Chair's introduction

RUTH CAIRNIE
Chair

Dear fellow Shareholder

Last year I spoke in detail about the changes made to address issues identified by the contract profitability and balance sheet review. Those changes were wide-ranging, including aspects of our Board governance, financial controls and operating model. This year we have worked to assure ourselves that the changes are indeed addressing the issues identified, and that they are being embedded in the way the Company works.

Assurance on the implementation of the reforms

Our process of assurance started with the Board reviewing the full suite of new operating model controls to satisfy ourselves that they constituted a framework that would protect against the weaknesses that had been identified. We have subsequently reviewed management reports on the implementation of the new structures and controls on a regular basis, over the course of the year. Alongside the work of the Board, the Audit Committee has monitored in more detail the implementation of the programme of internal and financial controls in Group Head Office, Aviation and Land and we are satisfied that the improvement plans which we implemented last year have been successfully delivered while we recognise the scope for ongoing improvement. Please see pages 108 and 109 for the Audit Committee report. As well as improving the Company's control environment, we have continued to develop our Board governance, for example our new approach to strategy, which I describe below.

Although we had undertaken an independent Board review last year, I recognised there would be value in repeating the process this year given the amount of change undertaken, and asked Belinda Hudson to come back and report on our progress. I am pleased that her report confirms that the Board is operating effectively and has embedded the improvements it made last year. For more information, please see page 105.

Support for the delivery of our strategy

The Board has also worked to support Babcock's turnaround. A focus last year was the refresh of the Group's strategy. This year, as a Board we have adopted a dynamic approach to strategy, with regular dedicated sessions to review progress, go deeper into individual elements as they develop, and provide input and appropriate challenge on the direction of travel.

The Board has also monitored closely progress on the strategic actions set out last year to underpin the strategy, for example:

- Over the year, we have overseen and approved steps to align Babcock's portfolio with our strategy. These actions have generated disposal proceeds in excess of £400 million, which has strengthened the Group's balance sheet. In addition to the portfolio rationalisation the Board reviewed and supported strategic strengthening of our position in Australia, one of our focus countries, through the acquisition to gain full control of the Australian Naval Ship Management joint venture. This will enhance the breadth of our support to the Australian Defence Force's maritime capability. In our strategy reviews, we have also reviewed a range of growth opportunities and were pleased with the progress made with export agreements being signed with Indonesia and Poland. For more information, please see page 43.
- We have overseen the implementation of Babcock's new operating model and the roll-out of the new Purpose and Principles alongside the development of the new People strategy. The Board has had regular updates from the Executive Directors and also in-depth sessions with the senior managers with direct responsibility for delivery, enabling us to develop a good level of understanding and to provide insights and challenge as appropriate. For more information, please see pages 18 and 20.
- More long term is the development of Babcock's ESG strategy. Last year we approved a new target for the Group to achieve net zero carbon emissions for its estate, assets and operations by 2040. Having set the target, we have had regular briefings from management to assure ourselves on progress, including the development of the necessary plans. For more information, please see pages 54 to 75.

Taking our stakeholders into account

As we provide oversight and make decisions, we endeavour to balance the interests of all Babcock's stakeholders. In practice, this means we consider the interests of affected stakeholder groups. As an example, prior to giving our approval for divesting parts of our portfolio, we considered the interests of employees and customers, as well as shareholders. In respect of shareholders and customers, we believed the strengthening of the Group's balance sheet would be seen as a positive. For employees, those remaining with the Group would also benefit from actions to strengthen the Group's future prospects. For those employees leaving the Group, we considered each individual case carefully to assure ourselves regarding the implications for staff; we believe that the buyers of the divested businesses will be more appropriate owners of those businesses going into the future. For more information on how the Board takes into account the interests of its stakeholders, please see pages 99 to 101.

In order for the Board to make these judgements, we need a good understanding of the priorities of our stakeholders. We describe on page 99 how we engage with stakeholders. This year we have looked to improve our engagement in a number of ways; for example, this is the first full year of the appointment of Lord Parker as our Director designated for employee engagement. Lord Parker visited a number of the Group's sites over the year to speak directly to employees and build understanding of their views. His findings were then shared with the Board and discussed in depth at a dedicated briefing.

For shareholders we note the increasing emphasis on stewardship by asset owners and managers, for example as embodied in the Stewardship Code. This is leading to more and more of our shareholders (via their asset managers) sharing with us their principles, priorities and in some cases, voting guidelines. These communications are valuable in helping us to understand the views of our shareholders, and can form the basis of follow-on conversations; we always welcome opportunities to engage with shareholders on any matters of interest to them. One consequence of the many incidences of shareholders independently setting specific expectations of investee companies is that in practice, it is not possible to meet every expectation. Where this occurs we seek to understand the principles underlying the expectations that have been set and consider the extent to which our approaches align to those principles; and we will always seek engagement in such cases.

Last year I indicated my hope to engage with our larger shareholders at a governance event, following the significant developments we had made. However, due to the further changes in Board composition that I describe below, we have not yet had an appropriate time to hold such an event. I am however looking forward to engaging with shareholders at other opportunities, including our 2022 AGM.

Leadership

This year has seen a number of further changes in the Board. We are saying farewell to Russ Houlden and Kjersti Wiklund and have welcomed the appointment of John Ramsay. John joined the Board in January 2022 and brings a wealth of financial, international and operational experience. Following Russ' retirement, the Board asked John to take over the chair of the Audit Committee. With Kjersti's retirement, the Board has asked Carl-Peter Forster to take over the chair of the Remuneration Committee. For more information, please see pages 106 and 107.

FY23

Last year was a busy year for the Board, being the first year of Babcock's turnaround. I hope that I have given you a sense of the work that we have done to support that turnaround.
In FY23, we will continue to provide that support. In particular, we will continue to develop the Company's strategy and to monitor the implementation of our new operating model, along with its new control environment.

RUTH CAIRNIE
Chair

Statement of compliance

The Board confirms that for the year ended 31 March 2022, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied and all provisions complied with. Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk.

We have structured this Governance report to describe how the Company has applied the Code principles in line with its five categories:

Board of Directors

1. RUTH CAIRNIE
Chair

N D

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. She is a fellow of the Energy Institute and previously Chair of POWERful Women. 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.

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

2. DAVID LOCKWOOD OBE
Chief Executive Officer

E D

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. He received an OBE for services to industry in Scotland in 2011. 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.

Current external appointments: None

3. DAVID MELLORS
Chief Financial Officer

E D

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

4. CARL-PETER FORSTER
Senior Independent Director

N R

Appointed: June 2020

Skills and experience: Carl-Peter, a German national, brings extensive manufacturing and international experience. Carl-Peter has 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 Chair of Chemring Group PLC and Senior Independent Director of IMI plc. He will be Chair of Vesuvius plc from December 2022.

5. JOHN RAMSAY
Independent Non-Executive Director

A N R D

Appointed: January 2022

Skills and experience: John, a Chartered Accountant, brings with him over 30 years of international business and finance experience. He served as Chief Financial Officer of Syngenta AG from 2007 to 2016, and interim Chief Executive Officer of Syngenta from October 2015 to June 2016. Prior to joining Syngenta, he held senior international finance roles with Zeneca Agrochemicals and ICI.

Current external appointments: John is a member of the Supervisory Board at Koninklijke DSM N.V. and is a Non-Executive Director of Croda International PLC and RHI Magnesita N.V. He is Audit Committee Chair at each of these companies.

6. LUCY DIMES
Independent Non-Executive Director

A N

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, having been the Chief Strategy and Transformation Officer of Virgin Money UK Plc, the CEO of UBM EMEA and Chief Executive Officer, UK & Ireland, of Fujitsu. She has also held senior roles at Equiniti Group, Alcatel Lucent (now Nokia) and BT. Lucy was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

Current external appointments: Lucy is a Strategic Advisor to Intelygenz and Transformation Strategy Consultant to Fidelity International.

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7. THE RIGHT HONOURABLE THE LORD PARKER OF MINSMERE, GCVO, KCB
Independent Non-Executive Director

N

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 Advisor to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

8. KJERSTI WIKLUND
Independent Non-Executive Director

A N R

Appointed: April 2018. Kjersti will retire from the Board at the 2022 AGM.

Skills and experience: Kjersti, a Norwegian national, brings broad technology and business experience gained across Europe, Eastern Europe and Asia. She has held senior roles at Vodafone, VimpelCom in Russia, Kyivstar in Ukraine, Digi Telecommunications in Malaysia, and 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, Zegona Communications PLC and, since March 2022, Nordea.

9. RUSS HOULDEN
Independent Non-Executive Director

A N R D

Appointed: April 2020. Russ will retire from the Board in July 2022.

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 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, an Operating Partner of Corsair Infrastructure and Non-Executive Director of Kelda Holdings and Yorkshire Water.

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.

Executive Committee

Biographies for CEO David Lockwood and CFO David Mellors are on page 94.

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.

DOMINIC KIERAN
Chief Executive, Nuclear

Appointed: September 2021

Skills and experience: Dominic is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock as Managing Director of Cavendish Nuclear, and has led the business through a series of key milestones and changes as we exited key programmes, and has developed a new operating model to ensure it is ready for the future as we focus on new market opportunities. Prior to joining Babcock, he was Chief Commercial Officer at Urenco and before that held various roles including working extensively overseas, on the delivery of complex technical solutions to customers. Dominic has a Chemical Engineering degree from Imperial College London, an MBA, and is a Fellow of the Institute of Chemical Engineers.

TOM NEWMAN
Chief Executive, Land

Appointed: December 2020

Skills and experience: 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 for the design and implementation of our new operating model. Prior to that he was Managing Director of the Emergency Services and Training business unit in the Land sector. Tom 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 joined Babcock following the acquisition of VT Group in 2010. Neal worked initially as 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 Organisation & Development 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.

DR RICHARD DRAKE
Chief Technology Officer

Appointed: July 2022

Skills and experience: Richard joined Babcock in 2007 as a Chief Engineer, and subsequently became Engineering Director of Mission Systems. He was appointed Managing Director of the Mission Systems business unit in 2018, leading the business through a significant growth period. He brings with him extensive industrial experience across defence, aerospace and nuclear alongside transformation, cultural change and business growth. Prior to joining Babcock, Richard has worked at Airbus and Weir Strachan & Henshaw.

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, 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.

Board leadership and Company Purpose

Board leadership

Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our governance framework ensures that the Board provides effective leadership in both making decisions and maintaining oversight, mapping where accountability resides and playing a key role in our internal controls.

The Board

The Board's role is to lead the Group for the long-term sustainable success of Babcock by setting our strategy and supervising 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 103). For other matters, authority is delegated to management according to 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 108 to 112.

Remuneration Committee

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

See pages 113 to 115.

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 106 and 107.

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 the Group is engaged on and has access to which require either 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 96.

Principal Management Committees

Corporate ESG Committee

Responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the wider sustainability agenda. The Committee is chaired by the Chief Corporate Affairs Officer and members include the Chief Human Resources Officer and Group Company Secretary and General Counsel. Reporting to the Committee are the Inclusion and Diversity Steering Group and the Carbon, TCFD and Communities and Sponsorship working groups.

See page 60.

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 63.

Disclosure Panel

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

Board leadership and Company Purpose continued

Company Purpose

The Board sets the Company's Purpose and strategy, assessing the long-term sustainable future of the Group and its impact on key stakeholders while keeping a watchful eye on the culture of the Group to ensure that everybody understands their role in promoting the success of the Company as they deliver against the business model.

Effective decision-making and oversight

The Board has an annual plan of business around which the Chair, CEO and Company Secretary structure agendas taking into account the current status of projects, strategic work streams and the overarching operating context. Standing agenda items and papers are presented at each Board meeting; other matters are considered on a less frequent but regular basis. Appropriate amounts of time are allocated to items of business to allow for open and frank debate and encourage informed decision-making.

