Chair's introduction

Dear fellow Shareholder

This year has been our second year of transformation. The Board's governance focus has again been to oversee the implementation of the suite of changes and improvements initiated in response to the weaknesses identified in FY21 and to assure ourselves that the resulting control and oversight framework is robust. Key aspects covered in the year have been:

Strengthened Group-wide capabilities and processes

We have continued with the roll-out of our new Operating Model introduced in FY21, strengthening a number of key Group-wide functions and establishing common Group-wide processes. These underpin the management of some of the Group's key risks, for example, project and contract performance, and talent. During the year the Board has had presentations from the heads of procurement, project management, people, risk, treasury, and insurance and has reviewed the progress and status in enhancing our capability and performance in these areas.

Controls enhancement programme

The Board has received regular updates from the Audit Committee on the ongoing programme of controls enhancement. This follows on from the work last year to strengthen financial controls, in particular in Head Office, Aviation and Land sectors. This year, we have defined a new ambition for our control approach which is designed to meet the anticipated requirements of the revision of the UK's corporate reporting and audit regime. We have had the programme benchmarked for adequacy and effectiveness. Full implementation will be a multi-year programme but in FY23 we set out a workplan based on clear prioritisation and this has been delivered. Full details are available in the Audit Committee report on pages 125 and 127.

The Board considered the conclusion of the Financial Reporting Council's review of PwC's audit of Babcock's financial statements for FY17 and FY18, which it published on 8 March 2023. The Audit Committee reviewed the Council's decision together with a detailed assessment of the findings to assure the Board that all the findings were addressed through a combination of the Contract Profitability and Balance Sheet review, our control enhancement programme, or in some instances the disposal of businesses as part of our portfolio rationalisation programme.

Board membership and effectiveness

Further progress has been made to strengthen the Board. This year we have welcomed Jane Moriarty who brings financial and accounting skills, an area identified as requiring enhancement, as well as extensive experience of diverse businesses from her restructuring work at KPMG. Since her executive career, she has held a number of Non-Executive roles including at NG Bailey Group Limited, an engineering and services business, and at Mitchells & Butler plc where she is the Senior Independent Director. Jane has joined both the Audit and Remuneration Committees, as well as the Nominations Committee.

Following the year end, we have concluded a search for a Board member with extensive Defence sector experience which was an area raised with us in some conversations with shareholders. We were pleased to welcome Sir Kevin Smith as a Non-Executive Director on 1 June. Sir Kevin spent over 20 years at BAe and was then the CEO of GKN for eight years. Since his executive career, Sir Kevin spent several years working with Unitas Capital, a private equity firm based in Hong Kong, and has been a Non-Executive Director at Rolls Royce prior to stepping down in May 2023. Sir Kevin joins the Audit Committee as well as the Nominations Committee.

Having conducted an external Board review process in both FY21 and FY22, this year we elected for an internal review which Carl-Peter Forster led in his role as Senior Independent Director. The review confirmed that all directors find the Board climate to be open and inclusive. Areas for ongoing attention were for the Board to continue our work on overseeing the control improvement programme, to continue to build out our strategy framework as we look beyond the focus on transformation, and to continue to develop our forward-looking agenda. For more information, please see page 120.

People and Culture

A key aspect of the overall transformation of Babcock is the shift to becoming a more people-focused organisation. During the year the Board has had a number of sessions with the Chief HR Officer and members of her team to review progress on the implementation of the first-ever Group-wide People Strategy, which was built around our Purpose and Principles, as well as Inclusion and Diversity. One of the aims of our Purpose and Principles is to reinforce a one company culture. During the year, a key step towards this was the launch of the Babcock Role Framework which maps each role within Babcock in one of five career pathways. We now have a common language across the organisation that will help all our employees to navigate opportunities at Babcock. This framework will not only improve our people processes, but it will also promote equality of opportunity.

Engagement

With the easing of COVID-19 restrictions, over the last year the Board has been able to re-start its visits to Babcock sites. In July, the Board visited the Land site at Bovington to see the improvements in our DSG programme (our contract to support the British Army's armoured fleet). As well as reviews of the DSG programme and developments at the Bovington site, the Board spent several hours out in the workplace in small groups, hearing about people's work, their views on progress at the site and at Babcock, and their thoughts on obstacles and areas for improvement.

Lord Parker continues to visit sites and engage with staff in his role as Director for employee engagement. In the year, he has visited Devonport, Bovington and RAF Valley. His reports following these visits give the Board insights into the impact of the decisions being made and how our colleagues receive and interpret them.

Additional visits have been made by Board members during the year and this is being encouraged to enable first-hand experience of the progress being made against the Group's key transformation priorities.

We also had the benefit of our Global People Survey. The very rich insights from the Survey gave the Board a clear picture of those areas we are doing well in (like health & safety) and those areas that we could improve (such as scepticism that Babcock would act as a result of the survey, and reward & recognition). The Board discussion about the Survey findings emphasised the criticality of visible action being taken, both at Group and local level. The Company's action plan, which was based on the 1800 improvement actions logged under the Survey, was reviewed. Some of the actions were small and local such as various improvements in employee facilities while others were more Group-wide such as implementing our global volunteering policy, which gives employees the opportunity to take one working day paid leave a year to do volunteering work with their chosen charity. We are pleased that we have already completed 300 actions. The Board will receive updates on progress on a regular basis.

To ensure we understand the views of you, our shareholders, we interact in a number of ways. Our Executive Directors have regular meetings with shareholders around the announcement of our full year and our half results. As your Chair, I always welcome opportunities to hear the views of shareholders directly and this year I held a series of meetings with some of our largest holders during the year. On behalf of the Remuneration Committee, Carl-Peter engaged with shareholders owning over 60% of the Company to hear their views in respect of our new remuneration policy. For more information, please see pages 131 to 132.

ESG

Through our engagements with stakeholders, we understand the importance they attach to ESG, diversity and the cost-of-living crisis and have responded in a number of ways.

Considering the cost-of-living crisis, the Board welcomed the Company's UK-wide pay settlement for FY23 that sought to prioritise those most impacted by the crisis, awarding a standard annual salary increase to all UK employees except for the highest earners. We complemented the pay settlement by launching the new Babcock Employee Assistance Programme that provides free confidential practical advice for all our UK employees to help them manage life's complexities. We are proud of the contribution Babcock makes through employment opportunities, training, or supply chain expenditure to the communities in which we work. To highlight that contribution, in the year, we commissioned a report by an independent advisory firm to analyse our impact on the UK economy. For more information, please see pages 78 and 79.

The Board has long held the view that to attract and retain the best talent we must be able to nurture staff with much broader diversity of backgrounds than our historic workforce. As I mentioned above, we believe that the new Babcock Role Framework will support our progress. Furthermore, the Group has now established a Global Head of Inclusion and Diversity, reporting directly to the Chief HR Officer, to champion Babcock's approach. She attended the Board to present plans for creating an inclusive work environment and driving results. Babcock's response is based on three pillars – insight & data, policy & programmes, and education & awareness. These pillars will enable us to develop our strategy, measure our progress, and embed our approach in our one company culture. For more information, please see page 75.

Finally in respect of the Environment, following the adoption last year of Plan Zero 40, our commitment to get to Net Zero carbon emission across our estate, assets and operations by 2040, we have been maturing our plans to achieve this. The Board has had two updates on the progress made and was pleased that we are on track for submission of science-based targets during FY24. For more information, please see page 64.

Priorities for FY24

For FY24, the Board and its Committees will continue to support the turnaround through its execution phase. We will do this by:

- Providing assurance on the control enhancement programme
- Overseeing the development of our ESG initiatives to make our business more sustainable and more diverse

I hope my summary above has given you a sense of the Board's activities during FY23 and our ambitions for the future. I look forward to meeting you at our AGM on 28 September 2023.

Ruth Cairnie
Chair

Board of Directors

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1. Ruth Cairnie

N

Chair

Appointed: April 2019

Skills and experience: Ruth brings extensive experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc. She has experience advising government departments on strategic development and capability building. She has been a Non-Executive Director of Rolls-Royce Holdings plc, ContourGlobal plc and Keller Group PLC, and a member of the finance committee of the University of Cambridge. 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 a Non-Executive Director of BT Group plc and 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

E

Chief Executive Officer

Appointed: September 2020

Skills and experience: David brings wide-ranging knowledge of the defence and aviation markets, as well as a wealth of experience in both technology and innovation. David was CEO of Cobham plc (from 2016 to March 2020) and prior to that he was CEO of Laird PLC (from 2012 to September 2016). His career includes senior management roles at BT Global Services, BAE Systems and Thales Corporation. 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

E

Chief Financial Officer

Appointed: November 2020

Skills and experience: David brings extensive CFO experience in the 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 senior 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

N R

Senior Independent Director

Appointed: June 2020

Skills and experience: Carl-Peter, a dual German and British 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 the Chair of Vesuvius plc.

5. John Ramsay

A N R

Independent Non-Executive Director

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

A N R

Independent Non-Executive Director

Appointed: April 2018

Skills and experience: Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships, 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 the Chair of iomart plc.

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Appointment key

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

7. The Right Honourable The Lord Parker of Minsmere, GCVO, KCB

N

Independent Non-Executive Director

Appointed: November 2020

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

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

8. Jane Moriarty

A N R

Independent Non-Executive Director

Appointed: December 2022

Skills and experience: Jane, an Irish national and a Chartered Accountant, brings with her over 30 years of international business and finance experience. After a long executive career with KPMG, where she was a senior advisory partner, Jane has held a number of Non-Executive roles.

Current external appointments: Jane is a Non-Executive Director of Mitchells & Butlers plc, where she chairs the audit committee and is also Senior Independent Director, and The Quarto Group Inc, where she chairs the audit and remuneration committees as well as being the Vice-Chair. She is also a Non-Executive Director at NG Bailey.

9. Sir Kevin Smith

A N

Independent Non-Executive Director

Appointed: June 2023

Skills and experience: Sir Kevin spent almost 20 years at BAE Systems plc predominantly in its Military Aircraft Division and BAe Defence before becoming Group Managing Director with responsibilities for new business and international strategy. Following this Sir Kevin joined the Board of GKN PLC, the FTSE listed global engineering and manufacturing company, initially leading the Aerospace and Defence businesses, and then serving 9 years as Group Chief Executive. He went on to spend 4 years in Hong Kong as a Partner at Unitas Capital and his non-executive career includes 8 years at Rolls Royce where he served as Senior Independent Director.

Current external appointments: None

Statement of compliance

The Board confirms that for the year ended 31 March 2023, 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, except provision 24, as, following the retirement of Russ Houlden in July 2022, the Audit Committee only had two members until the appointment of Jane Moriarty in December 2022. As the Audit Committee had completed the work connected to the FY22 audit and knew that a search was well advanced to appoint Jane Moriarty, it was satisfied that it could continue its oversight role and provide appropriate challenge to management with just two members for an interim period of four months, during which time there was only two meetings of the Committee. With the appointment of Jane Moriarty, the non-compliance with provision 24 was resolved, and the membership was increased to four in June 2023 with the appointment of Sir Kevin Smith.

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 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 117). 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 124 to 130.

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 131 to 152.

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 122 to 123.

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. The Committee consists of the CEO, the CFO, the Chief Corporate Affairs Officer, the Chief Executive Nuclear, the Chief Executive Marine, the Chief Executive Land, the Chief Executive Aviation, the Chief Executive Africa, the Chief Executive Australasia, the Chief Executive Canada, the Chief HR Officer, the Chief Technology Officer, the Chief of Staff and the Group Company Secretary and General Counsel.

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 the 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 67.

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 100.

Group Information Security Committee

Provides governance, direction and assurance that the Babcock security posture is appropriate and that Babcock's employees, customers, other stakeholders and reputation are protected. Members include the Group SIRO, CTO, CIO and CISO.

See page 85.

Group Risk Committee

Provides leadership and oversight of the Group's risk management framework acting as an interface between the Audit Committee and the business, keeping the Principal Risks and Uncertainties and their mitigations and control under continual challenge and review. The Committee is chaired by the Chief Corporate Affairs Officer and the membership comprises the Group Director of Internal Audit, Risk Assurance and Insurance and members of the Group Executive Committee.

See page 89.

Company purpose

The Board sets the Company's Purpose and its alignment to 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. Our Principles of be curious, think: outcomes, be kind, collaborate, be courageous, and own & deliver underpin our Purpose and drive the transformation of our culture.

