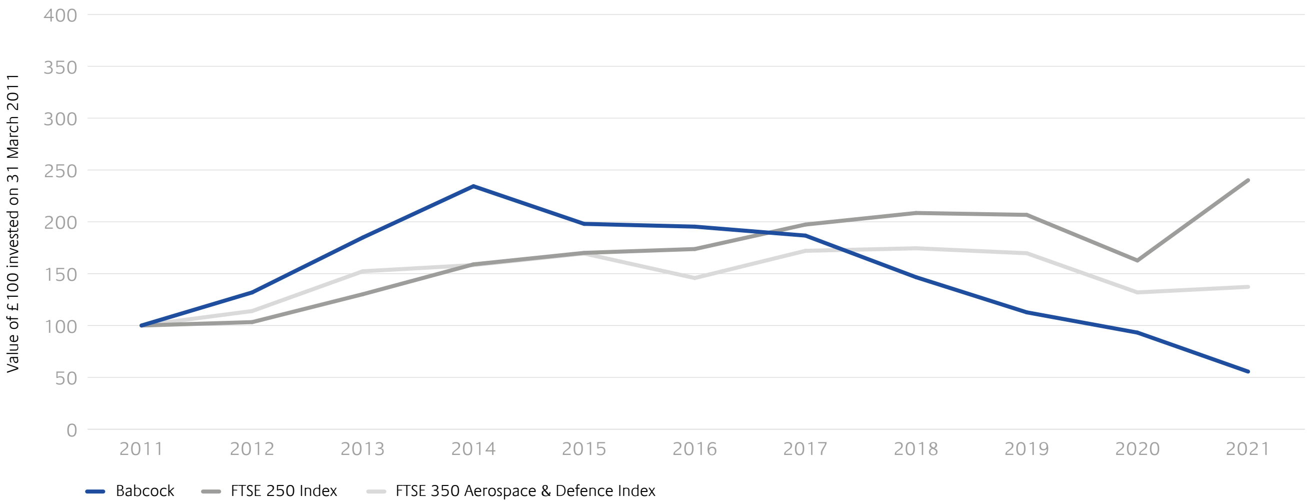
Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY20/21	Option A	30:1	22:1	17:1
FY19/20	Option C	47:1	37:1	27:1

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY20/21	**Total remuneration (£'000)**	**£29.7**	**£39.2**	**£52.0**
	Salary (£'000)	£28.0	£35.8	£49.0
FY19/20	**Total remuneration (£'000)**	**£29.2**	**£37.6**	**£50.6**
	Salary (£'000)	£25.1	£36.3	£43.6

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence Indices, assuming £100 was invested on 31 March 2011. The Board considers that the FTSE 250 Index (excluding investment trusts) and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.

Babcock vs. FTSE 250 Index vs. FTSE 350 Aerospace & Defence Index



The table below details the historical CEO pay over a 10-year period.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	**2020/21**
Peter Rogers[1]										
Single figure (£'000)	2,185	2,731	3,809	4,448	2,491	1,091				
Bonus vesting (% max)	99%	99%	93%	78%	60%	66%				
DBMP matching shares vesting (% max)	n/a	n/a	n/a	88.4%	57.8%	17.0%				
PSP/CSOP vesting (% max)	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%				
Archie Bethel[2,3]										
Single figure (£'000)						1,012	2,079	1,969	1,385	**334**
Bonus vesting (% max)						66%	61%	58%	14%	**0%**
DBMP matching shares vesting (% max)						17.0%	20.0%	n/a	n/a	**n/a**
PSP vesting (% max)						26.5%	23.9%	15.1%	0%	**0%**
David Lockwood[4]										
Single figure (£'000)										**547**
Bonus vesting (% max)										**0%**
PSP vesting (% max)										**N/A**

1. Until retirement on 31 August 2016.
2. Excludes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.
3. Until he stepped down as CEO on 14 September 2020.
4. Excludes his salary from when he joined the Company in August before joining the Board as CEO on 14 September 2021.