All scheduled meetings consider

- Health and safety reports
- Operational update
- Financial update
- Investor relations update
- Legal/governance reports
- Conflicts of interest review

Regularly the Board considers

- Strategy update
- Review of major risks and emerging risks
- Review of financial and non-financial controls
- Delegated authorities
- Reports from Chairs of Remuneration, Audit and Nominations Committees
- Committee terms of reference
- Whistleblowing reports (quarterly and annual review)
- Annual ethics review
- Modern Slavery Transparency Statement
- Deep-dive presentations from sectors and Group functions, for example IT and security, procurement and pensions
- Results announcements and Annual Report

Setting and overseeing strategy

During FY22 the Board held its dedicated strategy review meeting in June 2021, agreeing the strategic plan announced in July 2021 and formulating a new approach to the governance of strategy. Strategic review is a dynamic process which benefits from regular Board engagement supported by dedicated deep-dive review sessions.

More information on the implementation of the strategy overseen by the Board can be seen on page 6 and throughout the Strategic report.

How the Board monitors culture

The Board believes that the right culture is essential to support the delivery of strategy, and seeks to monitor the culture throughout the Group.

Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our employees through living our Principles which are: Be curious; Be kind; Be courageous; Think outcomes; Collaborate and Own & deliver. The Principles were introduced by David Lockwood, week by week, in six of his employee vlogs.

Listening to our people

Our designated Non-Executive Director for employee engagement visits sites, talks to employees and reports back to the Board. Questions and feedback are received from employees to the CEO's dedicated email 'Ask David' as well as from employee forums and surveys. This year, FY23, should see our first Group-wide employee engagement survey.

Ethics and whistleblowing

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

Other cultural indicators

The Board regularly receives health and safety metrics and thematic reviews such as, in FY22, on the cultural reset and the embedding of our Purpose and Principles.

Further information on the Purpose and Principles and cultural change overseen by the Board during the year can be found on pages 18 to 20.

Factoring our stakeholders into our decision-making

In order to deliver the best outcome for the Company we have to understand our stakeholders' priorities and then factor these into our decision-making. Accordingly, the Board works to establish and maintain strong stakeholder relationships. An understanding of stakeholder views at Board level is gathered via a combination of direct and indirect engagement.

Details of how the Directors receive information on our key stakeholders and how they engage with them directly to support effective decision-making and oversight are set out below.

This section, through to page 101, forms part of the s172(1) statement which can be found in the Strategic report on page 53.

Further information on how the Company engages with its stakeholders can be found on pages 52 and 53.

How the Board engages

	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	During the year the Executive Directors had regular meetings with the Group's key customers.
Investors	• Reports from Investor Relations • Treasury reports • Investor meetings/roadshow • AGM	The Board engaged directly with its investors, principally through the Executive Directors, David Lockwood and David Mellors. The Committee Chairs are available to meet shareholders when required. During FY23, the Chair of the Remuneration Committee will consult shareholders regarding the refreshing of our Remuneration policy. The relaxing of COVID-19 restrictions allowed us to return to a physical AGM in 2021 which gave an opportunity for private investors to ask questions direct to the Board.
Employees	• Bottom-up reports from Lord Parker, the Director designated for workforce engagement • Top-down reports from the Chief Human Resources Officer • European Employee Forum which is attended by the CEO and the CHRO • Whistleblowing reports	Lord Parker, the Director responsible for workforce engagement, visited eight Babcock sites during the year, with over 200 employees attending 14 engagement sessions. Additionally, the CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email address. Carl-Peter Forster, the Senior Independent Director, introduced himself to employees via a vlog in May 2021 and members of the Board have met employees during a number of site visits. Members of the senior leadership team regularly present to the Board.
Regulators	• Information on the relationships with regulators is included in reports to the Board where appropriate	The Board relies on dedicated functions at a Group, sector or business unit level and does not have direct contact with regulators unless appropriate. Any material issues are brought to the Board's attention through the monthly operational reports, as appropriate.
Suppliers	• Briefings from Group Head of Procurement on an annual basis • Audit Committee supplier risk review • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Transparency Statement	Principal engagement is undertaken by operational management and the Group procurement function. The Chief Procurement Officer reports annually to the Board to give it oversight of the function and its operation.
Communities	• Health, safety and environment updates • Material issues are included in the monthly reports from Executive Directors or in sector CEO briefings • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is concentrated, with no direct engagement by the Board of Directors. The Board's community engagement levels were considered as part of last year's stakeholder mapping exercise and found to be appropriate. Any material issues are brought to the Board's attention through the monthly operational reports or the functional reports to the Board.

Board leadership and Company Purpose continued

Key areas of focus during the year and how stakeholders were taken into account

A key focus during the year, for the Board, was the oversight of the implementation of our five strategic actions which we described in last year's Annual Report. When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider the interests of each stakeholder group in the context of the long-term consequences.

Matters considered	Discussion and outcome	Stakeholders most affected	More information
1. Aligning our portfolio	The Board believes that shareholders and employees support the turnaround plan set out in our FY21 Annual Report. A key part of that plan was the portfolio rationalisation programme the purpose of which was to reduce the Group's complexity, increase its focus and increase the effective use of the Group's capital for the long-term benefit of shareholders and other stakeholders. The Board received regular updates on the programme and has approved the disposal of the Oil and Gas business, Frazer-Nash Consulting, Networks and our investment in AirTanker Holdings. This can be unsettling for the employees working in the divested businesses and a distraction for employees working on the disposal projects. However, the Board believes in the long term it is better for employees to work in a business which fits better with its owner's strategy. The refocused Babcock is better able to align behind its Purpose and Principles with the aim of unlocking its full potential for the benefit of all stakeholders.	Shareholders Employees	Financial review from page 24 and Operational review from page 42
2. Implementing our new operating model	As well as rationalising the portfolio, the turnaround plan set out last year envisaged the implementation of the new operating model the purpose of which is to improve efficiency and effectiveness by reducing layers of management to form a flatter structure and simplify how we operate which in turn will improve lines of sight and shorten communication lines and therefore increase business flexibility and our responsiveness to market conditions. The Board oversaw the implementation of the model over the course of the year. An inevitable part of such a change programme is the exit of a number of colleagues. Where employees have left the Group, the process was managed in a transparent and appropriate manner. The Board believes that in the long term this is in the best interests of its stakeholders, as the new operating model has created a better place for employees to work and provides a more efficient and effective service for customers. Both of these will strengthen the Company for the benefit of stakeholders.	Employees Customers Shareholders	pages 13 and 18
3. Rolling out our People strategy	Our People strategy underpins the new operating model. The Board has oversight of its roll-out with the aim of developing an organisation that shares capability, talent, innovation and best practice, reducing complexity and creating an agile and inclusive workplace. As part of this, the Board considered and approved the roll-out of the Babcock Blueprint for Strength and the embedding of our Purpose and Principles. The cultural reset is intended to empower management, but also to make managers more accountable, which the Board believes will strengthen and improve the Group for the benefit of all stakeholders.	Employees Shareholders	pages 13 and 19

Matters considered	Discussion and outcome	Stakeholders most affected	More information
4. Developing our ESG strategy	Through its engagement the Board understands the rising importance of ESG matters to its stakeholders. For example, customers are making ESG considerations part of their tenders; ESG has an increasing role in the allocation of capital by investors; and employees and communities want to understand their employer's policy on ESG. In order to meet these rising stakeholder expectations the Company set out an ESG strategy, including the adoption of targets, and throughout the year the Board has overseen the implementation of this strategy with the aim of making the Company more attractive for new shareholders and new employees and for the benefit of all stakeholders.	Customers Shareholders Employees Communities Suppliers	pages 13 and 14 and pages 54 to 79
5. Exploring growth opportunities	Being successful in securing growth opportunities is important for our investors, employees and customers because they want to see a strong company. An important element of those growth opportunities is outside the UK. The Board receives monthly reports both on the development of our international presence in our target markets of France, Canada, Australasia and South Africa, and on opportunities for growth in the UK. For example, the Board considered and approved the acquisition of our joint venture partner's shares in NSM, the warship sustainment provider in Australia. In making this investment decision, as in all judgements, the Board was careful to consider the interests of different stakeholders in the context of the long-term consequences. It concluded that the opportunity to consolidate Babcock's position in Australia, one of our target markets, and in one of our core capabilities, was the right one.	Customers Shareholders Employees	page 14 and 15 and the Operational review from page 42

How the Board keeps s172 on its agenda

The Board makes sure that in its decisions it considers the long-term success of the Company and takes into account the interests of its stakeholders 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. As part of those discussions it takes into account the matters the Directors must consider as part of their Section 172 duties.
- 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, to ensure that the Board receives relevant updates on matters of interest to our stakeholders. The Board also receives detailed presentations from the sector CEOs delivering updates on key activities which feeds into the decision-making process.
- 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; and portfolio alignment.
- Members of the Board regularly engage with our investors and employees and the Board uses the stakeholder engagement summarised on pages 52 and 53 and on page 99 to inform its decision-making process.

Division of responsibilities

Defining Board responsibilities

The role specifications below set out the clear division of responsibility between the Executive and Non-Executive members of the Board, which supports the integrity of the Board's operations.

A more detailed description of these roles is available online at www.babcockinternational.com.

NON-EXECUTIVE

Chair

- Leads the Board and sets the tone and agenda, promoting a culture of openness and debate;
- Ensures the effectiveness of the Board and that Directors receive accurate, timely and clear information;
- Ensures effective communication with shareholders;
- Acts on the results of the Board performance evaluation and leads on the implementation of any required changes; and
- Holds periodic meetings with Non-Executive Directors without the Executive Directors present.

Senior Independent Director

- Acts as a sounding Board for the Chair and, if and when appropriate, serves as an intermediary for the other Directors;
- Available to shareholders if they have any concerns which require resolution;
- Supports the Chair with the annual Board evaluation; and
- Serves as an intermediary to other Directors when necessary.

Independent Non-Executive Director

- Supports and constructively challenges the executive team;
- Contributes to the development of the Company's strategy;
- Provides an external perspective and brings a diverse range of skills and experience to the Board's decision-making;
- Contributes to Board discussions on the nature and extent of the risks the Company is willing to take to achieve its strategic objectives;
- Satisfies himself or herself of the integrity of financial information;
- Ensures financial controls and systems of risk management are robust and defensible; and
- Plays a primary role in appointing and, where necessary, removing Executive Directors, setting their remuneration and succession planning.

Designated Non-Executive Director for employee engagement

- Gauges the views and feedback of the workforce and identifies any areas of concern;
- Communicates the views of the workforce to the Board;
- Ensures the views of the workforce are taken into account in Board decision-making; and
- Ensures the Board takes appropriate steps to evaluate the impact of any proposals that influence the experiences of the workforce and considers what steps should be taken to mitigate any adverse impact.

EXECUTIVE

Chief Executive Officer

- Oversees the day-to-day operation and management of the Group's businesses and affairs;
- Responsible for the implementation of Group strategy as approved by the Board, including driving performance and optimising the Group's resources;
- Accountable to the Board for the Group's operational performance; and
- Takes primary responsibility for managing the Group's risk profile, identifying and executing new business opportunities, and management development and remuneration.

Chief Financial Officer

- Accountable to the Board for the Group's financial performance;
- Responsible for raising the finance required to fund the Group's strategy, servicing the Group's financing and maintaining compliance with its covenants; and
- Maintains a financial control environment capable of delivering robust financial reporting information to indicate the Group's financial position.

Articles of Association

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). Other responsibilities are delegated to management under a delegated authorities matrix.

Summary of key matters reserved for the Board

- Group strategy
- 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 eight scheduled full Board meetings each financial year, as well as a meeting dedicated to strategy. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. See table above for further information about the meetings held during the year.