Effective decision-making and oversight

The Board has an annual plan of business around which the Chair, CEO and Company Secretary structure agendas and consider 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
- Reports from Chairs of Remuneration, Audit and Nominations Committees

Regularly the Board considers

- Strategy update, including ESG
- Review of major risks and emerging risks
- Review of financial and non-financial controls
- Delegated authorities
- Committee terms of reference
- Whistleblowing reports (with an additional annual review in the context of the ethics review)
- Annual ethics review
- Modern Slavery Transparency Statement
- Deep-dive presentations from sectors, direct reporting countries, and Group functions, for example IT and security, procurement and pensions
- Results announcements, Annual Report and Notice of Annual General Meeting

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.

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 saw our first Group-wide employee engagement survey in over a decade. The Board reviewed the results of the survey and an action plan for responding to those results.

► See page 78

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 regular basis as well as via an annual review.

Other cultural indicators

The Board regularly receives health and safety metrics and thematic reviews through its regular 'People' reviews.

► Further information on the Purpose and Principles and cultural change overseen by the Board during the year can be found on page 5 and throughout the Strategic report.

Setting and overseeing strategy

During FY23 the Board held its dedicated strategy review meeting in July 2022. The Board held the meeting off-site and combined it with a visit to our Land operations at Bovington. At the meeting, the Board assessed the Company's current position against the strategic plan announced in July 2021 and began to define its ten-year strategic direction. In addition to its dedicated review, the Board has regular updates throughout the year, as the Board believes that strategy 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 pages 6 and 7 and throughout the Strategic report.

Board leadership and company purpose
continued

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 115, forms part of the s172(1) statement which can be found in the Strategic report on page 57.

Further information on how the Company engages with its stakeholders can be found on pages 56 and 57.

How the Board engages

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement[1]
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.	• **Order intake by sector** • **Safety balanced scorecard including leadership scores** • **Major operational programmes RAG status**
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 consulted with shareholders regarding the refreshing of our Remuneration policy. Our AGM gives the Board an annual opportunity to meet with private investors and for them to ask questions direct to the Board.	• **Underlying operating profit** • **Operating cash flow** • **Analysis of share register movements** • Investor feedback from results presentations and investor meetings • AGM feedback and voting from shareholders and proxy agencies
Employees	• Bottom-up reports from Lord Parker, the Director designated for workforce engagement • Global People Survey, our first uniform survey in over a decade • Top-down reports from the CHRO • Principal trade union meeting with the CEO and the CHRO • Whistleblowing reports	Lord Parker, the Director responsible for workforce engagement, visited our operations at Bovington, where we support the British Army's armoured fleet, RAF Valley, where we support the RAF's flight training, and Devonport, where we support the Royal Navy's submarine and surface fleet during the year, with over 100 employees attending 6 engagement sessions. After his visits, Lord Parker gave an overview of his findings to the Board. Other members of the Board meet with employees during their visits to our sites. Additionally, the CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email address. Members of the senior leadership team regularly present to the Board.	• Participation rate and engagement score in Global People Survey • **Safety balanced score together with monthly overview of significant safety events and total recordable injury rate** • Ethics training compliance rate • Gender pay-gap • Subject matter of whistle-blowing reports

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement
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.	• Specific reports in Executive Directors' report (if any)
Suppliers	• Briefings from Group Head of Procurement on an annual basis • 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.	• Subject matter of whistleblowing reports • Modern slavery review
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 continues to believe that this level of engagement is appropriate as any material issues are brought to the Board's attention through the monthly operational reports or the functional reports to the Board.	• **Safety balanced scorecard including total recordable injury rate** • Diversity performance against target • Performance against carbon emissions target

1. Measures in bold are reviewed at every Board meeting, others at least once a year.

Board leadership and company purpose continued

How the Board took stakeholders' interests into account when it considered its key areas of focus

When making decisions to balance different stakeholder interests, the Board reviews what the Board believes most matters to each stakeholder in the context of the long-term interests of the Company. In all its decisions, the Board also keeps in mind the Company's Purpose and Principles to ensure that all decisions are aligned with them. Principal decisions where the Board considered different stakeholder interests include: decisions to divest certain businesses as part of the Group's portfolio rationalisation programme; the FY23 UK pay review; the development of our ESG strategy; and the exploration of growth opportunities. A fuller description of the Board discussions around those decisions is set out below.

Matters considered	Discussion and outcome	Stakeholders most affected	More information
1 **Stabilise**	The Board believes that shareholders and employees support the turnaround plan first 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 each of the disposals along the way. In its discussions, the Board considered that for employees staying with the Group and for shareholders it was important that the programme strengthened the Group's balance sheet and gave the Group a stable platform for future growth. However, the Board recognised that for those working in the businesses to be divested the process can be unsettling. The Board considered each divestment separately and concluded that in the long run it would be better for those employees to work in a business which fits better with its owner's strategy. On 1 March 2023, we were pleased to announce the conclusion of the portfolio alignment programme with the completion of the sale of certain of our aerial emergency businesses. Through the portfolio alignment programme, the Board has significantly strengthened the Group's balance sheet and focused the Group on its core markets. 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 shareholders and employees.	► Shareholders ► Employees	Page 13
2 **Enhancing resilience**	This year has seen increasing geopolitical tensions, the return of high inflation and a 'cost-of-living' crisis. Through its engagement with stakeholders, the Board understood that enhancing the Group's resilience in uncertain times was important to our stakeholders, although they were impacted in different ways. In its UK pay review, the Board considered the impact of the 'cost-of-living' crisis. The Board noted that the crisis impacted different levels of employees in different ways. The Board also considered the competition for talent, which is a principal risk for the Group. Having considered the Group's employees, the Board then considered the impact on shareholders, who had not received a dividend in FY21 or in FY22. Taking the interests of its stakeholders into account, the Board balanced them and decided to offer all UK employees a standard pay increase except for its higher paid employees. The Board did this as it wanted to prioritise the lower paid employees who were most impacted by the crisis. As regards shareholders, the Board believed that not to offer a pay increase would risk seeing talent leave the Group, which it could not replace with a consequent loss of knowledge and effectiveness, which would not be in the Group's or shareholders' interests.	► Employees ► Customers ► Shareholders	Page 107
3 **Driving operational excellence**	Our employees, customers and shareholders are clear that they want to work in, deal with or own a business that works and delivers effectively and efficiently. In response, over the year, the Board has put in place a number of initiatives to drive operational excellence to improve Babcock effectiveness and efficiency. For example, the Board considered the introduction of a new risk management framework. The new framework has required material investment through the recruitment of specialist Enterprise Risk Management professionals at a Director and Head of Department level. In a turnaround, the Board has to carefully consider the prioritisation of its investment opportunities. If it chose to invest in the new risk management framework, the Company may not be able to invest in another opportunity. In approving the new framework, the Board balanced the cost of investment to the Group, shareholders, and employees against the improvements that the Board expected to see arising from the new framework. The Board believed that the Group and employees would benefit from the new framework as it would give them better information to deliver better risk-based decision-making. For shareholders, the new framework would improve the Group's operational effectiveness and better protect the Group's value. Having considered the interests of its stakeholders, the Board approved the new risk management framework.	► Employees ► Shareholders	Pages 87 to 90

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. The Board considered all these issues in its review of the Company's ESG strategy. When the Board was considering the ESG targets, it weighed up the different priorities that each set of stakeholders might have to design targets that met the aspirations of customers, employees, shareholders, communities and suppliers, while at the same time being achievable and practical. 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	Page 6. page 14 and pages 58 to 86
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. Customers want affordability, availability and capability. Shareholders want a sustainable profitable business. Employees want a strong company with opportunities to develop their careers. The Company's bid for Future Aircrew Training programme of the Royal Canadian Air Force was one such growth opportunity that the Board considered in FY23. In its review, the Board considered the priorities of each stakeholder in turn. For shareholders, the bid was a significant growth opportunity that would enhance the Company's reputation in bidding for similar opportunities. For employees in Canada, the bid would consolidate the Company's position as a defence company with significant capability. For customers, the Board considered the Group's capabilities, in particular the Group's existing programmes for delivering flight training programmes to the RAF and the French Air Force. However, as well as balancing these priorities, the Board had to satisfy itself that the Company was bidding at an appropriate price in light of the risk transfer inherent in the bid for the protection of all its stakeholders. After the Board's review, the Company submitted its bid to the Canadian Department of Defence and is awaiting its decision.	► Customers ► Shareholders ► Employees	Page 16

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 considers 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 56 and 57 and on page 112 and 113 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 leads the annual evaluation of the Chair's performance; and
- Serves as an intermediary to other Directors when necessary.

Independent Non-Executive Directors

- Support and constructively challenge the executive team;
- Contribute to the development of the Company's strategy;
- Provide an external perspective and bring a diverse range of skills and experience to the Board's decision-making;
- Contribute to Board discussions on the nature and extent of the risks the Company is willing to take to achieve its strategic objectives;
- Satisfy themselves as to the integrity of financial information;
- Ensure financial controls and systems of risk management are robust and defensible; and
- Play 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 considered 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 whilst 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. 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 held in person and two meeting held by video conference each financial year, which includes a meeting dedicated to strategy. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. See table opposite for further information about the meetings held during the year.

Conflicts of interest and independence

Babcock has 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.

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of meetings held	8	3	7	8
Current Directors[1]				
Ruth Cairnie	8/8	3/3	–	–
Carl-Peter Forster	8/8	3/3	–	8/8
John Ramsay[2]	7/8	3/3	7/7	–
Lucy Dimes[2,3]	8/8	3/3	6/7	5/5
Lord Parker[2]	7/8	3/3	–	–
Jane Moriarty[3,4]	4/4	3/3	2/2	3/3
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Former Directors				
Kjersti Wiklund[5]	3/3	–	3/3	3/3
Russ Houlden[6]	2/3	–	3/3	2/2

1. Sir Kevin Smith Is not Included In the table since he was appointed since the year end.
2. John Ramsay, Lucy Dimes, Lord Parker and Russ Houlden were each absent from one board or committee meeting due to prior engagements.
3. Lucy Dimes was appointed to the Remuneration Committee In September 2022.
4. Jane Moriarty was appointed to the Board in December 2022.
5. Kjersti Wiklund retired from the Board after the AGM in September 2022.
6. Russ Houlden retired from the Board in July 2022.

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 108 and 109 and there is more information on appointments to the Board in the Nominations Committee report on pages 122 and 123.

Board diversity policy

It is the Board's policy that it is in the best interest of the Group and all its stakeholders for the Group to be led and peopled by individuals from a range of skills, experiences, backgrounds and perspectives. This links directly to our strategy as the Group wants the best talents to deliver its Purpose and its Principles. For the Board, this means that it is our policy to have women make up at least 40% of the Board by 2025 in line with the FTSE Women Leaders Review. In addition, we aim to have at least one Director from a minority ethnic background by 2024 in line with the Parker Review. In respect of the new Listing Rule 14.3, as at 31 March 2023, we met the target of having a woman in a senior board position with Ruth as our Chair. However, we have not met the targets of one board member from a minority ethnic background or 40% of the Board being women. As at 31 March 2023, with the appointment of Jane Moriarty, 37.5% of the Board were women, although this percentage reduced on the appointment of Sir Kevin Smith to 33.3%. The reason for not meeting all the targets is that the Board is still developing and strengthening, while it works towards meeting its policy, which means that progress is not even. The Nomination Committee is aware of the challenge that it has to meet its policy and is actively undertaking searches to ensure that the Board meets its policy in full. For more information on the Group's diversity policy and its objectives, please see pages 75 to 77.

Board and executive management ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
White British or other White (including minority-white groups)	8	100%	4	14	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Board and executive management gender

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
Men	5	62.5%	3	12	86%
Women	3	37.5%	1	2	14%
Not specified/prefer not to say	–	–	–	–	–

The tables and charts on this page show the position at 31 March 2023, before the appointment of Sir Kevin Smith on 1 June 2023. Last year this data was presented at the date of publication of the Annual Report but, for consistency of presentation going forward, the reference date will be 31 March. The Company has collected the data on which the tables above are based by the individuals concerned self-reporting their data on being asked about their ethnicity and gender.

Board information

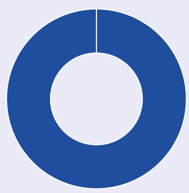
Independence

- 1 Chair
- 2 Executive Directors
- 5 Independent Non-Executive Directors

Gender

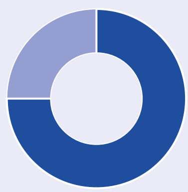
- 62.5% Men
- 37.5% Women

Ethnicity



- 100% White British or other White (including minority-white groups)

Nationality



- 6 UK
- 2 Non-UK

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.

