Remuneration

Remuneration Committee Report

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.

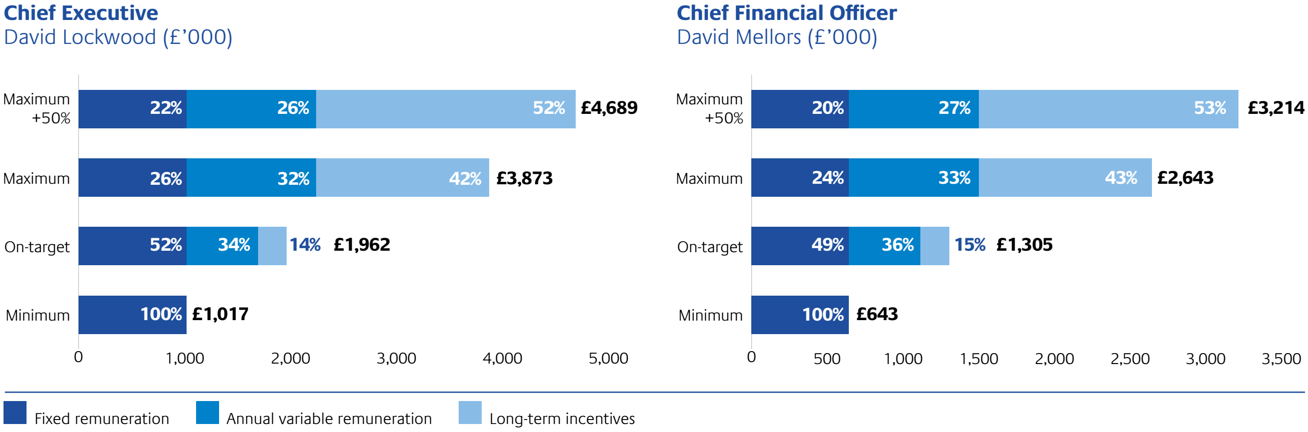
Executive Director and general employee remuneration

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.

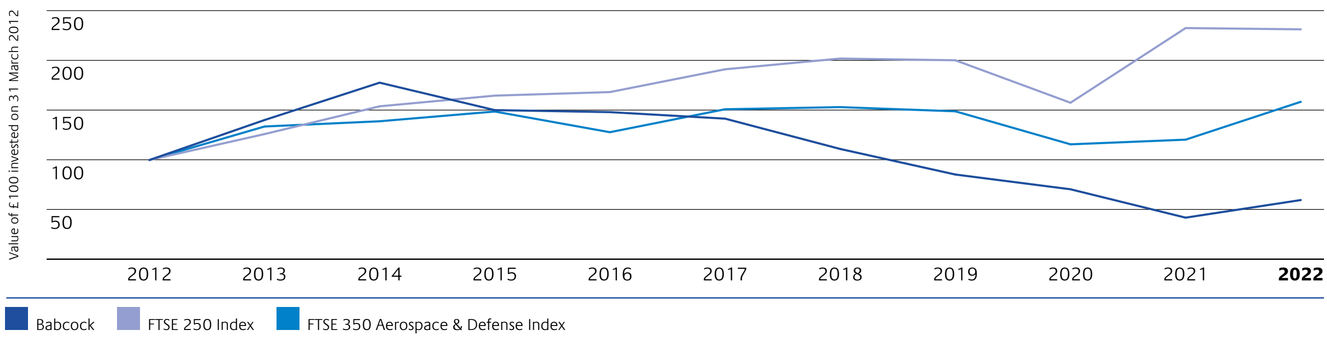
The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The Committee expects that the ratios will be largely driven by the CEO's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at other levels 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