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	**8**	**5**	**4**	**5**
Current Directors				
Ruth Cairnie	8/8	5/5	–	–
Carl-Peter Forster	8/8	3/3	–	5/5
John Ramsay[1]	3/3	2/2	2/2	–
Lucy Dimes	8/8	5/5	4/4	–
Lord Parker[2]	7/8	4/5	–	–
Kjersti Wiklund	8/8	5/5	4/4	5/5
Russ Houlden	8/8	5/5	4/4	5/5
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Former Directors				
Myles Lee[3]	4/4	3/3	2/2	–
Victoire de Margerie[4]	1/4	0/3	–	1/2

1. John Ramsay was appointed to the Board in January 2022.
2. Lord Parker was absent from meetings on one day due to a prior engagement.
3. Myles Lee retired from the Board after the AGM in September 2021.
4. Victoire de Margerie retired from the Board after the AGM in September 2021.

Conflicts of interest and independence

Babcock has adopted a procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest or related party transactions 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.

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).

Possible conflicts of interest authorised by the Board are reviewed annually on behalf of the Board by the Nominations Committee.

The Committee also considers the circumstances set out in the Code which could compromise an individual's position of independence. 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 Code.

Time commitment

The expected time commitment of the Chair and Non-Executive Directors is agreed and set out in writing in their respective letters of appointment, at which point the existing external demands on an individual's time are assessed to confirm their capacity to take on the role. Further appointments can only be accepted with approval of the Board following consideration of whether there would be an impact on the independence and objectivity required to discharge the agreed responsibilities of each role and whether the resultant position is believed to be consistent with recognised proxy advisor guidelines.

The Board is satisfied that each Director has the necessary time to effectively discharge 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.

Composition, succession and evaluation

Composition

The composition of the Board is kept under constant review by the Nominations Committee to ensure a balance of the skills, experience and knowledge to lead the Group. At the date of this Report the Board comprises the Chair, who was independent on appointment, six Independent Non-Executive Directors and two Executive Directors.

All continuing Directors are required to offer themselves for re-election by shareholders each year at the Annual General Meeting. Biographical details can be found on pages 94 and 95 and there is more information on appointments to the Board in the Nominations Committee report on pages 106 and 107.

Board diversity*

By tenure

- 0–3 years: 6
- 3–5 years: 3

By gender

- Female: 3
- Male: 6

By nationality

- UK: 7
- Non-UK: 2

* July 2022.

For details of the gender diversity of senior management and other categories of employees please see page 64.

Succession

The Chair, Senior Independent Director and independent Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders. At the end of every three-year term, each Non-Executive Director's tenure is reviewed before the term is renewed. The term can be renewed by mutual agreement up to a maximum total tenure of nine years.

The ongoing replenishment of the Board is a key focus for the Nominations Committee and more information about succession planning can be found in its report.

With the ever-changing environment in which Babcock operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date.

The Company arranges for new Non-Executive Directors to receive detailed business briefings on the Group's operations and to make induction visits to the Group's principal sites. Training for new Directors, when appropriate, is arranged with external providers.

Non-Executive Directors may at any time make visits to Group businesses or operational sites and are encouraged to do so at least once per year. Visits are coordinated by the Group Company Secretary's office. Presentations on the Group's businesses and specialist functions are made regularly to the Board.

Our Company Secretary also provides updates to the Board and its Committees on regulatory and corporate governance matters.

Board induction was a challenge in 2020 with face-to-face meetings and first-hand experience of our operations not possible due to restrictions on access to our sites, as many were closed to visits. However, during the course of last year, with restrictions eased, we could resume the induction process with visits to key operational sites in the UK for our more recently appointed Directors (see table below).

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 and functional leads
- 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
- Briefings on key contracts and customers

Induction site visits

	Andrew Parker	Russ Houlden	Carl-Peter Forster	John Ramsay
Clyde – Nuclear	●	●	●	–
Rosyth – Marine	●	●	●	●
Donnington – Land	●	–	–	–
Bristol – Marine	●	–	●	–
Staverton – Aviation	●	●	–	●
Park Royal – Land	●	●	●	–
Devonport – Nuclear	–	–	●	–

Evaluation

2021/22 Board performance review

Each year we conduct an evaluation to assess the skills, experience, independence and knowledge of the Board to confirm it is able to discharge its duties and responsibilities effectively. The composition and diversity of the Board and its Committees and how well the Directors are working together is considered, as well as the individual performance of the Directors and the Chair. This year an external evaluation was held for the second year in a row. Given the level of change that had happened and was still underway, we asked Belinda Hudson, who completed last year's evaluation, to assist again, building on her knowledge of the organisation and focusing on progress. Prior to her appointment Belinda Hudson had not had any connection to the Company or individual Directors and had not previously been engaged by the Company.

Progress made on actions identified in the FY21 review

Recommendations for FY22	Update	Further information
Meetings – return to face-to-face meetings as soon as COVID-19 restrictions allow, to enhance Board integration.	The Board was delighted to return to face-to-face meetings.	
Inductions – complete the induction process with site visits for those Board members who have been prevented from doing so by the COVID-19 restrictions.	The recently appointed Directors have now visited a selection of sites across all sectors in the UK.	See page 104
Board engagement – enhance the Board's engagement with stakeholders.	The Board enjoyed reports from Lord Parker following his engagement with employees and looks forward to the results of the first ever Group-wide employee survey planned for 2023. With the abatement of the COVID-19 pandemic the Executive Directors were able to meet face-to-face with customers in order to deepen relationships.	See page 99
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.	The Board continues to receive regular updates on all the change programmes underway, to provide assurance that they are being implemented across the Group.	See pages 100 and 101

Areas of assessment and findings for the FY22 Board evaluation

Belinda found that the Board had responded to the challenges it had faced over FY22 in a professional and pragmatic manner and had provided good support and challenge to improve all aspects of Babcock's performance. Belinda did make recommendations for further Board development, acknowledging that some were already underway.

Recommendations for FY23	Commentary and actions
Recruit new Non-Executive Directors to strengthen the Board further.	The Nominations Committee is leading the search. Please see page 106 for details.
With the lifting of the COVID-19 restrictions, continue to enhance the opportunities for Board members to spend more time with each other and the business, in order to strengthen Group dynamics and cohesion.	With the lifting of COVID-19 restrictions in the UK, Board and Committee meetings are now in person. The end of the restrictions has allowed the new Non-Executive Directors to undertake their induction visits. The Board is looking forward to its off-site meeting at our Land business in Bovington in July 2022.
Develop further the Board's oversight of Babcock's culture.	The Board oversees Babcock's culture through a number of channels, including reports from the Chief HR Officer, reports from Lord Parker in his role as Director designated for employee engagement, and reports from the Babcock whistleblowing line. However, it is seeking to develop its oversight further and is looking forward to receiving an analysis of Babcock's first ever global employee survey in 2023.

Composition, succession and evaluation continued

Nominations Committee Report

RUTH CAIRNIE
Chair of the Nominations Committee

Key facts

The Committee

Ruth Cairnie chairs the Committee.

The other members throughout the year were all the Non-Executive Directors.

For biographies of members, please see pages 94 and 95.

For attendance, please see page 103.

Highlights

Appointment of new Non-Executive Director

Appointment of new Audit Committee Chair

Appointment of new Remuneration Committee Chair

Key responsibilities

Board and Committee composition

Succession planning

Talent pipeline and diversity policy

Board appointment process

Dear fellow Shareholder

Last year saw a significant number of changes at both Board and Executive Committee level as we set about restoring Babcock to strength. This year the work of the Nominations Committee has been to support the bedding-down of the new structures and teams and to continue to strengthen the Board with new appointments.

Composition

A key role for the Committee is to ensure that the Board has the right mix of skills and capabilities to support the navigation of both present and future strategic opportunities and challenges. Alongside the Board's enhanced involvement in the development of strategy (please see page 92 for more detail), the Committee has developed a skills matrix taking into account our strategic direction. We have used this matrix to assess our current mix of skills and have referred to it as a key source when considering the preferred backgrounds and characteristics for new Board appointments. We will keep the matrix under review as requirements evolve.

Following the retirement of Myles Lee in September 2021, the Committee wanted to enhance the financial credentials of the (Non-Executive) Board and the Audit Committee by bringing in an additional member with a financial background. Following a search conducted by an external search consultant (MWM), which has no other connections with Babcock, the Committee was pleased to recommend the appointment of John Ramsay to the Board. John is a qualified Chartered Accountant with extensive operational financial experience, as well as extensive Non-Executive Director experience. John's biography is on page 94. In February 2022, after Russ Houlden advised that he would be retiring from the Board, John agreed to take over as Chair of the Audit Committee.

In April 2022, Kjersti Wiklund advised that she would be retiring from the Board and so the Committee asked Carl-Peter Forster to take over as Chair of the Remuneration Committee, which he agreed to. The Committee is pleased that it has been in a position to fill both Committee Chair roles with highly experienced successors. Looking ahead, the Committee has identified some candidate profiles that could strengthen the Board's breadth and capability and has searches underway. For these and other searches, we typically employ an external search consultant and we set clear criteria, based on the skills matrix, to identify candidates and ensure that the Board maintains its balance.

One of the criteria the Committee considers is diversity and we are committed to increasing our diversity across multiple aspects including gender, ethnicity, experience, background and age. With Kjersti's retirement, we will need to pay attention to the gender mix; and we remain committed to meeting the Parker Review target on ethnicity.

Succession and evaluation

The Committee keeps Babcock's leadership needs under review, providing assurance to the Board that Babcock has the skills and capabilities to progress its strategy and strategic actions now and in the future. During the course of the year, the Committee considered the skills and capabilities of the senior leadership team and their development plans, to see how the Board and the Committee can best support the team. While decisions about these senior leader appointments rest with the CEO, there are regular opportunities for him to share his thinking with the Committee and receive comments and suggestions.

Inclusion and diversity

I have spoken about the Committee's commitment to improving the Board's diversity. The Committee also reviews progress on inclusion and diversity across the whole organisation. We recognise that there is much work to be done, but have welcomed and supported some clear steps taken over the last year. These included the approval and review by the Board of diversity targets. Following detailed data capture and analysis supporting the development of our People strategy, it was recognised that more time would be needed to meet one of these targets (80% disclosure of diversity, originally targeted within 18 months), which has been re-phased accordingly. Progress against the targets is being monitored.

For more information, please see pages 64 and 65.

The Committee considers diversity when it reviews the Group's senior talent pipeline and supports the Group's plans and initiatives to drive progress across the organisation. It has welcomed a number of senior-level female appointments. The establishment of a more centralised HR function is seen as helpful in raising the focus on improving inclusion and diversity across the Group; for more information about Babcock's approach, please see page 18.

Culture

This year Babcock has started a significant change programme with a reset of its culture. The aim is to create a company that operates as one so that we can share capability, best practice and innovation Group-wide. We believe that the key to achieving this is our new Principles, which create a foundation for how the Group behaves, both as individuals and as teams. We want Babcock to be more people-focused and accountable, creating a more efficient and more effective business that is capable of delivering better outcomes for all its stakeholders. The Board reviewed the Group's Blueprint for Strength, a visual guide to explain the reset, before its launch and has received regular updates on progress. The Board also uses a variety of information sources to assess culture and progress, including discussion with executives during Board presentations, discussions with employees during site visits, summaries of inputs to our whistleblowing channels, and updates from Lord Parker in his capacity as Director designated for employee engagement. We look forward to seeing the results of Babcock's first global employee survey in 2023.

I hope this report gives you an understanding of the work of the Committee over FY22. The Committee is looking forward to continuing its support of Babcock's turnaround during FY23.

RUTH CAIRNIE
Committee Chair

Audit, risk and internal control

Audit Committee Report

Key facts

The Committee

John Ramsay chairs the Committee.

John is a Chartered Accountant, and formerly the Chief Financial Officer of Syngenta AG, as well as being an experienced Audit Committee chair (see page 94 for John's full biography). The Board has designated him as the financial expert on the Committee for the purposes of the UK Corporate Governance Code.

The other members of the Committee throughout FY22 were Russ Houlden, Lucy Dimes and Kjersti Wiklund, all independent Non-Executive Directors. Please see pages 94 and 95 for their biographies and page 103 for attendance.

During the year the Committee invited the Chair of the Board, other Non-Executive Directors, the CEO, the CFO, the Director of Group Finance, the departing PwC and incoming Deloitte lead audit partners, other representatives from both audit firms, and other key senior management to attend their meetings, as appropriate.