Director training

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.

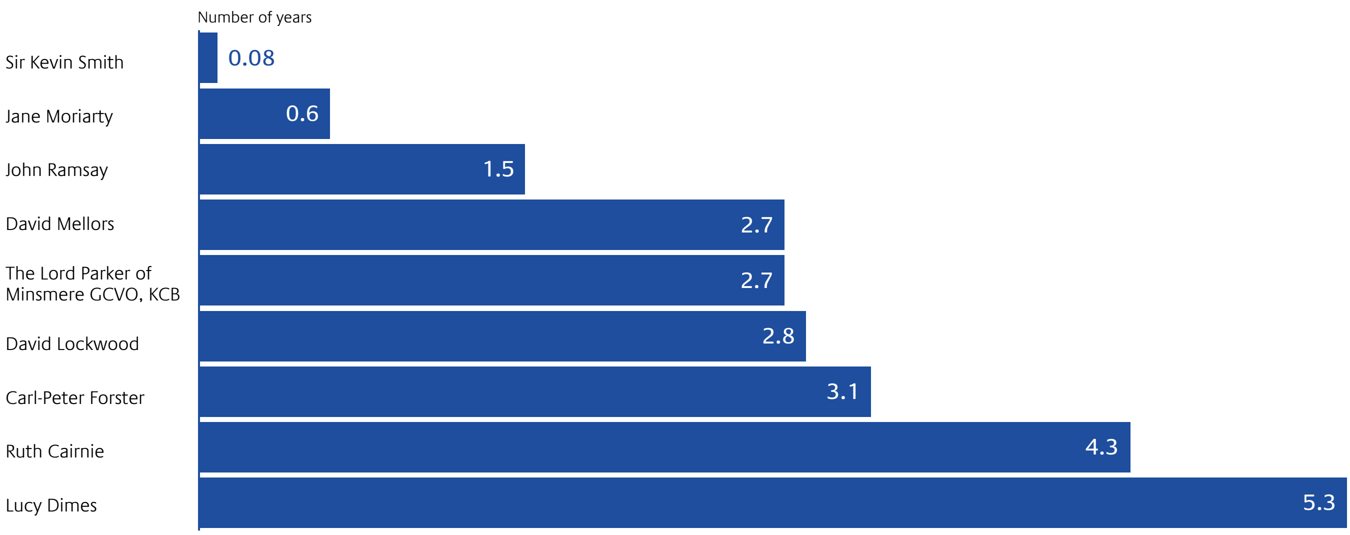
Non-Executive Directors may at any time make visits to Group businesses or operational sites and are encouraged to do so at least once per year. Visits are coordinated by the Group Company Secretary's office. Presentations on the Group's businesses and specialist functions are made regularly to the Board.

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

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

- Meetings with the Executive Directors, 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

Board tenure[1]



1. At 30 June 2023.

Composition, succession and evaluation continued

Evaluation

2022/23 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. Following an external evaluation last year, this year the review was conducted by Carl-Peter Forster, the Senior Independent Director

Progress made on actions identified in the FY22 review

Recommendations for FY23	Update	Further information
Recruit new Non-Executive Directors to strengthen the Board further.	In December 2022, the Nominations Committee was delighted to announce the appointment of Jane Moriarty to the Board. Jane strengthens the finance capability of the Board by bringing over 30 years of finance experience to the Board after an executive career with KPMG. Jane's appointment was followed with the appointment of Sir Kevin Smith. The Nomination Committee had identified the benefit of appointing a Non-Executive Director with a deep knowledge of the Aerospace & Defence Sector. Sir Kevin brings that knowledge after an executive career with BAe Systems and GKN as well as being the Senior Independent Director of Rolls Royce.	See pages 106 and 122 to 123
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.	All the Non-Executive Directors attended the Board's site visit to Bovington, where they could see the improvements in the delivery of our contract to support the British Army's armoured fleet. In addition, the Chair visited operations in France, Rosyth and Devonport. Carl-Peter visited Devonport, while Lord Parker visited Devonport and RAF Valley. Lucy visited Devonport and the Group's IT hub in Portsmouth. John visited Rosyth, Faslane, Staverton and Devonport. Jane has started her induction with a visit to Devonport.	See page 107
Develop further the Board's oversight of Babcock's culture.	As reported, 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. In FY23, the Board's ability to oversee Babcock's culture was further enhanced by Babcock's first global employee survey in over ten years. The Chief HR Officer presented the results of the survey to the Board, including a description of the Group's strengths and its weaknesses. The Board reviewed the Group's response plan to the survey.	See page 78

Areas of assessment and findings for the FY23 Board evaluation

Recommendations for FY24	Commentary and actions
Strategy development	Continue to develop the Company's approach to strategy and to build out its strategy framework.
Control environment	Although the Group has improved its control environment, there remains still more to do. The Board, through the Audit Committee, has to continue its oversight role of the control enhancement programme to ensure progress and to ensure that progress is embedded in the Group's processes.
Forward-looking agenda	The Group should continue to develop its agenda to ensure the right division of time between governance, operations, risk, culture and strategy.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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 the members, please see pages 108 and 109.

For attendance, please see page 117.

Highlights

- Appointment of new Non-Executive Directors

Key responsibilities

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

Dear fellow Shareholder

This report sets out the work of the Nominations Committee over the year. The Committee is responsible, on behalf of the Board, for ensuring the Board's and Committees' structures and membership provide the skills, experience, diversity and knowledge required to support delivery of the strategy, aligned to our Purpose and our Principles. It also considers the future development of the Board, reviews succession planning for the Group Executive Committee and reviews progress across the Group on Inclusion and Diversity and on Culture.

Composition

The Committee has developed a skills matrix which maps the skills needed to fulfil the Board's role both currently and looking ahead to implementation of the strategy. The skills matrix is kept under review and is used to identify any gaps that need to be addressed. Where this involves the potential appointment of a new Director, the Committee will appoint an external search firm with a clear specification of objective criteria based on the skills matrix, and with instruction to seek both female and male candidates, from as wide a range as possible of diverse ethnic and social backgrounds. This reflects the Board's firm belief in the value of diverse inputs.

In FY23, with the retirement of Russ Houlden in July 2022, the Committee recognised the need to enhance the Board's financial expertise, in particular to support John Ramsay and the Audit Committee with the oversight of the Company's control enhancement programme. The Committee appointed the external search firm, MWM, to identify candidates who would meet this criterion while also contributing more broadly to the Board's work. MWM's services have been used previously by the Committee, but it has no other connections with the Company or any of its directors. After a thorough process, in December 2022, we were delighted to welcome Jane Moriarty to the Board, who brings financial expertise from her long executive career at KPMG, extensive experience of business issues from her restructuring work and diverse non-executive experience in recent years.

As we move beyond the second year of Babcock's turnaround, looking ahead we have identified operational and strategic experience in the Defence sector as an area to strengthen in the Board, as we increase our focus on the sector and anticipate the navigation of future strategic opportunities and challenges. Again using MWM, we were pleased to announce on 24 May 2023 that Sir Kevin Smith would be joining the Board at the beginning of June. Sir Kevin has an in-depth knowledge of Defence having spent most of his career working in the sector, first at BAE Systems for over 20 years and then at GKN, where he was the CEO for eight years. He is also an experienced Non-Executive Director having served on the Board of Rolls Royce.

In terms of overall diversity, the Committee recognises the benefit of experience from outside the UK as we consider international opportunities for growth. The Board currently has UK nationals who have spent a significant proportion of their careers working outside the UK, as well as two European nationals. The Committee is considering also appointing a candidate who would bring a non-European lens to its discussions.

Every year the Committee reviews the independence of each Director to ensure that any conflicts of interests are identified and dealt with in an appropriate manner. The Committee also considers other commitments of each Director to assure the Board that they have the appropriate time to commit to the Company. This is in addition to the assessment that the Committee carries out when the Board first appoints a Director, and the assessment it makes whenever there are changes to a Director's portfolio. This year, the Committee noted that John Ramsay has shown exceptional commitment in his role as Chair of the Audit Committee, organising additional Committee meetings and regular meetings outside the Committee with the external and internal audit teams, as well as with management, to lead the oversight of the Company's audit process. It also noted that Carl-Peter Forster had been appointed as the chair of Vesuvius plc but had stepped down from his roles at IMI plc; Carl-Peter has this year led the policy review for Remuneration in his role as chair of the Remuneration Committee and has spent time consulting with shareholders on it.

Talent, Leadership and Succession

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.

This year, the Committee reviewed the Company's plans to refresh its approach to senior leadership succession and talent management by establishing a common framework. The framework shows our employees, including our leadership teams, where they are and the possible pathways in front of them. This provides clarity on the differences in expectations as individuals move up through the levels.

Diversity, Inclusion and Culture

At Board level, as the Committee works on composition and develops the Board's membership over time, it is planning for the Board to meet the FTSE Women Leaders Review target for 40% women by 2025, and the Parker Review target of at least one minority ethnic director by 2024 and has searches ongoing to do so. However, as a relatively small board, the Board's diversity statistics can be susceptible to material movement on the basis of an individual appointment or retirement.

For example, on Jane's appointment, the Board was 37.5% female, but that percentage reduced on Sir Kevin's appointment. So, the journey to achieving the targets will not be even.

Looking at diversity across the organisation, the Committee recognises that the transparency and clarity introduced with the Babcock Role Framework will be very supportive, allowing employees a clear sight of the criteria for each role within the Group. It will also allow role models to become more visible. To support the Remuneration Committee in setting performance targets, the Committee has probed Management's targets on gender (30% of the senior leadership to be female by 2025 and 30% of employees to be female by 2030) and concluded that these represent sufficient ambition, taking into account the locations of the Group's principal sites and the sectors in which the Group operates.

The Committee also regularly reviews the broader approach to inclusion as an important element in creating a people-centred business which supports and empowers everyone to unlock their potential. Babcock's approach is based on three pillars: insight & data, to enable an evidence-led approach; policy & programmes, for the creation of a consistent approach and the enablement of social mobility and community engagement; and, education & awareness. The Committee receives regular updates from the Group Head of Diversity and Inclusion. This year the Committee considered the Group's plans for attracting female talent, including the transformation of its hiring processes. For more detail, please see page 76.

The focus on inclusion is an important factor in resetting Babcock's culture which is underpinned by our Purpose – creating a safe and secure world, together – and our Principles – be curious, think: outcomes, be kind, collaborate, be courageous, own & deliver. These are at the heart of everything that we do. The Committee uses a variety of information sources to assess for itself Babcock's culture and progress. There are regular reviews in the Board from the Chief HR Officer on the progress of the Group's many people initiatives. In addition, we have discussions with executives during Board/Committee presentations, discussions with employees during site visits, reports from Babcock's whistleblowing channels, and updates from Lord Parker in his capacity as Director designated for employee engagement. Significantly, this year for the first time, we had the results of Babcock's first global employee survey in over a decade.

Evaluation

The Board reviews its effectiveness on an annual basis. For a full report on the Board annual evaluation, please see page 120. Based on the Committee's work over the past four years, the Board has been re-shaped and developed with new Executive Directors and new Non-Executive Directors. We have a breadth and depth of complementary skills and experiences around the table with diversity in terms of gender and background. As supported by this year's Board Evaluation, the Board functions well with good dynamics, setting the tone from the top by demonstrating trust, respect, and openness between all the Directors and alignment behind our Purpose.

I hope this report gives you an understanding of the work of the Committee over FY23. If you do have any questions, I would welcome hearing them at this year's AGM.

Ruth Cairnie
Chair

Audit, risk and internal control

Audit Committee report

John Ramsay
Chair of the Audit Committee

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 108 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.

In FY23, the other members of the Committee were Lucy Dimes, Russ Houlden until his retirement in July 2022, and Kjersti Wiklund until her retirement in September 2022. In December 2022, Jane Moriarty joined the Board and the Committee. Jane is a qualified Finance professional with an in-depth experience of audit committees, both as an advisor and a member. In June 2023, Sir Kevin Smith joined the Board and the Committee. Sir Kevin brings his experience as a seasoned FTSE100 executive, having led GKN as CEO for eight years. All members of the Committee are independent Non-Executive Directors. Please see pages 108 and 109 for their biographies and page 117 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 Deloitte external audit team, the BDO internal audit team and key senior management to attend their meetings, as appropriate.

Typically, after Committee meetings, the Committee meets separately with the external audit lead partner from Deloitte and also frequently meets with the internal audit lead partner from BDO to give them the opportunity to discuss matters without management being present.