Directors' share ownership

Directors' interests in shares (audited)

The interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2021 and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

	At 31 March 2020	At 31 March 2021[1]							
	Shares held	Shares held	Options held						
Director	Owned outright by Director or Spouse[2]	Owned outright by Director or Spouse[2]	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	S/holding req. (% salary)	Current shareholding (% of salary)[3]	Req. met?[3]
David Lockwood	n/a	186,924	–	–	408,545	–	300%	57%	Building
David Mellors	n/a	71,268	–	–	285,981	–	200%	31%	Building
Ruth Cairnie	50,000	120,000							
Sir David Omand	–	–							
Myles Lee	30,000	40,000							
Victoire de Margerie	7,061	7,061							
Lucy Dimes	5,000	5,000							
Kjersti Wiklund	2,100	2,100							
Russ Houlden	n/a	–							
Carl-Peter Forster	n/a	10,000							
Lord Parker	n/a	–							
Former Director									
Archie Bethel	460,416	476,421	–	–	445,290	89,202	300%	157%	No
Franco Martinelli	336,014	336,014	–	–	249,466	51,570	200%	195%	No
Ian Duncan	–	–							
Jeff Randall	6,097	6,097							

1. At the date of stepping down from the Board, in the case of former directors.
2. Beneficially held shares (of Director and/or spouse).
3. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2021 and by reference to shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised and options unvested but subject only to continued employment. Holdings are valued assuming options are exercised on 31 March 2021 and a three-month average share price to 31 March 2021 of 243.58p, and calculated post-tax.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2021 and 30 July 2021.

Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 31 March 2021 was 228.6p. The highest and lowest mid-market share prices in the year ended 31 March 2021 were 448.7p and 199.0p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2021	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Lockwood	PSP 2020	–	408,545	–	–	408,545	–	352.47	Dec 2025	Dec 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2021	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Mellors	PSP 2020		285,981	–	–	285,981	–	352.47	Dec 2025	Dec 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year[(a)]	Lapsed during the year	**Number of shares subject to award at 31 March 2021**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
Archie Bethel	PSP 2017	171,588	–	–	171,588	–		891.67	Jun 2022	Jun 2023
	DBP 2017	29,185		29,185		–		891.67	Jun 2020	Jun 2021
	PSP 2018	181,605				**181,605**		859.33	Jun 2023	Jun 2024
	DBP 2018	32,749				**32,749**		859.33	Jun 2021	Jun 2022
	PSP 2019	263,685				**263,685**[4]		483.00	Jun 2024	Jun 2025
	DBP 2019	56,453				**56,453**		483.00	Jun 2022	Jun 2023
	PSP 2020		414,632			**414,632**[4]		352.47	Dec 2025	Dec 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year[(b)]	Lapsed during the year	**Number of shares subject to award at 31 March 2021**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
Franco Martinelli	PSP 2017	96,112	–	–	96,112	–		891.67	Jun 2022	Jun 2023
	DBP 2017	18,387		18,387		–		891.67	Jun 2020	Jun 2021
	PSP 2018	101,723				**101,723**		859.33	Jun 2023	Jun 2024
	DBP 2018	18,483				**18,483**		859.33	Jun 2021	Jun 2022
	PSP 2019	147,743				**147,743**[4]		483.00	Jun 2024	Jun 2025
	DBP 2019	33,087				**33,087**		483.00	Jun 2022	Jun 2023
	PSP 2020		232,319			**232,319**[4]		352.47	Dec 2025	Dec 2026

1. PSP = 2009 Performance Share Plan; DBP = 2012 Deferred Bonus Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 137 to 138.
2. The PSP awards are structured as nil-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
4. These grants have since 31 March 2021 been reduced to zero.

(a) Market value on date of exercise (14 August 2020) was 276.20p.

(b) Market value on date of exercise (19 March 2021) was 254.05p.

General notes:
1. 'Dividend equivalent cash' (an amount representing dividends earned) of 88.35p per vested share had accrued on the DBP 2017 awards for the period between grant and vesting. It is payable by the Company to the award holder on exercise of the award concerned.
2. Closing share price on the last dealing date before vesting was 368.90p (14 June 2020) for DBP 2017 awards.

Summary of share-based awards and options vested during the year

During the year to 31 March 2021 the following awards vested:

Director	Award	Number vesting	Vesting date	Market value of vested shares on award £	Market value of vested shares on vesting date £	Exercise price payable for vested shares (if any) £
Archie Bethel	DBP 2017	29,185	14 Jun 2020	£260,234	£107,663	
Franco Martinelli	DBP 2017	18,387	14 Jun 2020	£163,951	£67,830	

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in 2020/21

None of the Executive Directors received a fee for any external appointment during the year.

This Remuneration Report was approved by the Board on 30 July 2021 and signed on its behalf by:

Kjersti Wiklund
Committee Chair

Additional statutory information

Directors' report and other disclosures

The Directors' report comprises this section, the principal risks and management controls section in the Strategic report, as well as the rest of the Governance section and those sections incorporated by reference below.