After each Committee meeting, the Committee meets separately with the external audit lead audit partner and the lead internal audit partner from BDO to give them the opportunity to discuss matters without executive management being present. In addition, the Chair maintains regular contact with the external audit lead audit partner and the lead BDO internal audit partner between meetings, often without the presence of management.

Highlights

The completion of the contract profitability and balance sheet review

The implementation of improvements to the control environment throughout the year

Transition of the external audit to Deloitte

Review of critical judgements and estimates adopted by management in closing FY22

Key responsibilities

Reviewing the scope and the results of the statutory audit and other financial statements

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

Dear fellow Shareholder

This is both my first report as Chair of the Audit Committee and my first year on the Board of Babcock, having joined the Board on 6 January 2022. In February 2022, I was asked to take on the chair of the Committee following Russ Houlden's decision to retire from the Board, which I was more than happy to do. I am very grateful to Russ for his support and assistance to ensure a smooth handover and wish him well in his new roles. With Russ's retirement, the Nominations Committee has a process in place to appoint another Non-Executive Director with a financial background, who would also join the Committee.

This year was the first year of Babcock's renewed strategy to turn around the business. As can be seen throughout the governance section of this Annual Report, the Board and its Committees have played their full part in supporting the turnaround. For the Committee, the focus has been on the oversight of Babcock's financial reporting and controls. The Committee spent the start of the year overseeing two key processes: the audit of Babcock's FY21 financial statements and the contract profitability and balance sheet review (CPBS). The Committee finished both in July. The CPBS identified 147 accounting adjustments, described in detail in the FY21 Audit Committee report.

Since July, the Committee has shifted its focus from the CPBS to monitoring the implementation of the programme of improvement of internal and financial controls, with a particular focus on Group Head Office, the Aviation and Land sectors, and the onboarding of the new external auditor, Deloitte.

Following the CPBS, the new CFO led a Group-wide 'lessons learnt' exercise and has engaged the Audit Committee on improvements required and the monitoring of progress on implementation. This exercise has resulted in a number of control improvements, which management has already implemented, with a number of further improvements ongoing, including:

- Introduction of an enhanced governance structure (for example, establishing a new risk framework and development of a set of standard Group accounting policies);
- Establishment of a revised minimum set of financial controls (the Babcock 'Document of Control'), which facilitates the reporting of control standards at sector level and includes enhanced tracking and reporting of open and overdue internal audit recommendations;
- Monitoring the improvement programme of internal and financial controls in Group Head Office, Aviation and Land; and
- Oversight of the key development contracts and programmes.

Management has assisted the Committee by establishing a new process of documenting the application of accounting standards to major contracts and any related material accounting estimations and judgements.

Following the publication of Babcock's FY21 Annual Report, the Financial Reporting Council reviewed our FY20 Annual Report and financial statements for compliance with the relevant reporting requirements. The FRC has since informed us that it has now closed its enquiries into our FY20 Annual Report and financial statements. However, we understand that its review of PwC's audits for FY17, FY18, FY19 and FY20 remain ongoing. As reported in the FY21 Annual Report, the Financial Conduct Authority wrote to the Company in January 2021 requesting information on the contract profitability and balance sheet review. In March 2022, the FCA informed us that it had concluded its review and did not intend to take any further action.

Shareholders formally approved the appointment of Deloitte as Babcock's new external auditor at the 2021 AGM. The Committee took a number of steps to ensure a smooth and effective transition from PwC: (i) it agreed a scope of interaction between Deloitte and PwC during FY21, which included Deloitte's attendance at key audit meetings and observing the FY21 audit; (ii) Deloitte had meetings with the Committee Chair and the CFO, as well as Group and sector management, in order to build their knowledge and to facilitate the scoping and planning of the FY22 audit; and (iii) Deloitte attended Committee meetings prior to their appointment in order to confirm their independence and to report on the audit transition plan status.

This early work helped the transition to Deloitte. Nevertheless, there was still a substantial amount of work for management and Deloitte to complete the FY22 audit. As with last year, the Committee decided to prioritise audit quality over speed and agreed to defer the publication of our preliminary full-year results.

As part of this improving quality, the following topics were presented by management and reviewed by the Committee as being the most critical judgements and estimates considered in closing FY22:

- Long-term programme cost estimates, including overhead savings and production improvements;
- Future inflation for pensions, contract estimates to complete and supplier resilience;
- Assumptions for aircraft impairments reviews of profitability by air frame and future cash flow discount rates; and
- Pension assumptions for mortality, inflation and liability discount rates.

The Committee has also reviewed certain prior period restatements to FY21 that reflected further scrutiny of prior periods and benefited from refreshed challenge from the new auditors. These include adjustments for non-cash items in pensions, impairment and derivative accounting, as well as changes in the judgements of certain pass-through revenue now being treated as net within cost of sales.

In addition to the issues that I have highlighted above, the Committee has continued with its standard work plan which included:

- Reviewing all matters relating to the external audit, including scope, independence, effectiveness, quality and fees;
- Reviewing Babcock's financial statements and associated reports;
- Overseeing readiness for the implementation of digital financial reporting using the European Single Electronic Format;
- Considering the key planning components for the main, longer lead-time changes that may arise from the UK Government's proposals on 'Restoring trust in the audit and corporate governance'; and
- Reviewing the scope of internal audit, including the conclusion that insourcing this activity in future periods will be more effective for the needs of the Group than the current outsourced model.

Looking to FY23, the Committee will continue to play its part in Babcock's turnaround. It will seek to do this by:

- Ensuring completion of a successful transition to the new Committee membership;
- Continuing its oversight of the implementation of improvements to risk management and internal control systems;
- Reviewing management's key programme watchlist process;
- Reviewing management's standardisation of bid to programme execution controls;
- Monitoring the planning and successful transition to the new insourced internal audit model; and
- Continuing to monitor the various regulatory initiatives flowing from the UK Government's stated aim to reform the corporate governance and audit regime.

Finally, I would like to thank my fellow Committee members, Russ, Kjersti and Lucy, for their support and work over the year. We will all be at the FY22 AGM, where we hope to meet as many of our fellow shareholders as possible and to be available to answer any questions you may have on this report or the Committee's activities.

JOHN RAMSAY
Committee Chair

Audit, risk and internal control continued

Risk management and internal control systems

The Board has ultimate responsibility for risk management and internal control systems, and has delegated to the Committee the review of the effectiveness of these systems in order to assist it in discharging this responsibility.

The Committee reviews internal financial controls: that is, the systems established to identify, assess, manage and monitor financial risks. The Group Executive Committee, chaired by the CEO, retains accountability for the management of operational risks, including related controls and mitigating actions. Sector CEOs and function directors are required to ensure that appropriate processes, including the maintenance of risk registers for both the sector itself and individual constituent lines of business, exist to identify and manage risks; and to regularly carry out formal risk assessments. Please see pages 76 to 86 for further information on the Group's principal risks, risk management process and internal control environment.

The Group operates under a system of internal controls which, as described above, have been upgraded during FY22 and will be subject to continued improvement in FY23. These controls will be developed over time to meet the needs of the business and the risks and opportunities to which it is exposed, recognising differences in the nature and type of each of the Group's operations. These controls include:

- The preparation and consideration of the five-year plan;
- A comprehensive budgeting system with an annual budget which the Board approves;
- Monthly review of business and financial performance in the month and year to date, and update of financial forecasts for the year;
- The monitoring of financial performance and key dependencies for the full year;
- The monitoring of project and programme management; and
- The appropriate delegation of authorities to operational management.

However, the new Babcock Document of Control establishes a minimum expectation of controls that are considered to be mandatory irrespective of the nature of the line of business.

Legacy control systems still exist from previous acquisition activity, and other key control processes, including IT, are not fully standardised and implemented across the Group. The implementation and operation of certain key controls is decentralised to business units. Sector, functional and central oversight activities and controls are in place to support this.

Across all parts of the business the Committee has overseen strengthened financial controls through: increased independent review of the most material development contracts; extended governance and regulatory training; monthly sector reviews by the CEO and CFO; the communication of a revised delegation matrix and Letter of Representation; enhanced focus and reporting of open and overdue audit recommendations; the communication of revised, proportionate minimum expectations of financial control; and a 'hard financial close' exercise for the 10 months to January, ahead of the year end.

In particular, as part of closing the prior year, the Committee concluded that internal and financial controls had not been fully effective in certain parts of the Group, most notably in Aviation, Land and Group Head Office. It therefore agreed with Group and sector management a programme of improvements in internal and financial controls. These included, for Group Head Office, changes to the treasury and Group reporting functions, whilst in Aviation and Land the plans addressed specific issues in those sectors. The Committee has monitored progress in these areas throughout the year, including attendance by the Land and Aviation sector management to present their plans and status at two meetings in the year, and a quarterly update of Group Head Office improvements to both the Audit Committee and the Board. In addition, BDO were asked to undertake an assessment of the status of progress as at 31 March 2022 during the fiscal Q4 and early FY23 period. The improvement plans were only finalised and implementation started during the year, which means that we cannot conclude they were effective for the full 12-month period of FY22. However, the Company had successfully delivered the improvement plans for it's internal controls agreed last year, whilst recognising that there remains on-going scope for further improvement in FY23, including lessons learnt from the FY22 closing.

External audit

During FY21, the Committee concluded the process to retender the external audit, with the incumbent auditor at that time, PwC, not participating. The recommendation to appoint Deloitte as external auditor was then approved by shareholders at the 2021 AGM. Steps were taken throughout FY22 to ensure an effective transition to Deloitte, including attendance at Audit Committee meetings as the previous financial year was concluded, and access and review of the final PwC audit files for the Group and its subsidiaries. In September 2021 we agreed the scope and level of materiality of the FY22 audit plan of work and discussed with Deloitte the areas that they had identified as key risks and other particular areas of focus in their first year, and the specific audit procedures that they would perform to undertake the related audit work.

As part of the original tender process it was planned that Deloitte would give an interim review opinion on the interim financial information (H1) in addition to auditing the full-year results. This was a new approach for Babcock which had not previously had interim reviews performed by the auditor. That interim financial information review timetable was delayed by the timing of the handover from PwC and the transition work being more extensive than would usually be the case given the many adjustments published in the 31 March 2021 year-end financial statements and the Group's ongoing transformation of its accounting and control environment. Although the review was not completed, a significant amount of work was performed and there were invaluable lessons learned at that time that were used to execute a successful year-end timetable, including: standard templates for accounting technical applications on contracts and their judgements; early interaction with subject matter audit experts in treasury, pensions and taxation; enhanced communication; and short-term interventions such as regular brief 'touch-point status' meetings with the Audit Committee Chair, CFO and lead audit partner.

The total fees paid to Deloitte in the year ended 31 March 2022 equalled £7.1 million, with non-audit fees of £0.5 million, representing 7% of the total. An analysis of the fees paid to the external auditors in respect of audit and non-audit work during the year can be found in note 5 to the Group Financial Statements on page 188.

The provision of non-audit services is controlled by a policy which states that the external auditors will not be engaged to provide any element of non-audit services without approval in advance – from the CFO for fees up to £10,000, from the Chair of the Audit Committee for fees between £10,000 and £100,000, and by the Audit Committee for fees over £100,000. The Committee recognises that there may be some element of non-audit services for which the Group might wish to use the external auditors.

Deloitte is expected to report to the Committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. The Independent auditor's report to the members of the Company can be found on page 136, which includes reference to the prior year restatements that have been required as a result of such departures.

Deloitte's presentation of their audit plan to the Committee set out the scope and objectives of the audit, together with an overview of the planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus, which was reviewed and approved by the Committee.