In addition, the Committee Chair maintains regular contact with the external audit lead partner and the internal audit lead partner between meetings, often without the presence of management.

Highlights

- Oversight of the implementation of improvements to the control environment throughout the year
- Review of the key management judgements and estimates for the FY23 financial statements including the T31 provision
- For the first months of FY23, oversight of Deloitte's first audit of Babcock
- Supporting the establishment of an internal audit function and the on-going transition of internal audit from BDO

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 Company safeguards the independence and objectivity of the auditor
- 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 now my second year as Chair of the Audit Committee. As I reported last year Russ Houlden and Kjersti Wiklund stood down from the Board and the Committee in July and September 2022 respectively. I thank them both for their support in seeing through the FY22 cycle. I welcome Jane Moriarty and Sir Kevin Smith as members of the Committee and look forward to getting the benefit of their valuable experience. This is also the second year of Babcock's turnaround strategy. As can be seen throughout the governance section of this Annual Report, the Board and its Committees have played their full part in supporting this turnaround. For the Audit Committee, the focus has been on the oversight of Babcock's improvement in financial reporting and controls.

FY22 Audit

The FY22 audit was the first year with Deloitte as the external auditor. They completed their first audit in July 2022. The Committee was pleased with the effectiveness of the audit and the rigour and challenge applied by management and Deloitte during the process. The FY22 audit did reveal weaknesses in Babcock's financial reporting that it is addressing in its control improvement plans. The Committee's decision to consider the FY22 as effective was supported by the fact that so far, no new Group issues have arisen out of the audits of the Group's subsidiary statutory accounts, which are conducted to a much lower level of materiality, to change any of the material judgements taken in the FY22 audit.

Blueprint of Control Improvements

Since the Contract Profitability and Balance Sheet Review in FY21, Babcock has embarked on a major programme to improve its operational and financial controls with the objective of being in line with best-in-class FTSE companies in controls including upgrades envisioned by the UK Government on Corporate Governance Reform. This is a multi-year endeavour which will continue into FY24 with the Company targeting to reach the highest standards in FY25.

During the year the Company produced a detailed and comprehensive plan called the 'Blueprint of Control Improvements' covering over 500 control improvement actions. The Committee oversaw this compilation by receiving regular updates and reports from management on its progress. The basis of the 'Blueprint of Control Improvements' was the combined learnings from the FY21 Contract Profitability and Balance Sheet Review and, the FY22 control insights report from Deloitte following the completion of their FY22 audit as well as recommendations arising from internal audits, all combining to form a comprehensive improvement plan for the whole Babcock Group. This includes for financial reporting a mapping of key reporting risks to 15 key controls which the Company has had independently reviewed and benchmarked for adequacy and effectiveness. The Company had implemented these controls by the close of FY23.

The scope of the programme covers not only financial controls but also commercial and operational controls and its objective is for Babcock to be managing risks and its control environment in line with best-in-class FTSE companies. Some notable achievements in improved controls include:

- Appointment of a new Group Director of Internal Audit, Risk Assurance & Insurance as Babcock starts to insource the Internal Audit function
- The establishment of a new Risk Committee, as a sub-committee of the Group Executive Committee to provide executive management leadership and oversight of the Group's management of risk
- Standardisation of commercial and operational reviews including financial and accounting impacts and a 12-monthly rolling forecast with profit and cash phasing for all major projects/contracts
- Completion of a global banking services transition to BNP, including virtual cross currency cash pool, zero based daily cash sweeps, a significant reduction in numbers of bank accounts and use of a new banking platform

The Committee tests and challenges the implementation and effectiveness of these controls by receiving regular reports from the management team on progress on key issues, including management judgements and the Blueprint of Controls Improvements. The Committee has further assurance through the internal and external audits.

During the year there has been several actions to improve overall finance capability in support of core finance areas and improvements in financial and operational controls. These actions include extended training sessions across the Group; establishment of a centralised Finance Business Services Team of 150 professionals to deliver standard processes and accounting controls for UK operations; upgrade in Treasury and Tax capability; and the strengthening of the general Finance function through recruitment of additional experienced finance professionals.

The progress and further plans in financial and operation control improvements set out above support Babcock's commitment to deliver the business turnaround.

I would like to thank all those involved for their dedication and hard work in achieving the improvements that they have delivered over FY23. We understand that there is a lot more to do before the improvement plans are fully implemented but the Committee believes that the improvements made in FY23 are substantial and provide a solid base from which further improvements can be made.

Audit, risk and internal control *continued*

The improvement programme should provide confidence to stakeholders that Babcock will deliver a cost-effective service to customers and employees will be motivated to meet those standards.

Financial Reporting Council

As previously reported, the Financial Reporting Council has been reviewing the audits by PwC of Babcock's financial statements for FY17, FY18, FY19 and FY20. On 8 March 2023, the Council issued its Final Settlement Decision Notice in respect of PwC's FY17 and FY18 audits and imposed sanctions on PwC and two former audit partners. Babcock has reviewed the Council's Decision Notice and is confident that it has addressed the issues in the PwC audits found by the Council through a combination of the Contract Profitability and Balance Sheet review, the disposal of businesses through the portfolio rationalisation plan, and the Blueprint of Control Improvements. The Council continues to review PwC's audits of the Company's FY19 and FY20 financial statements. During the course of its review, the Council has asked the Company certain clarification questions, which it has answered. Other than that Babcock has had no other role in the review. For more detail see page 130.

Priorities for FY24

Looking to FY24, the Committee will continue to play its part in Babcock's turnaround by:

- Continuing its oversight of the implementation of Babcock's control improvements plan and capability upgrade though regular management reports to allow the Committee to oversee progress;
- Monitoring the planning and successful transition to the new insourced internal audit; which the Group Director of Internal Audit will report on both to the Committee as a regular attendee of its meetings and to the Chair of the Committee in their one-to-one meetings;
- Challenging management to achieve and maintain high standards of internal control, including the robust challenge of key judgements;
- Ensuring high quality external and internal audits to provide the necessary independent assurance of the Company's progress; and
- Overseeing an upgrade in process and detail in the Company's assessment of fraud risk.

Finally, I would like to thank my fellow Committee members for their support and work over the year. This year, like the last year, has been busy for the Committee with additional meetings and deeper dives on issues necessitating additional time commitment from Committee members. I have greatly appreciated the extra commitment that my fellow members have given, as it has allowed the Committee to provide the appropriate level of oversight and challenge on behalf of the Company's stakeholders.

As ever I am available to all shareholders to discuss any significant matter related to the Audit Committee's work. All the Committee will all be at the FY23 AGM and hope to meet as many of you as possible. We will be available to answer any questions you may have on this report or the Committee's activities.

John Ramsay
Committee Chair

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 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. In FY23, the Committee reviewed the internal financial controls at each of meetings, bar one. 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 87 to 103 for further information on the Group's principal risks, risk management process and internal control environment.

The centrepiece of the Group's system of controls is the Babcock Document of Control, which was introduced in FY21 and subsequently supplemented by the "Blueprint of Control Improvements" described above. The Document of Control is a comprehensive description of Babcock's key financial and non-financial controls, matched against risks, that the Group expects to be in operation across the Group. The Document splits the controls between mandatory (those the Group must have in operation or introduce without delay if not already in operation) and expected (those the Group must have a plan to implement). In FY23 there was no significant non-adherence.

The Document acts as a risk and control matrix. Each business currently reports adherence to the Document on a six-monthly basis. Internal audit has a role in independently reviewing these reports. It is expected that the Document will form the basis of Babcock's response to any regulatory initiative flowing from the UK Government's stated aim to reform corporate governance.

Legacy control systems still exist from the Group's 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. However, they operate under the framework of the Group's Document of Control and oversight of Sector and functional control.

As described in the Committee Chair's report above, the Group has embarked on a major programme to improve its control environment. The basis of this programme has been learnings and experiences, principally from the Contract Profitability and Balance Sheet review, as well as the insights from Deloitte's FY22 audit and recommendations from internal audits. This has been combined into one programme, the Babcock Blueprint of Control Improvement covering commercial and operational as well as financial controls. The Blueprint provides a mechanism for planning, prioritising, and tracking the implementation of all improvements, as well as a mechanism for engaging with all those involved in the programme. The Group reviews progress against the programme and tests to ensure the effectiveness of implementation. This includes for Financial Reporting a mapping of key reporting risks to 15 key controls which have been independently reviewed and benchmarked for adequacy and effectiveness. The Company has implemented these controls and reports on its progress to the Audit Committee.

The Committee, on behalf of the Board, reviews the effectiveness of the Company's risk management and internal control systems on an annual basis. The Committee conducts this review through the receipt of a report from the Company's finance team, including the Group Director of Internal Audit. The report describes the Group's risk management and internal control and demonstrates that the Company is providing the Board with the relevant information in a timely manner to fulfil its monitoring role. This year, after its review, the Committee was satisfied with the progress made by the Company to improve its risk management and internal control systems through the Blueprint. In particular, the Committee was satisfied that the Company has now effectively implemented the 15 key controls for Financial Reporting as required by the Blueprint.

External audit

FY22 was the first year of the external audit being conducted by Deloitte. Following the close of the FY22 audit, the Committee wanted to achieve a more timely audit in FY23. Consequently, it conducted, with management and Deloitte, a full review of the effectiveness of the audit process. This review, culminated in a 'lessons learnt' combined action plan. The essence of the action plan was a FY23 audit milestone execution plan, which set out 13 key steps to deliver the FY23 audit. A principal component of the milestone plan was to have for the first time a P10 (31 January) Hard Close of the Group accounts with the aim of undertaking the maximum amount of work possible prior to the year end on 31 March 2023. The action plan also included other elements aimed at delivering a more timely audit for FY23 such as 'lunch & learn' sessions between the Babcock finance team and Deloitte to discuss key topics such as audit evidence. The Committee believes that the Company would have been able to report its FY23 results by 30 June 2023 had it not been for the extended audit work on the T31 provision.

Deloitte and management reported on progress of the FY23 audit against the plan to the Committee. So as not to distract management and Deloitte from planning an advanced full year audit, the Committee did not commission Deloitte to provide a review opinion on the interim financial information. However, the Committee remains committed that Deloitte should conduct such a review in the future when further progress has been made on a sustainable advanced full year audit timetable.

Deloitte presented their audit plan to the Committee which set out the scope and objectives of the audit, together with an overview of their planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus together with proposed Audit Quality Indicators (AQI's). This was reviewed and approved by the Committee and included agreeing the scope (98% of revenue and 98% of profit before tax) and the level of materiality (£15.6 million).

The total fees paid to Deloitte in the year ended 31 March 2023 equalled £10.45 million. All of these fees were in respect of audit work, with no non-audit services performed by the external auditor during the year. An analysis of the fees paid to the external auditor during the year can be found in note 4 to the Group Financial Statements on page 200.

Audit, risk and internal control *continued*

The Committee recognises that there may be some element of non-audit services for which the Group might wish to use the external auditors. 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 Committee Chair for fees between £10,000 and £100,000, and by the Committee for fees over £100,000.

The Independent auditor's report to the members of the Company can be found on pages 159 to 174.

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

Independence

The Committee is responsible for the development, implementation, and monitoring of the Group's policies on services from external auditors, which are designed to ensure a high quality and effective audit and to maintain the objectivity and independence of the external auditors. In addition to an independence review conducted by management, Deloitte has provided specific assurance of its independence, while 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 is Deloitte's lead audit partner and is in his second year, having started in FY22. The Committee is satisfied that Deloitte remain independent and objective.

Audit Quality

The FRC's Audit Quality Review (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 the Committee with the findings from its latest firm-wide AQR report, the initiatives being taken in respect of the evolution of its firm-wide audit approach and methodology, and how those are transferred to the Babcock audit. In FY22, the Committee agreed a series of audit quality indicators (AQIs) with the external audit team, focused on phasing of audit hours, timeliness of deliverables and subsidiary audit progress. In FY23, the Committee reviewed the FY22 AQIs and agreed that they continued to be relevant for the FY23 audit with the addition of one indicator to measure adherence to milestones by both the Company and Deloitte. The Committee uses the AQIs to measure and monitor audit quality as they are key metrics relating to the audit. With the assistance of the AQIs the Committee can assess and challenge the execution and quality of the audit.

In addition to the AQIs, the Committee Chair and the CFO met with Deloitte during the year, to ensure priorities were adequately resourced by management and Deloitte and to execute the year-end audit timetable. During the year the Company Chair, the Committee Chair and the CFO met with senior representatives of Deloitte including the Lead Audit Partner to discuss the Company's plans and the progress of its business turnaround including commercial, operational, and financial control upgrades, appreciating that this will take a few years to complete.