Disclosures required by LR 9.8.4 R and which form part of the Directors' report can be found at the locations provided in the table below:

Listing Rule	Topic	Location
9.8.4 (1)	Interest capitalised by the Group during the year	Financial statements, note 15 on pages 232 and 233
9.8.4 (2)	Publication of unaudited financial information	Financial review on page 38
9.8.4 (5)	Director waivers of emoluments	Remuneration report on page 144
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 27 on page 253

Other disclosure requirements set out in LR 9.8.4 R are not applicable to the Company.

Disclosures required pursuant to Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by Companies (Miscellaneous Reporting) Regulations 2018 can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 2, page 192
Greenhouse gas emissions	Page 68
Employee engagement	Pages 58, 71, 102, 114 and 142
Business relationships	Pages 58 to 59, page 78 and throughout the Strategic report
Subsequent events	Note 37 on page 263
Likely future developments in the business of the Group	Pages 12 to 15
Details of important events affecting the Group	Strategic and directors' reports in particular pages 12 to 15 and 30 to 49

For the purposes of DTR 4.1.5 R (2) and DTR 4.1.8 R the required content of the Management report can be found in the Strategic report and the Directors' report including the sections of the Annual Report and financial statements incorporated by reference.

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 02342138, is the holding company for the Babcock International Group of companies.

Dividends

The Company did not pay an interim dividend this year (2020: 7.2 pence per 60 pence ordinary share) and, as part of our focus on building a strong balance sheet, has not recommended a final dividend (2020: nil).

Major shareholdings

As at 31 March 2021, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Invesco Ltd	50,381,712	9.96%
Polaris Capital Management, LLC	30,374,782	6.01%
Abrams Bison Investments, L.L.C.	29,311,332	5.80%
Cobas Asset Management, SGIIC, S.A.	15,547,899	3.08%
Tameside MBC re. Greater Manchester Pension Fund managed by UBS Asset Management	15,738,663	3.11%

Since 31 March 2021 the Company has been notified by Polaris Capital Management, LLC. that it reduced its interest to 29,089,500 shares representing 5.75% in the share capital of the Company. There have been no further notifications between then and the date of this report.

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

Employment of disabled persons/equal opportunities
Babcock is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock.

Research and development
The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Political donations
No donations were made during the year for political purposes.

Authority to purchase own shares
At the Annual General Meeting in August 2020, members authorised the Company to make market purchases of up to 50,559,660 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting when a Resolution will be put to renew it so as to allow purchases of up to a maximum of no more than 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 4 August 2020 (the date the current authority was granted) to the date of this report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made in the year to 31 March 2021 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 27 on page 253.

Qualifying third-party indemnity provisions
The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purpose of the Companies Act 2006 in respect of their Directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Significant agreements that take effect, alter or terminate upon a change of control
Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which can often be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be very material. In addition the UK government is considering provding itself with new powers to scrutinise transactions on national security grounds with the introduction of the National Security and Investment Bill.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Borrowing facilities
In May 2021, the Group agreed a new revolving credit facility of up to £300 million. As with the Group's existing main £775 million revolving credit facility maturing in August 2025, the new facility provides funds for general corporate and working capital purposes. The new facility expires in May 2024. In the event of a change of control, both facilities provide that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the facilities.

£1,800,000,000 Euro Medium-Term Note Programme
The Company has in place a Euro Medium-Term Note Programme under which the Company could issue notes up to £1,800,000,000. Under the Note Programme, the Company has issued three tranches: €550,000,000 1.75% Notes due in 2022; £300,000,000 1.875% Notes due in 2026; and €550,000,000 1.375 % Notes due in 2027.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

Share plans
The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors
A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 140 and 141.

Marine
Articles of Association of Devonport Royal Dockyard Limited and Rosyth Royal Dockyard Limited
The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK.

This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so. Any level of ownership by particular foreign or domestic persons may, on the facts of the case, be so treated.

Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Babcock Marine (Rosyth) Limited
The ToBA confirms Babcock as a key support partner of MOD in the maritime sector and covers the 15-year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a change in control of a relevant Marine sector operating company or any holding company including the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners to become involved, or interested, in the Marine sector. 'Change in control' occurs where a person or group of persons that controls the relevant company ceases to do so or if another person or group of persons acquires control.

Future Maritime Support Programme Interim Agreement dated 31 March 2021 between (1) The Secretary of State for Defence (2) Devonport Royal Dockyard Limited (3) Babcock Marine (Clyde) Limited and (4) Rosyth Royal Dockyard Limited and (5) the Company
Babcock has been delivering services at HMNB Clyde and HMNB Devonport under the Maritime Support Delivery Framework (MSDF) contract for the MOD since 1 October 2014. MSDF had replaced Babcock's Warship Support Modernisation Initiative (WSMI) contracts. These contracts sit under and work alongside Babcock's ToBA, which runs through to 2025. The MOD is now contracting the replacement programme for Babcock's MSDF under the Future Maritime Support Programme (FMSP). Babcock is delivering its services under an Interim FMSP Agreement.