The Committee is responsible for the development, implementation and monitoring of the Group's policies on services from external auditors, which are designed to maintain the objectivity and independence of the external auditors. These policies set out the approach to be taken when using the external auditors for non-audit work and regulate the appointment by the Group of former employees of Deloitte. In addition to an independence review conducted by management, Deloitte has provided specific assurance and the Committee has considered the arrangements and safeguards that Deloitte has in place to maintain its independence and objectivity. The external auditors follow regulatory requirements to maintain the objectivity of the audit process; these stipulate a five-year rotation policy in relation to the senior engagement auditor. Makhan Chahal was appointed as Deloitte's first lead audit partner, with responsibility starting for FY22. The Committee continues to be satisfied that Deloitte remain independent and objective.

Audit Quality Review (AQR)

The FRC's AQR team monitors the quality of audit work of certain UK audit firms through inspections of a sample of audits and related procedures at individual audit firms. Deloitte has provided us with the findings from its latest firm-wide AQR report, the initiatives being taken in respect of the firm's evolution of its firm-wide audit approach and methodology, and how those are transferred into the Babcock audit. We have also agreed a series of audit quality indicators with the external audit team, focused on phasing of audit hours, timeliness of deliverables and subsidiary audit progress. In addition the Audit Committee Chair and the CFO met with Deloitte during the year, in order to ensure priorities were mutually adequately resourced and receiving responsiveness to be sufficient to support the Group's turnaround and execute the year-end timetable.

Internal audit and assurance

The Group's internal audit activity 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 lines of business 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 findings of each internal audit review are summarised for the Committee, which focuses its discussions on unsatisfactory findings and on the action plans in place to address them. Particular areas of focus for internal audit during FY22 included continuation of financial control audits in line with the increased focus on control improvements, related internal audits in line with the key programmes, assessment of the implementation of the new risk management framework, and a number of risk-based reviews.

In addition, internal audit has continued to maintain a programme of follow-up audits to assess the timely implementation of internal audit recommendations by the businesses and key matters from the internal audit reviews.

As planned, during the first six months of the financial year, the Committee reviewed the scope of internal audit and assessed whether the outsourced model was the most appropriate to support the Group's turnaround and control improvement needs. A decision was made to insource the activity and, as a first step, an executive recruitment process was started to appoint a Head of Internal Audit and Assurance. That role will be filled early in FY23 and a start made on both recruiting an in-house internal audit team and transition planning from BDO. The Committee will consider these plans and timing at an early opportunity; however, it is expected that BDO will continue to deliver the majority of internal audit work for FY23.

The Committee has approved the internal audit plan for FY23 prepared by BDO, including the proposed audit approach, coverage and allocation of resources. The FY23 plan was prepared considering a number of factors, including the principal risks of the Group. The key points in the FY23 plan include:

- Continued focus on internal financial controls assurance;
- Increased focus on non-financial areas of risk, including corporate governance and business interruption;
- Increased focus on IT controls and cyber security, including compliance with new regulations; and
- Continued improvement in the Group's assurance-mapping process across the three lines of assurance.

Audit, risk and internal control continued

Financial statements

The Committee reviews all significant issues concerning the financial statements, which include the going concern and viability statement. It agreed the parameters of, and subsequently reviewed the supporting report for, the going concern statement and the statement on the Board's assessment of the prospects of the Company (see the Going concern and viability statement on pages 88 and 89) over the five-year period used in the business plan. The Committee believes the extension of the period covered by the business plan, and therefore the viability statement, to a five-year period is the most appropriate timespan for this Group given our business planning cycle, the long-term nature of a number of our programmes and insight gained from the first year of the turnaround. In assessing going concern and viability, the Committee has considered cash flow projections and timings, which include assumptions, as far as they can be made, in respect of COVID-19 and climate change, with related sensitivity analysis and stress-testing scenarios, borrowing facilities available to the Company and covenants.

During the year we have continued to scrutinise our disclosures on environmental, social and governance (ESG) issues, particularly in respect of climate change and Task Force on Climate-related Financial Disclosures (TCFD) and other evolving reporting requirements. We have reviewed actions being taken to address this, and agreed in principle the areas for further disclosure in the FY22 Annual Report. This has included continuing to improve linkage between the Strategic report and the financial statements. Further detail on climate risk and opportunity scenario planning is set out on page 60.

For FY21 the Company made a series of changes to the reporting of underlying measures to improve transparency and provide a simpler set of financial disclosures and financial commentary for the future. We have considered alternative performance measures, amongst other matters, to ensure they continue to assist the provision of a fair, balanced and understandable Annual Report and Accounts. Other parts of this process include:

- Comprehensive guidance issued to all the contributors at operational level;
- A verification process dealing with the factual content of the reports;
- Comprehensive reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance; and
- Comprehensive review by the Directors and the Executive Committee.

Following this review, the Committee was of the opinion that the FY22 Annual Report and Accounts was representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

Code of Business Conduct violations and fraud

The Babcock Code of Business Conduct, which incorporates the Group's whistleblowing policy, contains arrangements for an independent external service provider to receive, in confidence, reports on suspected violations of the Code for reporting to the Board and the Committee as appropriate. Please see pages 71, 72 and 98 for further details. The Board regularly received reports on matters relating to the Code.

Priorities for FY23

The Committee has set the following priorities for FY23:

- Ensuring completion of a successful transition to the new Committee membership;
- Continuing its oversight of the implementation of improvements to risk management and internal control systems;
- Reviewing management's key programme watchlist process;
- Reviewing management's standardisation of bid to programme execution controls;
- Monitoring the planning and successful transition to the new insourced internal audit model; and
- Continuing to monitor the various regulatory initiatives flowing from the UK Government's stated aim to reform the corporate governance and audit regime.

Remuneration

Remuneration Committee Report

KJERSTI WIKLUND
Chair of the Remuneration Committee

Key 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 John Ramsay. Please see pages 94 and 95 for biographies and page 103 for attendance. Kjersti will retire from the Board at the 2022 AGM and Carl-Peter Forster will take over as Chair of the Committee.

Highlights

Implementation of the Company's Remuneration policy

Review of FY22 remuneration outcomes

Deciding FY23 remuneration structure

Key responsibilities

Oversight of reward matters across the Group

Maintenance of a strong link between strategy, stakeholder experience and Executive Director reward

Approval of reward outcomes for the Executive Directors

Dear fellow Shareholder

I would like to open our Directors' Remuneration report ('DRR') for the year ended 31 March 2022 by emphasising the importance that the Remuneration Committee places on the need for a clear link between strategy, performance and pay. As a Committee, we believe that our approach to remuneration plays a key role in the achievement of the Group's strategic objectives and in the delivery of sustainable growth. We continuously review our Remuneration policy to assure ourselves that our policy is fulfilling this role. This year, after our review, we are not proposing any material changes to the operation of our policy. At the end of FY23, our current policy will expire, so we will engage with our shareholders over the coming year in order to listen to and understand their views on how we can best take our policy forward and to make sure that it continues to support the Group's strategy.

Before I start the main report, I would like to say that this is my last report as I am retiring from the Board at the 2022 AGM. I want to thank all my colleagues, especially my fellow Committee members, for their help and support during my tenure as Committee Chair and to welcome Carl-Peter to the Chair, as he will take over on my retirement.

Good progress on FY22 priorities

I would like to set the context for our work over FY22. Last year the Board set out five strategic actions in the FY21 Annual Report to strengthen Babcock. As described in the Strategic report on pages 2 to 89, the Group has made good progress across each of these five actions. As a Committee reviewing those actions, we are pleased to report:

- **Portfolio:** The Company has made progress to align the Group's portfolio by divesting certain businesses. It has exceeded the target the Board set of generating £400 million of disposal proceeds, which the Company has used to pay down debt and to invest in the Group. Please see page 13.
- **Operating model:** The Company has implemented its new operating model with the aim of creating a flatter and more efficient business. It achieved its target of in-year operating model savings, helping to create a stronger Babcock. Please see page 13.
- **People strategy:** The Company has started the roll-out of its new People strategy, with a new Purpose, underpinned by new Principles. The aim of this strategy is to develop a new organisation that shares capability, talent, innovation and best practice across the Group. Please see pages 13 and 19.
- **ESG strategy:** The Company has continued to develop its ESG strategy and is working on the development of plans to reduce its emissions to meet its science-based targets so that the Group is net zero across its estate, assets and operations by 2040. Please see pages 13 and 54 to 75.
- **Growth:** The Company has continued to explore growth opportunities. It has signed an agreement for the export of the Group's Arrowhead 140 frigate design to Indonesia and Poland. In Australia, the Company acquired the remaining joint venture interest in NSM to establish the Group as a tier 1 warship sustainer. Please see pages 14 and 15.

Alignment of our Remuneration policy to the Board's strategic objectives

We as a Committee have aimed to play our part in supporting the Group's progress outlined above by implementing our Remuneration policy so that it aligns with and encourages the sustainable achievement of our five strategic actions. We have done this by:

- Setting base salary at a level to recruit and retain executive talent so that the Group can execute its strategic objectives. However, we review any increase in executive base salary to ensure that it is in line with the wider workforce.
- Structuring the annual bonus and the longer-term performance share plan (PSP) so that we link both schemes to progress on the Board's strategic objectives. For example, both schemes have measures (operating cash flow and profit before tax in the annual bonus; and cumulative free cash flow in the PSP) that incentivise the strengthening of Babcock by the implementation of the Board's five strategic actions. The annual bonus also contains non-financial measures that align to those actions (see page 127 for more detail).

Remuneration in FY22

The outcome of the contract profitability and balance sheet review was a key consideration in our discussions of remuneration at the beginning of FY22. We believe that the remuneration outcomes, which I summarise below, reflect the Company's performance and the broader context, including shareholders' experience and interests.

After due consideration, the Committee approved the following outcomes:

- **Salary:** As we disclosed in the FY21 DRR, we delayed our review of the Executive Directors' base salaries until September 2021 in line with the Company's approach for other employees. In September, we decided to award the Executive Directors an increase of 2% in alignment with increases across the Group.
- **FY22 annual bonus:** We followed the same structure for the FY22 annual bonus for Executive Directors as we did for FY21. It was based 80% on underlying financial performance measures, split equally between operating cash flow and profit before tax. In line with past practice, we maintained the percentage allocated to non-financial measures at 20%. As in FY21, we adopted a wide range for the performance measures and retained discretion to ensure that the outcome aligned to the Group's stakeholder experience. The Committee considered the good progress against the FY22 priorities, as described above, as well as shareholder experience. Following its considerations, the Committee was pleased to award an annual bonus for FY22 to the Executive Directors, having not awarded a bonus last year, and awarded a bonus of 80% of maximum for David Lockwood and 79% of maximum for David Mellors. Please see pages 126 to 128 for more detail.
- **2019 PSP awards:** Neither Executive Director was with the Company when we awarded the 2019 PSP awards and therefore they were not participants in the 2019 cycle. In any event, performance against the targets for this cycle was below threshold, resulting in the 2019 PSP awards lapsing in full.
- **2021 PSP awards:** We granted the 2021 PSP award in August 2021, following the outcome of the contract profitability and balance sheet review. We considered the measures for the awards to ensure that they would support the Board's strategic actions and would reflect the wider shareholder experience. After our review, we decided that the most appropriate measures were relative TSR and cumulative free cash flow, both equally weighted, consistent with the 2020 PSP awards. The performance period for the award is the three financial years starting with FY22; as we consider the targets for cumulative free cash flow to be commercially sensitive, we have delayed disclosing the range, but we will disclose the target no later than the FY24 annual report, being the relevant annual report for disclosing the vesting outcome for the 2021 PSP award. For further detail, please see pages 128 and 133.

ESG in FY22

We have set out in this Annual Report our strategy for ESG (please see page 54). During FY22, the Committee has considered how it might support the Group's strategy in line with stakeholders' expectations that companies start to consider how to include ESG in their remuneration plans. The Group's Remuneration policy has always included elements of ESG. For example, the Group's annual bonus has a health and safety underpin, by which the Committee can reduce or cancel any bonus if the Group's health and safety performance does not warrant a bonus. In FY22, the Committee built on this to include specific ESG objectives and measures in the FY23 annual bonus. These objectives and measures include health and safety, the pathway to net zero and diversity. In addition, the health and safety underpin will remain in place.