The Committee reviewed the FRC's proposed 'Minimum Standard for Audit Committees' issued for consultation. The Committee considered that it was largely complying with the proposed standard but made some minor amendments to its Terms of Reference.

Internal audit and assurance

In FY23, the Group continued its policy of outsourcing its internal audit activity to BDO. As in previous years, BDO, after discussions with management, agreed an internal audit plan with the Committee. The plan covered lines of business and countries, with proposed effort directed towards financial and other risk themes. Over FY23, BDO has implemented the agreed plan and has reported back to the Committee. BDO summarises the findings of its internal audit reviews so that the Committee can focus its discussions on unsatisfactory findings and on the action plans in place to address them.

Particular areas of focus for internal audit during FY23 included continuation of financial control audits in line with the increased focus on control improvements, audits of key programmes such as T31 and Future Maritime Support Programme, and a number of risk-based reviews such as health & safety. 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. By the end of FY23, internal audit had made 39 recommendations across the ten internal audits completed in FY23. Of those recommendations, the Company had implemented 12, a further 22 were not due for completion, and five were overdue. In respect of the overdue recommendations, one relating to delegated authority limits in New Zealand has been implemented, but internal audit is waiting for the support before closing the recommendation. The other four relate to the design and effectiveness of the governance environment in respect of the Company's Future Maritime Support Programme. Internal audit has received a progress update and agreed revised dates for their completion. The Committee was satisfied with the pace of implementation of the recommendations.

Through its review of the internal audit plan, its review of the reports of BDO, and its review of an external quality assessment of BDO's internal audit service delivery, the Committee was satisfied with the effectiveness of the internal audit. However, as reported last year, in FY22, the Committee decided to move from outsourcing the Group's internal audit activity to insourcing the internal audit activity. Early in FY23, the Company appointed a Group Director for Internal Audit, Risk Assurance, and Insurance, who has started to build her team with the appointment of a Head of Risk Assurance and Insurance and a Head of Internal Audit with an intention to appoint a further three senior Internal Auditors. The internal audit activities have now started to transition from BDO to the internal team, but it is expected that there will continue to be some co-sourcing where specialised expertise is required to conduct a particular audit. The Committee is monitoring this transition and receives regular updates from the Group Director on progress.

For FY24, the Committee will continue to monitor the transition of internal audit. It has approved an internal audit plan for FY24 prepared by the Group Director for Internal Audit, Risk Assurance, and Insurance. The plan includes the proposed audit approach, coverage, and allocation of resources. In approving the FY24 plan, the Committee considered a range of factors, including the principal risks of the Group and the resources available to the Group. The key points in the FY24 plan include:

- The establishment of the Internal Audit team
- Continued focus on internal financial controls assurance;
- A deep dive into the Group's French operations
- A review of the newly established Financial Business Services team
- A review of certain of the Group's key contracts.

Financial statements

One of the main roles of the Committee is to review the financial statements of the Company on behalf of the Board so that the Board can give its responsibility confirmation (please see page 158) that the Company's financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, as well as confirming that the annual report and financial statements, taken as a whole, are fair, balanced, and understandable.

The Committee reviews all significant judgements and estimates made by management in preparing the financial statements, which include the estimates of future performance inherent in the Going Concern and Viability statements (see the Going concern and Viability statement on pages 104 and 105). In FY22, the Committee reviewed the period covered by the Going concern and Viability statement and agreed to extend it to five years, being the period covered by the Group's business plan. As part of its review in FY23, the Committee considered again the period to be covered by the statement and agreed that the five-year period remained the most appropriate timespan for this Group given the business planning cycle, the long-term nature of many of the programmes and insight gained from 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 climate change, with related sensitivity analysis and stress-testing scenarios, borrowing facilities available to the Company and covenants.

Given that Goodwill impairments were required in FY22 the Committee paid particular attention in FY23 to management's impairment reviews and the Auditor's opinion thereon. The Committee reviewed the Company's goodwill assessment and considered the key assumptions, which were the number of cash generating units, the cash flow assumptions embedded in the Company's five-year plan, the cash flows in perpetuity, which use external estimates of GDP growth rates, the discount rates used and the approach to central contingencies and Corporate surpluses/ deficits. The assessment also included sensitivity analyses on inflation and climate change. Following its review, the Committee was satisfied that no impairment of goodwill was required in FY23.

In FY22, the Company made its first Task Force on Climate-related Financial Disclosures following the introduction of the Listing Rule 9.8.6. During FY23, the Group has built on the work done in FY22 to be in a position to provide enhanced disclosure on environmental, social and governance (ESG) issues. Further detail on climate risk and opportunity scenario planning is set out on page 72.

The essence of Babcock's business involves commercial contracts frequently involving significant upfront investment and with many extending over multiple years. Consequently, management in preparing the financial statements has to make a number of key judgements and estimates that are specific to each contract. An important focus for the Audit Committee has been to review and challenge management on these key judgements and estimates, with reference to revenue recognition under IFRS15, which include:

- The Company's Type 31 Programme, where the Committee reviewed the process for the release of the announcement dated 20 April 2023, which disclosed that the Company had been unable to reach agreement with the MoD about the contractual position regarding additional costs resulting from certain macroeconomic changes that were not foreseen at contract inception. The release included the announcement of a one-off provision of between £50 million and £100 million. The Committee carefully reviewed the Company's disclosure processes leading up to the announcement, including the support for the preliminary assessment of the provision. After its review, the Committee was satisfied with the robustness of the Company's approach. After the release, the Committee convened a dedicated meeting to consider the 14 key judgements that underpinned the revised estimate outturn at completion. The meeting was attended by the project team so that the Committee could challenge the process by which the project team had produced their revised estimate as well as the prudence of the judgements themselves. After its review, the Committee approved the Company's judgement, which also formed part of the audit by Deloitte.
- The Company's Future Maritime Support Programme, where the Committee considered the way in which the Company demonstrated the transformation savings achieved on the Programme and those planned to accrue. Under the programme, the Company has to deliver certain savings over the five-year lifetime of the programme. The realisation of these savings is a key estimate for the Company. The Committee considered the maturity of each category of saving – whether the customer had signed off on the saving, whether it was embedded in the Company's cost base, or whether the Company had taken the saving through its gated review process. After challenging the robustness of the Company's evidence, the Committee approved the Company's judgement,
- A fixed-price programme within the Nuclear sector, which is close to completion, where the Committee tested the management judgements on outstanding work and therefore costs to complete. In particular, the Committee challenged the Company's position on whether it had a right to apply for a final price adjustment under the Single Source Contract Regulations. After its review, the Committee accepted the Company's position.
- The Company's Defence Support Group contract, where the Committee reviewed the accounting for the work that the Company expected to contract in year ten of the programme as well as the accounting for exit costs. Having considered IFRS15 carefully, the Committee was satisfied that the Company was adopting the appropriate accounting,
- Inflation and its impact on the Group's revenue and cost for each of its contracts was a key accounting judgement for the Company, as the Company accounts for these contracts over time under an Estimate at Completion model with the Company recognising profits based on the final expected contract outturn margin. Changes in future inflation assumptions therefore impact profits in FY23. The key inflation assumption for the Company's contracts relates to the wages of its employees. The Committee considered the Company's assumption for its FY24 wage negotiations and tested the support for that assumption. The Committee also considered inflation in other costs such as materials and sub-contractors. The Committee tested the guidance given by the Company to its businesses, noting that there was little commonality across the Group's contracts. After its reviews, the Committee was satisfied with the Company's accounting approach to inflation.

Audit, risk and internal control *continued*

- Sale of certain of the Company's Aerial Emergency Services business. On 28 February 2023, the Company completed the sale of certain of its Aerial Emergency Services business. There were four key accounting considerations for the Committee to consider as result of the completion of the sale – the classification of the discontinued operation, the point at which the Company had passed control over the business to the buyer, the need to impair any assets or to recognise any liabilities arising from the sale, and the classification of costs relating to the disposal. The Committee tested the accounting approach taken by the Company in respect of each of these considerations and was satisfied that they were appropriate.

Following its review, the Committee was of the opinion that the FY23 Annual Report and Accounts was representative of the year and presented a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy and recommended that the Board make its responsibility statements as set out on page 158.

As previously reported, the Financial Reporting Council was reviewing the audits by PwC of Babcock's financial statements for FY2017, FY2018, FY2019 and FY2020. On 8 March 2023, the Council issued its Final Settlement Decision Notice in respect of PwC's FY17 and FY18 audits and imposed sanctions on PwC and two former audit partners. The Company has reviewed the Council's Decision Notice and is confident that it has addressed the failings in the PwC audits found by the Council through a combination of the Contract Profitability and Balance Sheet review (the CPBS review), the disposal of businesses through the portfolio rationalisation plan, and the Blueprint of Control Improvements. The breaches in the PwC audits identified by the Council included:

- Issues relating to the Company's EC225 helicopters: The Company did own eight EC225s and held operating leases for a further five. The Company now has only two EC225s which are undergoing maintenance prior to sale or return to their lessor.
- MSDF contract: The MSDF contract was a long-term contract with the MoD for the repair, maintenance and support of vessels and enabling services at naval bases. The contract has been replaced with a new contract with the MoD, the Future Maritime Support Programme (FMSP). FMSP does also include agreed savings targets, which Deloitte review as part of their audit.
- Compliance with accounting standards in relation to the assessment of goodwill impairment: The Company had included its Africa business within the Land sector for the purpose of its goodwill impairment testing. Following the CPBS review, the Company has corrected this aggregation.
- Vanguard contract: The Vanguard contract was a long-term contract for the refuelling and re-fit of HMS Vanguard. The Council identified that management made two key accounting judgements in respect of the contract. As part of the CPBS review, the Company has reassessed its revenue recognition assumptions.
- Contract A: Contract A is a ten-year contract with a foreign government agency for the supply of specialist training facilities as well as the supply of personnel, support services and infrastructure work. The Council identified breaches in respect of revenue recognition and supply chain financing. As part of the CPBS review, the Company has reassessed its revenue recognition assumptions and reclassified outstanding balances under the supply chain financing as bank and other borrowings.
- Holdfast contract: Holdfast was a joint venture in which the Company had a 74% interest. The Council identified a number of breaches in the audit work of FY18. The Company has since disposed of its interest in the joint venture.
- Phoenix II contract: The Company manages a fleet of leased vehicles for the MoD under this contract. The Company recorded the revenue and costs of the contract as a principal rather than as an agent, including for the 'pass-through' arrangement (the selecting and paying of certain suppliers and recharging the revenue to the MoD at nil margin). The Company has reassessed this judgement as part of the CPBS review so that the Company recognises the 'pass-through' revenue as an agent.
- DSG contract: Under the DSG contract, the Company provides military vehicle fleet management services to the British Army. Under the contract, the Company received revenue for the provision of spares and repairs, which it billed to the MoD at nil margin. The Company judged that it was receiving this revenue as a principal and not an agent. As part of the CPBS review, the Company reassessed this judgement and judged that it was receiving the revenue as agent.
- RD57: The MoD and the Company agreed to settle a number of issues in respect of Rosyth Royal Dockyard in the RD57 settlement agreement. The agreement was a unique occurrence relating to the issues that were being settled and will not repeat.

The Council continues to review PwC's audits of the Company's FY19 and FY20 financial statements. During the course of its review, the Council has asked the Company certain clarification questions, which it has answered. Other than that Babcock has had no other role in the review.

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 page 83 for further details. The Board regularly received reports on matters relating to the Code.

Remuneration
Remuneration Committee report

Carl-Peter Forster
Chair of the Remuneration Committee

Key facts

The Committee

Carl-Peter Forster has chaired the Committee since September 2022 and has been a member of the Committee since joining the Board in June 2020. The other Committee members are currently John Ramsay, Lucy Dimes, and Jane Moriarty. Please see pages 108 and 109 for biographies and page 117 for attendance.

Highlights

- Review of the Company's Remuneration policy for proposing to shareholders for their approval at the 2023 AGM
- Engagement with shareholders in respect of the Company's proposed Remuneration policy
- Review of FY23 remuneration outcomes
- Deciding on the FY24 implementation of the Remuneration policy

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

This is my first report to you as Chair of the Committee. Before starting my report, I would like to thank my fellow Committee members for their time and assistance over the year in review, which involved additional Committee meetings and papers as we reviewed the Company's proposed new Remuneration policy, including the outcome of our engagement with shareholders. I would also like to thank Kjersti Wiklund for all her work as Committee Chair before her retirement from the Board in September 2022.