Surface Ship Support Alliance Agreement (SSSA) dated 28 April 2017 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited
Any change of control of Devonport Royal Dockyard Limited must be approved in advance by the Secretary of State for Defence. Consent may be withheld to prevent an unsuitable third party taking control. Breach may result in exclusion from the alliance.

Competitive Design Phase Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Devonport Royal Dockyard or any holding company will be contrary to the defence, national security or national interest of the UK. In 2020 this contract was novated to Rosyth Royal Dockyard Limited.

Since the Marine sector is core to the strategy, profitability and cashflow of the Group, the exercise of the change of control clauses outlined above could be very damaging not only to the Marine sector but to the Group as a whole.

Share capital and rights attaching to the Company's shares

General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws) or by the nationality-related restrictions, more particularly described on the following page.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange.

Nationality-related restrictions on share ownership

Companies which provide aviation services in the EU, must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other matters, requires those companies to be majority-owned and majority-controlled by EEA nationals (the licensed companies).

At the Company's Annual General Meeting in July 2014, shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove, from the separate register, particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such shareholder to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or exercise any other right attaching to the shares in question. Where the shares represent at least 0.25% of the aggregate nominal value of the Company's share capital, the Company may also (subject to certain exceptions) refuse to register the transfer of such shares.

The Articles also require that a declaration (in a form prescribed by the Directors) relating to the nationality of the transferee is provided to the Directors upon the transfer of any shares in the Company, failing which the Directors may refuse to register such transfer (see further below).

Power to treat shares as 'Affected Shares'

The Articles empower the Directors, in certain circumstances, to treat shares as 'Affected Shares'. If the Directors determine that any shares are to be treated as Affected Shares, they may serve an 'Affected Share Notice' on the registered shareholder and any other person that appears to have an interest in those shares. The recipients of an Affected Share Notice are entitled to make representations to the Directors with a view to demonstrating that such shares should not be treated as Affected Shares. The Directors may withdraw an Affected Share Notice if they resolve that the circumstances giving rise to the shares being treated as Affected Shares no longer exist.

Consequences of holding or having an interest in Affected Shares

A holder of Affected Shares is not entitled, in respect of those shares, to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings, and the rights attaching to such shares will vest in the Chair of the relevant meeting (who may exercise, or refrain from exercising, such rights at his/her sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held on trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares, the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

Right to refuse registration

The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that, following the restructuring of the Aviation sector, those companies, in which the Company has an interest and are required to comply with the Regulation, (being those companies operating aviation services in the EU) do meet the requirement of the Regulation, including those relating to nationality. This belief is based on the Company's understanding of the application of the Regulation. There can, however, be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above.

Internal controls and risk management

There has been a process for identifying, evaluating and managing principal risks throughout the year to 31 March 2021 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review. Management reviews data for consolidation into the Group's financial statements to ensure that it reflects a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. More information can be found in the Audit Committee report on page 131.

In line with the Audit Committee (please see page 131), the Board considers that the system of internal and financial controls was not operating effectively in certain parts of the Group, in particular, in Aviation, Land and Head Office. The Audit Committee is reviewing plans to address the key issues. Since January 2021, the Company has implemented a number of improvements. Provided that these plans are effectively implemented, the Audit Committee believes that the Company's internal and financial controls should become fully effective.

Further information on the principal internal controls and risk assurances in use in the Company can be found on pages 84 to 86.

Auditor

As described on page 119 the Board has, subject to shareholder approval, appointed a new statutory auditor for the year ending 31 March 2022. A resolution to appoint Deloitte as independent auditor of the Company will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

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 accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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 keeping adequate accounting records that are sufficient to show and explain the Group's 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 financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Directors' confirmations

Each of the Directors, being each Director who is in office at the date of the Directors' report is approved and whose names and functions are listed below, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and 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.
- so far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- 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's and the Company's auditors are aware of that information.

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

Ruth Cairnie	Chair
Carl-Peter Forster	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
Russ Houlden	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director
Myles Lee	Non-Executive Director
Lucy Dimes	Non-Executive Director
Lord Parker	Non-Executive Director
David Lockwood	Chief Executive Officer
David Mellors	Chief Financial Officer

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 2 to 159) for the year ending 31 March 2021 have been approved by the Board and signed on its behalf by:

Ruth Cairnie
Chair

David Lockwood OBE
Chief Executive Officer

30 July 2021

Jamie Gibbons
Maintenance Supervisor
Australia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