The Committee has followed all the work Babcock is currently doing to develop its ESG strategy and has discussed the inclusion of PSP performance conditions on climate change and other ESG-related matters. In FY23, it will continue to monitor the progress of the ESG strategy and will consider the inclusion of ESG in the PSP as part of its review of the Remuneration policy.

Remuneration for FY23

When considering the implementation of our Remuneration policy for FY23, we have taken into account the need to support the turnaround of the Group by ensuring that we incentivise the Executive Directors to deliver the Board's strategic actions, whilst continuing to align the implementation of the policy with shareholder interests. We have done this as follows:

- **Salary:** Our normal practice is to align our review of the Executive Director salaries with the Company's review of the wider workforce. This year, the Company decided to award all UK employees (other than the Group's higher-paid earners) a standardised annual salary increase. In order to align the Executive Directors with this decision, the Committee decided not to increase the Executive Directors' salaries for FY23.
- **FY23 annual bonus:** The structure of the Executive Director annual bonus for FY23 is consistent with that for FY22, with measures based on operating cash flow, profit before tax and non-financial objectives. However, in the event of a payout, we will revert to our usual structure as per the approved Remuneration policy and pay 60% of any bonus earned for FY23 in cash and defer the remaining 40% into awards over Company shares for three years, as usual. We have set the measures and targets, which we will disclose in full in next year's DRR. Please see page 129 for more detail.
- **2022 PSP awards:** We will grant awards under the PSP to the Executive Directors in 2022 covering the three-year period FY23–FY25. We will use the same measures as used for the 2021 PSP award, being relative TSR and free cash flow, as they align with our focus on the turnaround of the Company, as well as shareholder interests. We reviewed the targets for both measures to ensure that they would be appropriately stretching. In respect of the free cash flow target, we set a three-year cumulative range. As in FY22, we consider this range commercially sensitive and will disclose the target no later than the FY25 annual report, being the relevant annual report for disclosing the vesting outcome for the 2022 PSP award. In respect of relative TSR, we decided to retain the same performance range as for 2021 PSP awards.

Focus for FY23

As usual, we will continue to support the strategic aims of the Group through our work on the Committee and the implementation of our Remuneration policy. However, over FY23, the Committee will also look to develop the channels through which it engages with employees. In the past, the Committee has engaged with employees through the Babcock Employee Forum. Following the appointment of Lord Parker as designated Director for employee engagement, the Committee has had the benefit of his reports about the views he has heard from his employee meetings. We also hope to have the opportunity to consider Babcock's global engagement survey. Previously, each sector would undertake its own surveys at different times. For the first time, the survey will cover the whole Group and will give the Committee a better insight into employee experiences and views at work, including those relating to remuneration and benefits.

We will look to use the engagement with employees when we review our Remuneration policy, which we will present to the 2023 AGM for shareholder approval. Before doing so, we will conduct a comprehensive review to ensure that our policy continues to reflect best practice and supports the Group's strategic direction in the most appropriate manner, whilst reflecting the priorities of our shareholders. In order to make sure that we understand those priorities, we will engage with shareholders over FY23. We as a Committee are looking forward to this engagement, as it is an essential underpin for our work over the lifetime of the next policy.

I hope that you have found this report useful. However, if you do have any questions, the Committee is looking forward to engaging with the Company's shareholders at its 2022 AGM.

KJERSTI WIKLUND
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over FY22 and the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 125 to 133.

FY22 remuneration outcomes

Annual bonus

The Committee based the FY22 bonus 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 maximum bonus)		Performance targets
	D Lockwood	D Mellors	
Group Profit Before Tax (PBT)	40% Max / **21% Outturn**	40% Max / **21% Outturn**	Threshold £193.4m; Target £203.6m; Stretch £224.0m; **Outturn £202.8m[2]**
Group Operating Cash Flow (OCF)	40% Max / **40% Outturn**	40% Max / **40% Outturn**	Threshold £42.4m; Target £44.6m; Stretch £49.1m; **Outturn £75.8m[2]**
Non-financial[1]	20% Max / **19% Outturn**	20% Max / **18% Outturn**	
Total	100% Max / **80% Outturn**	100% Max / **79% Outturn**	

1. The Committee has merged several measures into an overall assessment in this table for disclosure purposes.
2. Please see the annual bonus table on page 127 for more detail.

2019 PSP

The current Executive Directors were not participants in the 2019 PSP as the award predated their joining Babcock. In any event, based on performance, the 2019 PSP award lapsed in full.

Implementation of the Remuneration policy in FY23

For the current financial year, the Committee intends to implement the Remuneration policy as set out in the table below.

Element of remuneration	Base salary	Pension	Benefits
Implementation for FY23	David Lockwood: £816,000 David Mellors: £571,200 In line with the approach taken for other higher-paid employees in FY23, the Committee did not increase the Executive Directors' salaries. Other UK employees below this level received a standardised salary increase for FY23.	10% of salary	Unchanged from FY22

Implementation of the Remuneration policy in FY23 continued

Element of remuneration	Annual bonus and Deferred Bonus Plan (DBP)
Implementation for FY23	The bonus structure is consistent with that used for FY22, 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). The Committee has returned to its normal practice of paying 60% of any bonus earned in cash, with the remaining 40% deferred in shares for three years. For more detail, please see page 129.

Element of remuneration	PSP
Implementation for FY23	PSP awards of 200% of salary with vesting based on measures the Committee believes are most appropriate: free cash flow and relative TSR, equally weighted.

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 its implementation are simple and well understood. The performance measures used in the PSP, along with those in the annual bonus, align to Babcock's strategy.
Risk	The Committee has ensured that remuneration arrangements do not encourage or reward excessive risk-taking by setting targets which are stretching, but achievable, with discretion to adjust formulaic annual 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 its 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

Shareholders approved the Remuneration policy set out in this section by a binding shareholder vote at the 4 August 2020 AGM. You can find the policy at www.babcockinternational.com/who-we-are/leadership-and-governance. The Committee intends that this policy will apply for three years from that date.

Key principles of the Remuneration policy

Our Remuneration policy for Executive Directors reflects a preference that we believe the majority of our shareholders share – to rely more heavily on the value of variable performance-related rewards than on the fixed elements of pay, to incentivise and reward success. The Committee, therefore, weights the focus of executive remuneration towards performance-related pay with a particular emphasis on long-term performance. The Committee believes 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	The Committee reviews base salaries 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	The Committee anticipates that increases in salary for the wider employee population over the term of this policy will guide it on any increases for the Executive Directors. 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 Group employs the individual, or to meet costs effectively incurred at the Company's request.
Operation	The Group provides a range of benefits, which may include (but are not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home-to-work travel and related costs; and accommodation benefits and related costs. The Group may offer other benefits (eg relocation) if the Committee considered it appropriate and reasonable.
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, which will determine the maximum amount that the Company would pay in the form of benefits during the period of this policy. The Committee retains 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 the Group has achieved these targets. 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, and 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 may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. The Committee defers at least 40% of annual bonus payments for Executive Directors 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 would have caused the Committee to exercise any discretion differently.
Opportunity	Maximum bonus opportunity is 150% of salary. For achievement of threshold, the Executive Directors earn up to 15% of maximum bonus; for achievement of target, they earn up to 55% of maximum bonus.
Performance metrics	The Committee determines performance 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 the Company taking short-term steps 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 Committee reviews award levels and performance conditions, on which vesting depends, from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that they would have received 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 the Company releases them. 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. The Committee intends to base PSP awards made during the life of this policy on the achievement of stretching financial targets such as EPS, cash flow, TSR and ROCE. 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 a period 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 from time to time. 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 Committee reviews the matching rate periodically, but it will remain 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 from where the Company recruited the candidate) 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 the Company was replacing. 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 the Committee would expect these 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 Committee selects measures used under annual bonus plans annually to reflect the Group's main strategic objectives for the year. They reflect both financial and non-financial priorities. The Committee sets performance targets to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. The Committee sets financial targets 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 has discretion to adjust 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. The Committee would not make a material reduction in long-term incentive targets for future awards without prior consultation with our major shareholders.

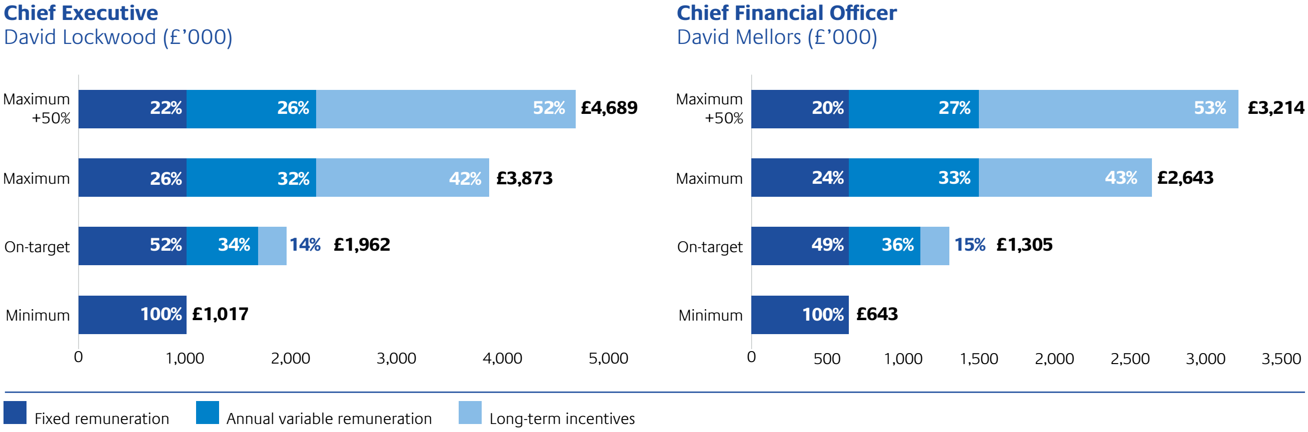
Executive Director and general employee remuneration

The policy with regard to the remuneration of senior executives below the Board is broadly consistent with that for the Executive Directors, in that it weights remuneration to variable components which are delivered through an annual bonus and equity-based incentives, albeit that restricted stock awards, and not the PSP, are used for participants below Board level. The Committee considers the Remuneration policy for our Executive Directors 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 the 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 FY23, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 April 2022. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.



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	Participants may exercise award 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 for 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 letter	Anticipated expiry of present term of appointment (subject to annual re-election)
Ruth Cairnie (Chair)	3 April 2019	28 March 2022	AGM 2025
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 2023
John Ramsay	6 January 2022	5 January 2022	AGM 2025

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 travel and accommodation expenses). The Company reviews fee levels by reference to FTSE listed companies of similar size and complexity. It takes into account time commitment, level of involvement required and responsibility when it reviews 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. The Committee considers these matters when it conducts its 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 representatives from across the Group's business operations attend. The Forum has the opportunity to engage with senior management including the CEO and the Chief Human Resources Officer on the Committee's policy and how it aligns with the wider Company pay policy. The Committee takes any 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. It commits to consulting 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 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.

Annual report on remuneration

The Committee

The Board appoints the members of the Committee on the recommendation of the Nominations Committee. In accordance with the UK Corporate Governance Code, only independent Non-Executive Directors are members of the Committee.

The membership of the Committee during the year to 31 March 2022 is shown on page 113, and attendance at Committee meetings, on page 103. In total there were nine meetings in the year to 31 March 2022. The Chair and the CEO 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. The Committee reviewed them 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 the Company provides members of the senior executive management of the Group with appropriate incentives to encourage strong performance and rewards them 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

Ellason advised the Committee during the year. 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 is a member of the Remuneration Consultants Group and a signatory to the Code of Conduct for consultants to remuneration committees of UK listed companies. Please see www.remunerationconsultantsgroup.com for details. Ellason adheres to this Code of Conduct. The Company paid fees to Ellason in respect of work for the Committee carried out in the year under review totalling £114,750 based on time and materials, excluding expenses and VAT.