Finally, I thought it would be useful to set the context in which the Committee made its decisions. This is the second full year of our turnaround. During the year, we, as a company, have taken a number of steps to address our historic underperformance. We have significantly strengthened our balance sheet through our portfolio realignment programme and are now a stronger, more resilient, and more disciplined company. This year we have delivered double-digit organic revenue growth, underlying margin expansion and a significantly better than expected cash performance in an uncertain environment (please see pages 12 to 17 for more detail). The Committee has taken this context into account in deciding the FY23 remuneration outcomes.

New Remuneration policy

A key focus for the Committee over the last year was the review of the Company's Remuneration policy, as our current policy expires this year. We will put the new policy to shareholders for approval at the 2023 AGM. In conducting its review, the Committee kept in mind its key responsibility to maintain a strong link between strategy, stakeholder experience and Executive Director reward. The Committee considered different structures, but concluded that broadly the current policy, which 99.5% of shareholders approved at the 2020 AGM, remains credible and effective, with only modest changes proposed, as discussed below.

Before finalising its proposals, the Committee was keen to engage with shareholders to understand their views. The Committee consulted our largest shareholders, capturing over 60% of the issued share capital, including meeting with a number of them. In general, shareholders supported the proposed policy and offered suggestions around the weighting of incentive measures which the Committee accepted and has adopted. Having received and incorporated the feedback from this exercise, we trust that we are now proposing a policy that broadly all our shareholders will support, as they did in 2020.

Changes in the new Remuneration policy

The Committee looked in detail at the design of the Company's Performance Share Plan (PSP). In particular, it evaluated whether the existing PSP struck the right balance between motivational effectiveness and market competitiveness (by being based on three-year performance) and reinforced success over the longer-term horizons of the Company's business cycle and contracts, as well as the ongoing business turnaround. The Committee considered a number of alternative approaches to the current three-year PSP to help address these specific challenges, including:

- extending the PSP performance horizon, eg, to four or five years. However, the Committee concluded that, given the ongoing business reset, it was preferable to continue with the current three-year long-term incentive period to ensure executives are focused on performance over this next critical stage of our turnaround; and
- replacing the PSP with a Restricted Stock Plan, where shares awarded to the executives vest over time subject to continued employment only (ie without performance conditions). While this structure is considered potentially helpful in alleviating the challenges of target setting and would align existing arrangements in Babcock for employees below Board level, which reflects incentive practices seen elsewhere in the market, the Committee concluded that it was important to retain a strong focus on performance-related long-term remuneration at executive levels, and that the PSP remained the best vehicle to achieve this.

The Committee therefore decided to retain the existing PSP but revise the measure scorecard; the Committee discussed with the management team a range of possible PSP measures which would align more closely with the drivers of the Company's long-term success and strategy, and concluded that TSR (used previously in the PSP) should be replaced by two new key financial metrics. This new set of metrics, the Committee believes, will ensure the PSP is more effective in reflecting the quality of decision-making over the PSP performance horizon. The new proposed metrics for the 2023 PSP grant are:

- Free cash flow (weighted 30%); retaining this KPI in the PSP scorecard aligns with our current focus on improving the quality of our cash flow and balance sheet strength;
- Underlying operating margin (weighted 30%); this is a key strategic driver for the Company and a KPI that underpins shareholder value creation over the longer-term;
- Organic revenue growth (weighted 25%); to incentivise delivery of a primary KPI for the Group and a key pillar of our strategy. This element will also be subject to a discretionary underpin if operating margin performance is below threshold; and
- ESG (weighted 15%); the Committee is mindful of the increasingly strong investor sentiment in this area and, in particular, the desire to see quantitative environmental targets included in the long-term incentive.

The Committee has selected two key metrics, reduction in carbon emissions and senior management diversity, in line with the Company's ESG strategy. The Committee believes that these four measures together capture the key drivers of the Company's long-term strategy and enable the Committee to set challenging, but meaningful, three-year targets against which to measure success. In proposing this scorecard, the Committee also considered whether to retain a weighting on relative TSR for the 2023 PSP awards. However, it concluded that, when measured over a three-year period, TSR is likely currently to be less directly related to Babcock's underlying performance and therefore risks outcomes being driven primarily by external factors beyond management's control. In addition, the Committee believed it was a challenge to define a benchmark for the Company that was both robust and sufficiently relevant to ensure the relative TSR measure would be credible. Therefore, the Committee proposes dropping relative TSR for the FY24 cycle, and keeping under review its use in the scorecard attaching to future cycles during the life of the proposed Policy.

As discussed above, the Committee considered carefully how the Company's remuneration arrangements could incentivise the delivery of its strategy over its long-term business cycle generally, and through the business reset specifically. The Committee believes that the balance of pay elements should reflect this focus, with a significant portion of the Executive Directors' pay being delivered in shares vesting subject to multi-year performance to create alignment with the Company's performance over this period and, by extension, the experience of our stakeholders.

As part of this review, the Committee therefore also considered whether the existing incentive opportunities remain appropriate in the specific business context for Babcock, and whether they deliver a competitive, performance-orientated package reflective of the calibre, experience and sustained strong performance of our Executive Directors. The Committee concluded that the annual bonus opportunity was set at an appropriate level, but that the PSP limit in the Policy should be increased from 200% to 250% of salary. The Committee is proposing to increase the CEO's PSP opportunity in line with this change. In determining to do so, the Committee considered the complexity and critical nature of the business reset required to establish a platform for future success and shareholder value creation, and the value attributed to the specific skillset, expertise, sector knowledge and deep customer relationships of our high-performing CEO. The Committee resolved to upweight the emphasis in the CEO's package on long-term performance to reflect these considerations and further strengthen the alignment of incentive outcomes with shareholders' longer-term interests through the delivery of the business reset. The Committee is mindful of the external optics of quantum increases, but is satisfied that this: is proportionate to the calibre of our CEO (the total remuneration opportunity would be positioned between median and upper quartile for companies of comparable scale and sector peers); does not risk rewarding poor performance (targets are set to be stretching, and the vesting level at threshold – of 16.7% – is below market norms); and will appropriately reinforce a scorecard of measures that are consistent with the Company's strategy and values. We calculate that the impact of making this change on the CEO's overall remuneration level, considering the achievability of the performance conditions, is c.8%. The CFO's PSP award opportunity will remain at 200% of salary for the time being. Full vesting of the PSP award opportunity will continue to be subject to the achievement of stretching targets, ensuring that the additional opportunity vests only for delivering exceptional performance for stakeholders.

Having set out the changes, I hope to receive your support on our new policy at the 2023 AGM. If you would like to talk to me about the new policy, I will be at the AGM and would be more than happy to take any questions.

Remuneration in FY23

This annual report together with the FY23 financial statements sets out the business context in which the Committee took its decisions over FY23. The Committee believes that the remuneration outcomes, which I summarise below, reflect the Company's performance and the broader context, including shareholders' experience and interests.

In summary, the Committee approved the following outcomes:

- **Salary:** As we disclosed in our FY22 report, the Company decided to focus its FY23 pay settlement on those employees most impacted by the 'cost-of-living' crisis by awarding a standardised annual salary increase to all UK employees except the highest earners. In line with this decision, the Committee decided not to increase the Executive Directors' salaries for FY23.
- **FY23 annual bonus:** We followed the same structure for the FY23 annual bonus for Executive Directors as we did for FY22. It was based 80% on underlying financial performance measures, split equally between underlying operating cash flow (OCF) and underlying profit before tax (PBT). In line with past practice, we maintained the percentage allocated to non-financial measures at 20%. As in FY22, we adopted a wide range for the performance targets and retained discretion to ensure that the outcome aligned to the experience of the Group's stakeholders. Even though the Company's cash flow performance was strong in FY23, with the OCF component of the bonus being earned in full, the PBT performance threshold was missed and no bonus was earned for this component. The Committee also considered the excellent progress against the FY23 strategic priorities, as detailed on pages 13 and 14, and was pleased to award an overall annual bonus for FY23 of 59% of maximum for David Lockwood and 58% of maximum for David Mellors. Please see pages 144 and 145 for more detail.
- **2020 PSP awards**: The Committee made its 2020 PSP grant in December 2020, delayed due to the impact of COVID-19. Vesting of the awards (the opportunities under which were scaled back by 10% – to 180% of salary – to reflect the Company's share price performance prior to grant) is linked 50% to cumulative underlying free cash flow (FCF) over three years ending FY23 and 50% on relative Total Shareholder Return (TSR) over three years ending 30 November 2023. As set out on page 146 (and in line with best practice guidance from investors and their representatives), the Committee subsequently further scaled back the award opportunities by a further 10% of salary at the time of finalising the FCF targets, to recognise the decision to delay doing so pending the conclusion by the Company of the Contract Profitability and Balance Sheet review in 2021. The Committee recognises that 2020 was an uncertain period for the business, and considers the reductions to the 2020 PSP award quantum to be appropriate in the circumstances. The FCF component has vested at 100%, following exceptionally strong underlying cash generation; the relative TSR component was tracking at zero vesting at the end of FY23 – we will report on its final vesting in the FY24 report and confirm overall vesting of the 2020 PSP award next year.
- **2022 PSP awards**: We granted the 2022 PSP award in August 2022. Vesting is based on relative TSR and cumulative FCF, both equally weighted, consistent with the 2021 PSP awards. The performance period for the award is the three financial years starting with FY23; as we consider the targets for cumulative free cash flow to be commercially sensitive, we have delayed disclosing the range, but we will disclose this no later than the FY25 annual report, being the relevant annual report for disclosing the vesting outcome for the 2022 PSP award. For further detail, please see pages 143 and 151 to 152.

Remuneration for FY24

When considering the implementation of our Remuneration policy for FY24, we have borne in mind the need to continue 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 Committee will wait to see the outcome of the Company's review before deciding whether any increase is appropriate for the Executive Directors. The Committee is well aware of shareholders' views during this time of inflation and will bear those views in mind in its discussions.
- **FY24 annual bonus:** The structure of the Executive Director annual bonus for FY24 is consistent with that for FY23, with measures based on underlying OCF, underlying PBT and non-financial objectives. The maximum award opportunity is 150% of salary and the Executive Directors will defer 40% of any earned bonus into the Company's shares for three years. We have set the measures and targets, which we will disclose in full in our report next year. Please see page 147 for more detail.
- **2023 PSP awards:** We will grant awards under the PSP to the Executive Directors in 2023 covering the three-year period FY24–FY26. As described above, we have decided to refine the measures so that they align more closely with the drivers of the Company's long-term performance and strategy. The measures are free cash flow (as used for the 2022 PSP award), underlying operating margin (an important indicator of operating efficiency), organic revenue growth (an indicator of business growth) and ESG (reflecting shareholder sentiment that companies need to play their part in improving the UK's performance in this area). We have set the targets for each measure to ensure that they are appropriately stretching. For more detail please see page 146.

Focus for FY24

We will continue to support the strategic aims of the Group through our work on the Committee and the implementation of our Remuneration policy. To do that, we will continue to engage with our key stakeholders, our shareholders and employees, to understand their views. We will use this engagement to design remuneration structures under our new Remuneration policy which reflect best practice and support the Group's strategic direction and incentivise employees to deliver value to shareholders.

I hope that I can count on your support for our new Remuneration policy. If you have any questions, I will be at the 2023 AGM and would be happy to discuss them with you.

Carl-Peter Forster
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over FY23 and the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 142 to 152.

FY23 remuneration outcomes

FY23 Annual bonus

The Committee based the FY23 bonus on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below. For a full description of the FY23 annual bonus, please see page 144.

Measures	Warranted payout (% of maximum bonus)				Performance targets
	D Lockwood		D Mellors		
Underlying Profit Before Tax (PBT)	40% Max	0% Outturn	40% Max	0% Outturn	Threshold Target Stretch £223.3m £235.0m £258.5m Outturn £128.9m
Underlying Operating Cash Flow (OCF)	40% Max	100% Outturn	40% Max	100% Outturn	Threshold Target Stretch £121.1m £127.5m £140.3m Outturn £307.0m
Non-financial[1]	20% Max	95% Outturn	20% Max	90% Outturn	
Total	100% Max	59% Outturn	100% Max	58% Outturn	

1. The Committee has merged several measures into an overall assessment in this table for disclosure purposes.

2020 PSP

The Committee approved the 2020 PSP grant in December 2020, delayed due to COVID-19. Vesting is based 50% on three year underlying free cash flow (FCF) and 50% on three year relative Total Shareholder Return (TSR). The FCF performance period ended 31 March 2023, warranting 100% vesting. The TSR performance period ends November 2023, but as of 31 March 2023 vesting was zero.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outturn[1]	Vesting (% of overall award)
3-year FCF post exceptional items	50%	£140m	£210m	£ 253m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Below median TSR as of end FY23	0%
				Total expected vesting	50%

1. The Committee adjusted the FCF outturn to exclude the cash flow impact of certain items, and which was intended to ensure the focus was on driving core performance. For more information, please see page 146.