The Committee reviews Ellason's involvement each year and considers 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 2022, 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 PSP
- agreeing Executive Director salaries for the next financial year
- finalising performance targets and non-financial objectives for the FY23 annual bonus plan
- agreeing the level of vesting of PSP awards granted in 2018
- considering performance against the measures applied to, and level of payout of, the FY21 annual bonus
- agreeing the level of, and targets for, 2021 PSP awards.

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy at the 2020 AGM, and the advisory vote on the Annual report on remuneration, at the 2021 AGM:

	2020 Remuneration policy		2021 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%	325,685,586	87.95%
Against	1,866,823	0.52%	44,663,982	12.05%
Total votes cast (excluding withheld votes)	360,390,637	100%	370,319,568	100%
Votes withheld	16,471,678		36,510	
Total votes cast (including withheld votes)	376,862,315		370,356,078	

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		David Mellors	
	FY22 £'000	FY21[8] £'000	FY22 £'000	FY21[8] £'000
Fixed remuneration				
Salary[1]	808	438	566	188
Benefits in kind and cash[2]	119	65	15	6
Pension[3]	81	44	57	19
Annual variable remuneration				
Annual bonus (cash)[4]	580	n/a	401	n/a
DBP (deferred annual bonus)[5]	387	n/a	268	n/a
Long-term incentives				
PSP[6]	n/a	n/a	n/a	n/a
Dividends[7]	n/a	n/a	n/a	n/a
Total (of which)	1,975	547	1,307	213
Fixed remuneration[1,2,3]	1,008	547	638	213
Total variable remuneration[4,5,6,7]	967	n/a	669	n/a

The figures have been calculated as follows:

1. Salary: base salary amount paid in the year.
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 FY22 received £98,110 in connection with his accommodation costs in London, which were, at the Company's request, to enable him to lead the business effectively.
3. Pension: the numbers above represent for each year the value of the cash supplement, which 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 127) that is not required to be mandatorily deferred into shares under the DBP (see page 119) and is paid in cash. In relation to the FY22 bonus, both David Lockwood and David Mellors agreed to defer the 60% of annual bonus usually paid in cash into awards over the Company's shares for one year.
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. PSP: neither David Lockwood nor David Mellors were Directors at the time of the 2019 grant, which in any event lapsed in full.
7. 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 2022 (for FY22) and 31 March 2021 (for FY21), payable in cash on exercise of the award.
8. Amounts for David Lockwood and David Mellors for FY21 are based on their periods of service as Directors from their respective appointments to the Board on 14 September 2020 and 30 November 2020.

Neither 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 2022. They instead received a cash supplement equal to 10% of salary. There are no additional early retirement benefits.

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

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

Director	FY22 £'000 pa	FY21 £'000
David Lockwood	4	4
David Mellors	3	3

FY22 annual bonus (audited)

The Committee based the FY22 annual bonus on a mix of financial and non-financial measures. The financial element, weighted 80%, was the underlying OCF and PBT performance (based on budgeted foreign exchange rates) of the Group against budget. The non-financial measures were principally the themes that the Committee considers to be of material importance to the continued success of the Company.

The table below summarises performance against each financial measure, and the bonus outcome.

Bonus element	Threshold[1]	Target	Maximum	Outturn		David Lockwood	David Mellors
Achieving budgeted Group cash flow[2]	£42.4m	£44.6m	£49.1m	£75.8m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Achieving budgeted Group PBT[3]	£193.4m	£203.6m	£224.0m	£202.8m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	31.3%	31.3%
Non-financial objectives[4]					Maximum potential (% of salary)	30%	30%
					Outturn (% of salary)	28.5%	27%
Total					Maximum potential (% of salary)	150%	150%
					Outturn (% of salary)	119.8%	118.3%

1. Threshold vesting is: 18.8% of maximum for the Group PBT and cash flow elements, and 0% for non-financial measures. In line with our policy, overall vesting at threshold is no more than15% when we consider all measures.
2. Operating cash flow after capital expenditure and before pension payments in excess of the income statement charge. To ensure that performance is assessed on a basis consistent with that on which the targets were set and the bonus appropriately rewards the right behaviours, reported OCF was adjusted by £71.4 million to reflect the accelerated settlement of deferred creditors in line with the Group's internal policies.
3. Before amortisation of acquired intangibles, with the treatment of exceptional items at the discretion of the Committee.
4. Further details on the non-financial objectives set for FY22 are given below.

FY22 annual bonus non-financial measures

The Committee set non-financial objectives for David Lockwood and David Mellors at the start of the year around strategic management 'Themes' of strategy, people and culture, as the Committee believed these themes align to the Company's turnaround. For achievement of the objectives, please see below.

David Lockwood

Strategy
- Refreshed strategy
- Established a Group-level campaign capability to lead the Group's export campaign
- Secured the first exports of the Group's Arrowhead 140 frigate to Indonesia and Poland
- Finalised the Group's Future Marine Support Programme so the Group continues its support spanning UK naval base operations at HMNB Clyde and HMNB Devonport
- Continued development of engagement with Company's stakeholders

People
- Launched the Group's new Purpose and Principles
- Developed a new People strategy, aiming to create an organisation that shares capability, talent and innovation
- Launched a new 'Agile' strategy
- Implemented our new operating model with a flatter structure and centre-led functions

Culture
- Appointed Group safety lead, established forward-looking balanced score-card to re-energise Group focus on safety
- Developed the Group's ESG strategy by building a baseline assessment for Babcock's Scope 1 and 2 emissions.

David Mellors

Strategy
- Led the detailed contract profitability and balance sheet review, which re-set the Group's financial baseline
- Led the disposal programme to generate disposal proceeds in excess of £400 million
- Built and maintained relationships with key stakeholders, supporting confidence in the Company during the turnaround
- Drove implementation of the new operating model, securing the targeted cost savings.

People
- Professionalised the procurement function with the creation of a centre-led organisation and the implementation of common systems and technology to increase leverage of the Group's supplier spend
- Centralised and strengthened the finance function
- Redesigned other reporting functions such as IT, tax, treasury and insurance

Culture
- Led review and improvement of the control environment
- Introduced standardised accounting policies
- Designed new internal audit function

The FY22 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 (£'000)
David Lockwood	91.3%	28.5%	119.8%	£967
David Mellors	91.3%	27%	118.3%	£669

Long-term incentive scheme (PSP) award granted during FY22 (audited)

The Committee granted PSP awards in the form of nil-cost options in August 2021 to the Executive Directors, consistent with the Remuneration policy.

Director	Number of shares[1]	Face value[2]	Face value (% of salary)[3]	% of award receivable for threshold performance
David Lockwood	452,450	£1,599,999	200%	16.7%
David Mellors	316,715	£1,119,999	200%	16.7%

1. Awards are in the form of nil-cost options.
2. Based on three-day average share price (of 353.63p) at time of grant.
3. Expressed as a percentage of salary at the date of the award (24 August 2021).

Vesting of the awards is based on cumulative free cash flow and relative Total Shareholder Return (TSR), equally weighted, as the Committee believes that these measures best align with shareholders' interests and the strategy reset of the Company. The performance period for these awards is the three financial years 1 April 2021 through to 31 March 2024. Free cash flow (FCF) is defined as all cash flows of the Company, including exceptional items (unless the Committee decides otherwise), but excluding disposals, on an IFRS 16 basis.

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. The Committee may need to use its discretion to review the outcome of the awards in 2024 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 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% pa

Deferred Bonus Plan awards made during FY22 (audited)

As both Executive Directors requested that the Committee waive any entitlement to a bonus that they might have had for non-financial measures in respect of their work in FY21, the Committee did not grant any DBP awards in FY22 to the Executive Directors.

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[1]		Additional fee[2]		Total		Total fixed remuneration		Total variable remuneration	
	FY22 £'000	FY21 £'000	FY22 £'000	FY21 £'000	FY22 £'000	FY21 £'000	FY22 £'000	FY21 £'000	FY22 £'000	FY21 £'000
Fixed remuneration										
Ruth Cairnie	336	319	–	–	336	319	336	319	–	–
Lucy Dimes	61	58	–	–	61	58	61	58	–	–
Kjersti Wiklund	61	58	15	15	76	73	76	73	–	–
Russ Houlden	61	58	14	10	75	68	75	68	–	–
Carl-Peter Forster[3]	72	55	–	–	72	55	72	55	–	–
Lord Parker	61	24	–	–	61	24	61	24	–	–
John Ramsay[4]	15	n/a	1	n/a	16	n/a	16	n/a	–	–
Myles Lee[5]	33	62	–	–	33	62	33	62	–	–
Victoire de Margerie[5]	33	62	–	–	33	62	33	62	–	–

1. In FY21, the Non-Executive Directors waived part of their fee in response to the impact of the COVID-19 pandemic.
2. Relating to role as Chair of the Audit Committee (Russ Houlden to February 2022 and John Ramsay from March 2022) and Remuneration Committee (Kjersti Wiklund).
3. Carl-Peter Forster is the Senior Independent Director.
4. John Ramsay joined the Board in January 2022.
5. Myles Lee and Victoire de Margerie retired from the Board in September 2021.

Sourcing of shares

Shares needed to satisfy share awards for Directors are shares that the Company either newly issues to the Group's employee share trusts or purchases in the market by the trusts using funds advanced by the Company. The Company finalises the source selection on or before vesting, depending on the Board's view of the best interests of the Company at the time, within the limits of available headroom and dilution restrictions.

Executive Directors' remuneration for FY23

The Committee has set the remuneration for Executive Directors for FY23 in line with its approved Remuneration policy.

Fixed pay

The Committee reviewed the Executive Directors' salaries on a consistent basis as the rest of the UK workforce. Following the decision to award standardised salary increases to the UK workforce other than higher-paid employees, the Committee agreed not to increase the Executive Directors' fixed pay for FY23. The Executive Directors will receive the same pension arrangements as in FY22 (ie at 10% of salary) and the same benefits as in FY22.

	1 April 2022[1]	1 April 2021
David Lockwood	£816,000	£800,000
David Mellors	£571,200	£560,000

1. Reviewed in September 2021.

FY23 annual bonus

The structure of the Executive Director annual bonus for FY23 is consistent with that for FY22, with measures based on OCF, PBT and non-financial objectives. The Committee has agreed the measures and targets but, due to their commercial sensitivity, it 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% payable in cash (in line with our normal Remuneration policy).

2022 PSP awards

The Committee intends to grant awards under the PSP to the Executive Directors in 2022 covering the three-year period FY23–FY25, with measures consistent with those used for the 2021 PSP award, being relative TSR and free cash flow, equally weighted. As in the 2021 PSP award, the relative TSR performance range is based on 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 will disclose the target no later than the FY25 annual report, being the relevant annual report for disclosing the vesting outcome for the 2022 PSP award.

Payments to past Directors (audited)

Archie Bethel stepped down as an Executive Director on 14 September 2020 and retired from the Company on 31 March 2021. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021.

Franco Martinelli stepped down as an Executive Director on 30 November 2020 and retired from the Company on 30 September 2021. Franco received his base salary (£227,460) and pension (£48,904) through to his retirement. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021. He received no further payments for loss of office and no discretion was required in determining this outcome.

John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021.

Non-Executive Directors' fees (including the Chair)

There are no changes to the fees for the Chair and the Non-Executive Directors for FY23.

Annual rate fee	FY23 £	FY22 £	% change since last review (% pa)
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. The Company sets fees for non-UK-based Directors having regard to the extra time commitment involved in attending meetings.
2. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee. The Company does not pay additional fees 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 (the 'Regulations'). The Committee will build up this analysis 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 Directors' remuneration compared to all other employees of the parent company in the Group. However, the Company 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 Directors' remuneration with the change in remuneration for the average of the UK employee population, as a suitable comparator group for this purpose.

The Committee monitors this information to ensure that there is an appropriate alignment over time in fixed pay between Executive Directors, Non-Executive Directors and UK employees.