Implementation of the Remuneration policy in FY24

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 FY24	David Lockwood: £816,000 David Mellors: £571,200 The Committee will review the base salary of the Executive Directors later in the year. In its review, it will carefully consider shareholder sentiment in respect of salary increases.	10% of salary	Unchanged from FY23

Element of remuneration	Annual bonus and Deferred Bonus Plan (DBP)	PSP
Implementation for FY24	The bonus structure is consistent with that used for FY23, with awards of up to 150% of salary based on the achievement of financial targets, underlying profit before tax (PBT) and underlying operating cash flow (OCF), (each a 40% weighting) and non-financial measures (20% weighting). The Committee has maintained 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 147.	PSP awards of 250% and 200% of salary for the CEO and CFO respectively, with vesting based on measures the Committee believes are most appropriate: FCF (weighted 30%), underlying operating margin (weighted 30%), organic revenue growth (weighted 25%, and subject to a discretionary operating margin underpin) and ESG (weighted 15%).

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, and with suitable underpins where necessary.
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 marked.

Remuneration policy report

Shareholders approved our current Remuneration policy at our 2020 AGM. As the policy expires after three years, we will propose a new Remuneration policy to shareholders for their approval at the 2023 AGM. We set out below the new policy with any changes from the current policy in italics. We have explained any changes to the current policy in detail in the Committee Chair's opening letter on pages 131 to 133. If shareholders approve the new policy, the Committee intends to apply it for three years from the date of its approval. You can find the current policy at www.babcockinternational.com/who-we-are/leadership-and-governance.

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 (10% of salary, as of FY24) 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 considers 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 the achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of the 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 until the third anniversary of the payment/vesting date: 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 underlying PBT, underlying 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 sustainable value creation 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 until the third anniversary of the payment/vesting date: 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 250% of base pay*[1]. 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 targets that align to key drivers of strategy (including, but not limited to, free cash flow, operating margin, organic revenue growth and ESG).* The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.

1. Under the 2020 remuneration policy the maximum was 200%.

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, Chair of the Audit and Remuneration Committees, and Director designated for employee engagement.

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 the 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, considering 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

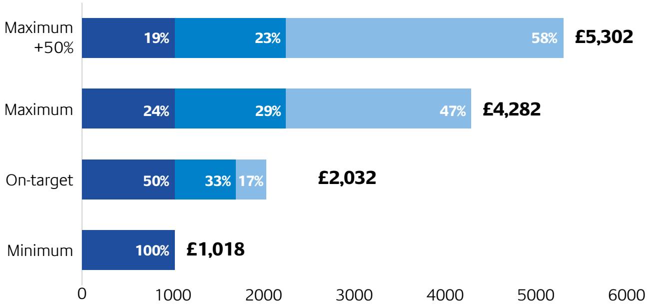
The policy with regard to the remuneration of senior executives below the Board is broadly consistent with that for the Executive Directors, in that it weights remuneration to variable components which are delivered through an annual bonus and equity-based incentives, albeit that restricted stock awards, 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

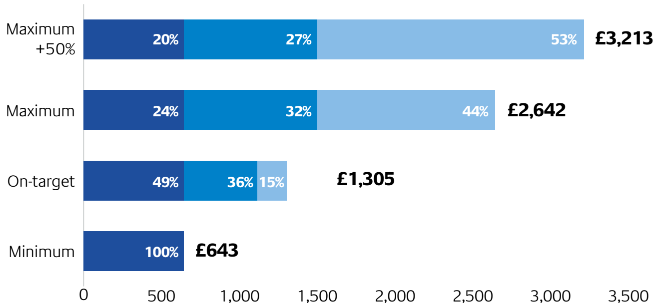
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-target', 'Maximum' and 'Maximum+50%'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY24, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 April 2023. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

Chief Executive
David Lockwood (£'000)



Chief Financial Officer
David Mellors (£'000)



Fixed Bonus PSP

The 'Minimum' scenario shows base salary, pension (and/or pay in lieu of pension) and taxable 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, 250% of salary under the PSP for the CEO and 200% for the CFO).

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 incentive plans granted from the 2020/21 financial year onwards, 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 as described in the table below.

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. The Chair will approve such appointments, as the Board believes it is beneficial for Directors to gain experience of practice in other organisations. However, before approving any appointment, she must satisfy herself that there are no conflict issues with the Company (or they can be appropriately dealt with) and the Director will have sufficient time to devote to the Company. During the year, Carl-Peter Forster joined Vesuvius plc and Lucy Dimes joined iomart plc. Since the year end, Ruth Cairnie has joined the BT Group plc but stepped down as Senior Independent Director and Remuneration Committee Chair for Associated British Foods plc.

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
Carl-Peter Forster	1 June 2020	30 March 2023	AGM 2026
Lord Parker	10 November 2020	30 March 2023	AGM 2026
John Ramsay	6 January 2022	5 January 2022	AGM 2025
Jane Moriarty	1 December 2022	1 December 2022	AGM 2025
Sir Kevin Smith	1 June 2023	31 May 2023	AGM 2026

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). Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit Committee, Chair of the Remuneration Committee and Director designated for employee engagement. 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 several routes: directly with employees through the global people survey and through the 'ask David' email; and indirectly through forums such as the employee representative forum, which is a forum where the CEO, the CFO and the Chief HR Officer meet with the Group's main trade union representatives to discuss matters of material interest to the Group, including the Group's remuneration policy. At the FY23 meetings, the Chief HR Officer explained the Company's approach to executive pay, including that of the Executive Directors, and the intent of the Company to focus on its lower paid employees by offering a standardised annual pay increase for all UK employees up to a given threshold. The Chief HR Officer explained that there would be no increase for those employees on fixed pay over the threshold, including the Executive Directors, who would still remain eligible for the bonus and the PSP. The trade union representatives welcomed the Company's early engagement and its proposed positioning for FY23. The Chief HR Officer reported the views of the trade union representatives to the Board and the Committee for them to consider as part of their discussions. 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 the views of 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 good 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.
In total there were 8 meetings in the year to 31 March 2023. 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.

Advisers

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 £96,420 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. Ellason has no relationship with the Company or its directors beyond those formed in its capacity as appointed adviser to the Committee. 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 2023, including:

- renewing the Remuneration policy bearing in mind market trends and corporate governance best practice
- engaging with shareholders in respect of the Company's new Remuneration policy
- 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 advisers
- 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 financial year
- considering performance targets and non-financial objectives for the FY24 annual bonus plan
- agreeing the level of vesting of PSP awards granted in 2019
- considering performance against the measures applied to, and level of payout of, the FY22 annual bonus
- agreeing the level of, and targets for, 2022 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 2022 AGM:

	2020 Remuneration policy		2022 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%	320,983,657	94.45%
Against	1,866,823	0.52%	18,867,386	5.55%
Total votes cast (excluding withheld votes)	360,390,637	100%	339,851,043	100%
Votes withheld	16,471,678		28,309	
Total votes cast (including withheld votes)	376,862,315		339,879,352	

Single total figure of remuneration for Executive Directors for FY23 (audited)

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

	David Lockwood		David Mellors	
	FY23 £'000	FY22 £'000	**FY23 £'000**	FY22 £'000
Fixed remuneration				
Salary[1]	**816**	808	**571**	566
Benefits in kind and cash[2]	**121**	119	**15**	15
Pension[3]	**82**	81	**57**	57
Annual variable remuneration				
Annual bonus (cash)[4]	**433**	580	**298**	401
DBP (deferred annual bonus plan)[5]	**289**	387	**199**	268
Long-term incentives				
PSP[6]	**631**	n/a	**442**	n/a
Dividends[7]	**0**	n/a	**0**	n/a
Total (of which)	**2,372**	1,975	**1,582**	1,307
Total fixed remuneration[1,2,3]	**1,019**	1,008	**643**	638
Total variable remuneration[4,5,6,7]	**1,353**	967	**939**	669

The figures have been calculated as follows:

1. Salary: Base salary amount paid in the year. The Executive Directors did not receive a pay increase in FY23, but they did part way through FY22. The reason for the difference between the base salary between FY22 and FY23 is that the FY23 amount shows the FY22 increase for the full year, whereas the FY22 amount only shows the increase for part of 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 in FY23 received £99,495 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 60% of total annual bonus earned for performance during the year (see pages 144 and 145) that is not required to be mandatorily deferred into shares under the DBP (see page 137) and is paid in cash.
5. DBP: This is the mandatorily deferred element of the annual bonus earned for performance during the year (40% of earned bonus), which will vest after three years.
6. PSP: The 2020 award was granted in December 2020 at a grant price of 352p, with vesting based 50% on cumulative FCF to the end of FY23 and 50% on relative TSR over the 3 years to 30 November 2023. The value in the table reflects 100% vesting of the FCF component and an expectation of zero vesting of the TSR component, using a share price averaged over the last quarter of FY23 (of 309.12p); the vest-date value attributable to share price appreciation was zero as the share price at grant was higher, at 352p. The value recorded in the table will be updated in the FY24 report, to reflect any change in vesting of the TSR component and the actual share price at vest.
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 2023 (for FY23) and 31 March 2022 (for FY22), payable in cash on exercise of the award.

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 2023. 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	**FY23 £'000 pa**	FY22 £'000
David Lockwood	**4**	4
David Mellors	**3**	3

FY23 annual bonus (audited)

The Committee based the FY23 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.

In determining the outturn in respect of the financial measures, the Committee considered whether it should adjust the actual outturns to account for the impact of the sale of certain of the Group's aerial emergency services businesses (the AES business), but concluded that no adjustment was necessary as it would have had no impact on the bonus outcome. The Committee also reviewed the Company's health & safety performance as it is an underpin for the annual bonus. The Committee considered the totality of the Group's health & safety environment over the year, including the improved reporting culture, the changes made over the year and the improved profile of the Group's Total Recordable Injury Rate and decided not to exercise its discretion.

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 underlying operating cash flow[2]	£121.1m	£127.5m	£140.3m	£307.0m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Achieving budgeted underlying profit before tax[3]	£223.3m	£235.0m	£258.5m	£128.9m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	0%	0%
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)	88.5%	87.0%

1. Threshold vesting is: 18.8% of maximum for the 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 all measures are considered. Vesting outcomes are determined on a straight-line sliding scale for performance outturns between threshold and target, and between target and maximum.
2. Operating cash flow after capital expenditure and before pension payments in excess of the income statement charge.
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 FY23 are given below.

FY23 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, culture and ESG, as the Committee believed these themes align to the Company's turnaround.

Overall, the Committee assessed that strong progress has been made in FY23 on a very broad front, with clear signs of improvements in relationships with key stakeholders, strengthened international outlook for the Group, simplified and more consistent processes, stronger focus on people, and a marked positive shift in culture. Performance against the objectives (detailed below) was generally well above expectations, and while in some areas there remains much to be done, this reflects the starting point, scale and the complexity.