	% change FY21 to FY22[1]		
	Base salary/fees	Taxable benefits	Single-year variable
Executive Directors			
David Lockwood	1%	0%	n/a
David Mellors	1%	0%	n/a
Non-Executive Directors[2]			
Ruth Cairnie	5%	n/a	n/a
Myles Lee[3]	5%	n/a	n/a
Victoire de Margerie[3]	5%	n/a	n/a
Lucy Dimes	5%	n/a	n/a
Kjersti Wiklund	4%	n/a	n/a
Russ Houlden[4]	10%	n/a	n/a
Carl-Peter Forster[5]	11%	n/a	n/a
Lord Parker[6]	5%	n/a	n/a
John Ramsay[7]	n/a	n/a	n/a
Average for all UK employees	2%	0%	-100%

1. As this table is based on the single figure table, it has produced anomalous results. In respect of the Executive Directors, the percentage change in base salary and benefits reflects annualised values for FY21 to facilitate a comparison with FY22. In respect of the single-year variable, the result is due to the Executive Directors receiving a bonus for FY22, whereas in FY21 they did not. In respect of the Non-Executive Directors, in FY21, they all waived part of their fees due to the COVID-19 pandemic. There were also changes to the Chairs of Committees and Carl-Peter took on the role of Senior Independent Director. Together, these account for the percentage changes as there has been no change to their fee levels. Please see the 'Non-Executive Directors' fees' table on page 129.
2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes. However in FY21 all the Non-Executive Directors waived part of their fee due to the COVID-19 pandemic, which has subsequently been restored.
3. The percentage change in fees for former Directors reflects annualised values for FY22 remuneration to facilitate a comparison with FY21.
4. Russ Houlden became chair of the Audit Committee in July 2020 and his percentage increase is due to this change.
5. Carl-Peter Forster became Senior Independent Director in July 2020 and his percentage increase is due to this change.
6. Lord Parker joined part-way through FY21. To facilitate a comparison with FY22, his FY21 fee has been annualised.
7. John Ramsay joined during FY22 and hence no year-on-year comparison is available.

	% change FY20 to FY21		
	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
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
Average for all UK employees	2%	0%	-100%

1. Joined during FY21, 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 FY20 as Chair of Babcock.

Relative importance of spend on pay

	FY22	FY21	% change
Distribution to shareholders	£0m	£0m	0%
Employee remuneration	£1,516m	£1,616m	-6%

Distributions to shareholders includes all amounts distributed to shareholders.

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 employees.

Figures for the CEO come from the Executive Directors' single figure table on page 129. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees on 31 March 2022 using the 'single figure' methodology, as at 31 March 2022, to provide 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. We continue to adopt Option A, which, in the Committee's opinion, is the most statistically accurate approach. The Company calculated the total full-time equivalent remuneration for all UK employees throughout FY22. The Company then ranked the employees to identify the three employees representing P25, P50 and P75.

As with last year, the Company excluded bonus payments from the calculations, because it was not feasible to identify those payments for services delivered within the financial year, and because the Company does not know all bonus pay relating to FY22 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 Company considered the pay and benefits of a number of employees centred on each of the three employees. 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. The Company made no adjustments or assumptions to the total remuneration of these employees and calculated the total remuneration in accordance with the methodology used to calculate the single figure of the CEO.

The median CEO pay ratio in FY22 was 48:1, compared to 22:1 in FY21.

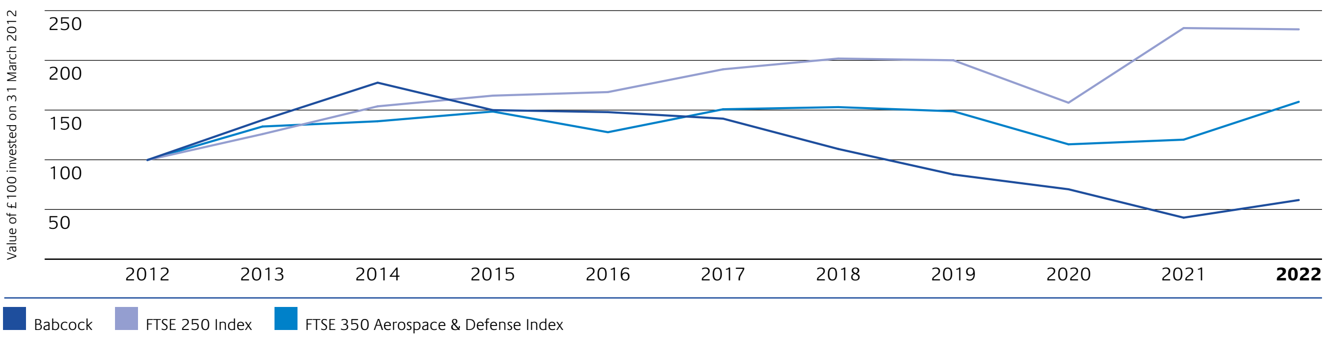
The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The Committee expects that the ratios will be largely driven by the CEO's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at other levels which, 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 remuneration packages for Executive Directors. 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)
FY22	Option A	61:1	48:1	36:1
FY21	Option A	30:1	22:1	17:1
FY20	Option C	47:1	37:1	27:1

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY22	**Total remuneration (£'000)**	**£32.3**	**£41.4**	**£54.7**
	Salary (£'000)	£28.6	£37.3	£50.0

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence indices, assuming an investor invested £100 on 31 March 2012. 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.



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

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Peter Rogers[1]										
Single figure (£'000)	2,731	3,809	4,448	2,491	1,091					
Bonus vesting (% max)	99%	93%	78%	60%	66%					
DBMP matching shares vesting (% max)	n/a	n/a	88.4%	57.8%	17.0%					
PSP/CSOP vesting (% max)	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	1,975
Bonus vesting (% max)									0%	80%
PSP vesting (% max)									n/a	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 between joining the Company in August and joining the Board as CEO on 14 September 2021.

Directors' share ownership (audited)

The Committee sets out below the interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2022:

	At 31 March 2021	At 31 March 2022[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?
David Lockwood	186,924	186,924	–	–	860,995	–	300%	74%	Building
David Mellors	71,268	71,268	–	–	602,696	–	200%	40%	Building
Ruth Cairnie	120,000	120,000							
Myles Lee[4]	40,000	n/a							
Victoire de Margerie[5]	7,061	n/a							
Lucy Dimes	5,000	5,000							
Kjersti Wiklund	2,100	2,100							
Russ Houlden	–	–							
Carl-Peter Forster	10,000	10,000							
Lord Parker	–	–							
John Ramsay	n/a	30,000							

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 2022 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 2022 and a three-month average share price to 31 March 2022 of 323.01p, and are calculated post tax.
4. Myles Lee retired from the Board in September 2021.
5. Victoire de Margerie retired from the Board in September 2021.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2022 and 28 July 2022.

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 2022 was 324.50p. The highest and lowest mid-market share prices in the year ended 31 March 2022 were 380.20p and 228.40p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2021	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2022	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
	PSP 2021		452,450			452,450		353.63	Aug 2026	Aug 2027

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2021	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2022	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
	PSP 2021		316,715			316,715		353.63	Aug 2026	Aug 2027

1. PSP = 2009 Performance Share Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 128 and 129.
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 10th anniversary of the award.

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

No awards vested for the Executive Directors during the year to 31 March 2022.

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 FY22

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

The Board approved this Remuneration report on 28 July 2022.

KJERSTI WIKLUND
Committee Chair

Other 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, the Directors' Responsibility Statement on page 139 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 (5)	Director waivers of emoluments	Remuneration report on page 128
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 25 on page 2017

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

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

Topic	Location
Financial risk management regarding financial instruments	Note 24, page 211
Greenhouse gas emissions	Page 57
Employee engagement	Pages 19, 53, 66, and 99 to 100
Fostering business relationships with suppliers, customers and others	Page 52, 69 to 72. 99 and throughout the Strategic report
Subsequent events	Note 34 on page 228
Likely future developments in the business of the Group	Page 10 and 11
Details of important events affecting the Group	Strategic and Directors' reports, in particular pages 13 to 17 and 24 to 35

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 (2021: nil) and, as part of our focus on building a strong balance sheet, has not recommended a final dividend (2021: nil).

Major shareholdings

As at 31 March 2022, 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
Abrams Bison Investments, L.L.C.	29,311,332	5.80%
Polaris Capital Management, LLC	29,089,500	5.75%
Invesco Ltd	24,231,810	4.91%
Cobas Asset Management, SGIIC, S.A.	20,217,293	3.99%
Oaktree Capital Management (UK) LLP	15,330,960	3.03%

Since 31 March 2022 the Company has been notified by Cobas Asset Management, SGIIC, S.A. that it has increased its interest to 20,458,556 shares representing 4.04% of 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.

For more information about our inclusion and diversity policy, please see pages 64 and 107.

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 September 2021, 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 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 6 August 2021 (the date the current authority was granted) to the date of this report. The Company currently does not hold any treasury shares.

There were no purchases of the Company's shares made in the year to 31 March 2022 by the Babcock Employee Share Trust in connection with the Company's executive share plans (see note 25 on page 217).

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 purposes 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 could 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 National Security and Investment Act 2021 that came into force on 4 January 2022 provides the UK Government with new powers to scrutinise and potentially make void transactions on the grounds of national security. The legislation is part of a global trend towards introducing foreign investment laws which has seen a number of other countries introduce similar protections.

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
The Group has a revolving credit facility of up to £300 million maturing in May 2024 and a £775 million revolving credit facility where £45 million matures in August 2025 and £730 million matures in August 2026, providing funds for general corporate and working capital purposes. 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 a Euro Medium-Term Note Programme under which it 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 122 and 123.

Articles of Association of DRDL and RRDL

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.

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) Rosyth Royal Dockyard Limited (as amended)

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 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 work that is the subject of the ToBA. ‘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.

Surface Ship Support Alliance Agreement (SSSA) dated 23 September 2009 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited (as amended)

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) Rosyth Royal Dockyard Limited

The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Rosyth Royal Dockyard or any holding company will be contrary to the defence, national security or national interest of the UK.

Future Maritime Support Programme Lot 2 (Ships Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State’s concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 1 (Naval Bases) dated 28 July 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State’s concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 11 (Warehousing and Distribution at HMNB Clyde) dated 30 March 2021 between (1) The Secretary of State for Defence and (2) Babcock Marine (Clyde) Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, immediately in the event of a change of control of Babcock Marine (Clyde) Limited or any other company in the Group that it objects to and in respect of which its concerns have not been addressed.

Future Maritime Support Programme Lot 3 (Submarine Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State’s concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 4 (Hard Facilities Management and Alongside Services at HMNB Clyde) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State’s concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

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 s793 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 below.

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 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 in 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 which 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

Through improvements in processes in prior years there is a robust process in place to enable the Board to have assurance around the overall risk management together with the determination of the nature and extent of the Group's principal risks. Management monitors the financial reporting process and the process for preparing the consolidated accounts through regular reporting and review. Management reviews data for consolidation into the Group's financial statements to ensure that it gives 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. Last year, the Board found 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. Since then, the Company has implemented a number of improvements, which the Audit Committee has monitored. Following this year's review of the effectiveness of the Company's internal control processes, the Board is satisfied that the Company has successfully delivered the improvement plans agreed last year, whilst recognising that there remains ongoing scope for further improvement in FY23, including lessons learnt from the FY22 closing.

For more detailed information on the improvements in internal controls please see the Audit Committee report on page 110. Further information on the principal internal controls and risk assurances in use in the Company can be found in the Strategic report on pages 76 to 78.

Auditor

Following appointment as Independent Auditor of the Company last year, after a competitive tender process, Deloitte is willing to continue in office. A resolution to re-appoint Deloitte as Independent Auditor 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 regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with United Kingdom adopted international accounting standards. The Directors have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility statement

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

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Ruth Cairnie	Chair
Carl-Peter Forster	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
John Ramsay	Non-Executive Director
Russ Houlden	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 139) for the year ending 31 March 2022 have been approved by the Board and signed on its behalf by:

RUTH CAIRNIE
Chair

DAVID LOCKWOOD
Chief Executive Officer

28 July 2022