David Lockwood

Theme	Objective and assessment	Assessment
Strategy: Strengthen position in the UK	Significant progress ahead of Board expectations, including: • Babcock taking leadership positions on Defence Supplier Forum and Shipbuilding Enterprise for Growth • Full mobilisation of Future Maritime Support Programme with structured process to deliver required savings • Strong progress in Defence Support Group – Year 8 closed with no red KPIs	Exceeded expectations
Grow international business and strengthen capability	• Awarded multi-year programme to upgrade the Australian Defence Force's high frequency communications system, reinforcing Babcock's leading position in that region • Awarded first significant Land Sector contract in France • Established office to address AUKUS opportunity	Exceeded expectations
Drive operational transformation	• Delivered targeted savings built into sector budgets • Successful execution of Phase 1 implementation of new Global Business Management System, providing a standardised approach across Babcock	Exceeded expectations

People & culture: Strengthen Babcock's capability to secure the workforce and leadership it requires	• Executed in full an agreed programme of activities, developing a Group-wide approach to People and Culture for the first time • Launch of our Global People Survey (GPS), with participation rates outperforming market benchmarks • Launch of Global Babcock Role framework • Simplified key HR processes including; inclusion, agile working and family leave policies to embed cultural change	Exceeded expectations
ESG: Strengthen Babcock's ESG credentials	• Excellent progress made on further embedding Babcock's safety culture, with 81% of employees in the GPS perceiving Babcock to be committed to the health & safety of its people • Plan Zero 40 steps successfully implemented, with ten pathfinder projects developed • Diverse management representation continues to grow and our gender pay gap continued to improve in 2023, now 5.5% below the UK average	Exceeded expectations

David Mellors

Theme	Objective and assessment	Assessment
Strategy: Improve Group financial base stability	• Successfully launched a new model of monthly rolling forecasts • Increased focus on cash delivery to move towards a smoother cash profile • Introduction of Group Programme Watchlist with standard programme status review materials	Exceeded expectations
Portfolio rationalisation	• Delivered agreed objectives, including the completion of the sale of certain of the Group's aerial emergency services businesses, realising total cash proceeds of c.£635 million, well exceeding our initial guide of at least £400 million	Exceeded expectations
Drive operational transformation & performance	• Delivered targeted savings built into sector budgets • Successful execution of Phase 1 implementation of new Global Business Management System, providing a standardised approach across Babcock • Internal audit processes overhauled	Exceeded expectations
People & culture	• Transformation of finance function by leading the deployment of a new shared-services business model with the establishment of the Finance Business Services team • Simplified global banking services with the transition to a single provider	Exceeded expectations
	• Transformation of the procurement function by managing the standardisation of processes and policies and the launch of a procurement academy with over 800 employees on the programme	Met expectations
ESG	• Embedded new governance and internal controls framework across the Group, with the implementation of the Blueprint of Controls • Reviewed the design of the internal audit function with the Audit Committee Chair, appointing a Group Director of Internal Audit and transitioning to in-sourcing internal audit	Exceeded expectations

The FY23 bonus outcomes for each Executive Director are as follows (40% of which will be deferred under the DBP):

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus (£'000)
David Lockwood	60%	28.5%	88.5%	£722
David Mellors	60%	27.0%	87.0%	£497

Long-term incentive scheme (PSP) awards vesting during the year (audited)

The Executive Directors were granted PSP awards on 1st December 2020, delayed due to the impact of the COVID-19 pandemic. The values of the awards were scaled back by 10% from 200% of salary to180% of salary, to reflect the share price decline in the period prior to the grant. In line with best practice guidance from investors and their representatives, the Committee subsequently further scaled back the award opportunities by a further 10% of salary at the time of finalising the underlying free cash flow (FCF) targets, to recognise the delay in finalising the target pending the conclusion by the Company of the contract profitability and balance sheet review in 2021. The Committee recognises that 2020 was an uncertain period for the business, and considers the reductions to the 2020 PSP award quantum to be appropriate in the circumstances. Vesting of the awards is based on cumulative underlying free cash flow (FCF) and relative Total Shareholder Return (TSR), with each measure having equal weighting. The performance period for these awards is the three financial years through to 31 March 2023 for cumulative FCF, and the three years starting on the date of grant (1 December 2020) for relative TSR. Through to the end of FY23 the vesting of the FCF component was 100%; as a result of strong underlying cash generation; the vesting of the relative TSR component will be confirmed in the FY24 report, but as of 31 March 2023 Babcock's performance was below Median TSR, suggesting a vesting of zero; therefore, the numbers in the table below are indicative. Awards will vest on 1st December 2023 and be subject to a two year holding period. The Committee will assess the vest-date value in December 2023 and determine then whether any additional downwards adjustment needs to be made to ensure the award does not benefit unduly from windfall gains.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Adjusted performance	Vesting (% of overall award)
3-year adjusted underlying FCF	50%	£140m	£210m	£253m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Below Median TSR (as of end FY23)	0% (indicative)

Awards vest on a straight-line sliding scale between threshold and stretch.

To ensure the Executive Directors were appropriately incentivised to deliver against the stated medium-term objectives of the business reset, the Committee agreed at the time of setting the targets that it would be appropriate to measure underlying FCF on an adjusted basis, ie before certain items. Accordingly, the Committee set the targets to exclude the cash flow impact of the following items: voluntary excess pension deficit payments, the Italy fine, operating model restructuring costs, as well as cash flow lost as a result of executing the disposal programme.

This approach recognised the prevailing business context at the time, shortly after the Executive Directors were appointed, and was intended to ensure the focus was on driving core performance. In determining that this element of the 2020 PSP award should vest in full, the Committee adjusted the FCF performance by excluding the cash flow impact for excess pension contributions, the Italian fine, and restructuring costs, which increased FCF performance by £155 million for the excess pension contributions, £15 million for the Italian fine, and £40 million for restructuring costs. The Committee is pleased to note that not only was the Company able to increase the payments made over the period to address the pension deficit, but also that underlying FCF performance after taking into account these items was ahead of internal expectations.

Long-term incentive scheme (PSP) award granted during FY23 (audited)

The Committee granted PSP awards in the form of nil-cost options in August 2022 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	474,418	£1,632,000	200%	16.7%
David Mellors	332,093	£1,142,400	200%	16.7%

1. Awards are in the form of nil-cost options.
2. Based on three-day average share price (of 344p) at time of grant.
3. Expressed as a percentage of salary at the date of the award (1 August 2022).

Vesting of the awards is based on FCF and relative TSR, equally weighted. The performance period for these awards is the three financial years 1 April 2022 through to 31 March 2025. Awards vest on a straight-line sliding scale between the stated threshold and stretch performance levels.

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

Free cash flow (FCF) is defined as cash flows of the Company, including exceptional items (unless the Committee decides otherwise), but excluding disposals, on an IFRS 16 basis. Given the current position of the Company in its turnaround the Committee considers the performance range for the cumulative three-year FCF measure to be commercially sensitive but will disclose the range at the earliest opportunity when its commercial sensitivity is removed. The Committee may need to use its discretion to review the outcome of the awards in 2025 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.

Deferred Bonus Plan awards made during FY23 (audited)

In 2022, the Committee approved the payment of annual bonuses to both Executive Directors under the FY22 annual bonus plan. For more detail, please see the single total figure table on page 143.

Single total figure of remuneration for Non-Executive Directors for FY23 (audited)

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

	Base fee		Additional fee[1]		Total[2]		Total fixed remuneration		Total variable remuneration	
	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000	FY23 £'000	FY22 £'000
Fixed remuneration										
Ruth Cairnie	336	336	–	–	336	336	336	336	–	–
Lucy Dimes	61	61	–	–	61	61	61	61	–	–
Kjersti Wiklund[3]	28	61	4	15	32	76	32	76	–	–
Russ Houlden[3]	20	61	–	14	20	75	20	75	–	–
Carl-Peter Forster[4]	72	72	11	–	83	72	83	72	–	–
Lord Parker	61	61	6	–	67	61	67	61	–	–
John Ramsay[5]	61	15	15	1	76	16	76	16	–	–
Jane Moriarty[6]	20	n/a	–	–	20	n/a	20	n/a	–	–

1. Relating to role as Chair of the Audit Committee (John Ramsay), Remuneration Committee (Kjersti Wiklund until her retirement in September 2022 and now Carl-Peter Forster), and Director designated for employee engagement (Lord Parker).
2. Non-Executive Directors did not receive any taxable benefits in FY23 or FY22.
3. Kjersti Wiklund retired from the Board in September 2022 and Russ Houlden retired in July 2022.
4. Carl-Peter Forster is the Senior Independent Director and Chair of the Remuneration Committee.
5. John Ramsay joined the Board in January 2022.
6. Jane Moriarty joined the Board in December 2022.

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 FY24

The Committee has set the remuneration for Executive Directors for FY24 in line with its new Remuneration policy.

Fixed pay

The Company has not completed its FY24 pay review for the general UK workforce. Therefore, the Committee has decided not to review the fixed pay of the Executive Directors until later in the year when the FY24 pay review is more advanced. In its review, the Committee will take account of shareholders' views on increases in executive pay and their alignment with the increases for the workforce. The Executive Directors will receive the same pension arrangements as in FY23 (ie at 10% of salary) and the same benefits as in FY23.

	1 April 2023	1 April 2022
David Lockwood	**£816,000**	£816,000
David Mellors	**£571,200**	£571,200

FY24 annual bonus

The structure of the Executive Director annual bonus for FY24 is consistent with that for FY23, with measures based on underlying OCF, underlying PBT and non-financial objectives. The Committee has agreed the 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).

2023 PSP awards

The Committee intends to grant awards under the PSP to the Executive Directors in 2023 covering the three-year period FY24–FY26, with the measures being underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%).

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	15.7%	23.6%
3-year weighted average underlying operating margin[1]	30%	6.8%	8.0%
3-year cumulative underlying free cash flow	30%	£216m	£324m

1. FY24 and FY25 account for 25% each of the measure whereas FY26 accounts for 50%.

Awards vest on a straight-line sliding scale between threshold and stretch.

The targets for the ESG measures are:

- A reduction in the Company's carbon emissions in FY26 within a range of (6.7)% and (8.5)%. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). A reduction of (6.7)% will result in a 16.7% vesting of this portion of the ESG element, with a reduction of (8.5)% warranting full vesting.
- The achievement of senior management gender diversity range in FY26 of between a threshold of 28.5% and a maximum of 31.5%, being a -5% and +5% range around the Company's gender diversity target. This measure will have a 7.5% weighting, with a 16.7% vesting at threshold and full vesting at maximum. The definition of senior management is employees, excluding Executive Directors, who have responsibility for planning, directing or controlling activities of the Group or a strategically significant part of the Group (Sector/Functional leadership teams) and/or are directors of subsidiary business units (Business Unit leadership).

Payments for loss of office (audited)

No payments for loss of office were made during the year ended 31 March 2023.

Payments to past Directors (audited)

John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2019 DBP award (the value of which was disclosed in the 2019 Directors' Remuneration Report) vested on 13 June 2022.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. His 2019 DBP award (the value of which was disclosed in 2019 Directors' Remuneration Report) vested on 13 June 2022.

Non-Executive Directors' fees (including the Chair)

In line with the approach taken with the Executive Directors, the Committee will review the Chair's fee later in the year when the FY24 pay review for the general UK workforce is more advanced. The same approach will be taken for the review of the Non-Executive Director fees.

Annual rate fee	FY24 £	FY23 £	% 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%
Director designated for employee engagement[2]	7,500	7,500	0%

2. The Company sets fees for non-UK-based Directors having regard to the extra time commitment involved in attending meetings.
3. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee and for acting as the Director designated for employee engagement. 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 annual percentage changes in remuneration over the last three years for each individual who was a Director during the year ended 31 March 2023, 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, meaning 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 appropriate alignment over time in fixed pay between Executive Directors, Non-Executive Directors, and UK employees.

	Base salary/fees			Taxable benefits			Single-year variable		
	FY22 to FY23[1]	FY21 to FY22	FY20 to FY21	**FY22 to FY23[1]**	FY21 to FY22	**FY20 to FY21**	**FY22 to FY23[1]**	FY21 to FY22	FY20 to FY21
Executive Directors									
David Lockwood	**1%**	1%	n/a	**1%**	1%	n/a	**(25)%**	n/a	n/a
David Mellors	**1%**	1%	n/a	**0%**	1%	n/a	**(26)%**	n/a	n/a
Non-Executive Directors[2]									
Ruth Cairnie	**0%**	5%	26%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Lucy Dimes	**0%**	5%	-5%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Kjersti Wiklund[3]	**(15)%**	4%	18%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Russ Houlden[3]	**(18)%**	10%	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Carl-Peter Forster	**16%**	11%	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Lord Parker	**10%**	5%	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
John Ramsay[4]	**0%**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Jane Moriarty[5]	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Average for all UK employees[6]	**5.9%**	2%	2%	**0%**	0%	0%	**(30.57)%**	n/a	(100)%

1. As this table is based on the single figure table, it has produced anomalous results. In respect of the Executive Directors, they did not receive a pay increase in FY23, but they did in July 2021 (part way through FY22). The single figure table shows a base salary actually paid during the year. FY23 was the first year to show the full increase granted in FY22. In respect of the Non-Executive Directors, there were changes to the Chairs of Committees and a fee to Lord Parker introduced for his additional work as Non-Executive Director designated for employee engagement. Together, these account for the percentage changes as there has been no change to their fee levels, other than the decision to pay a fee for the Director designated for employee engagement. Please see the 'Non-Executive Directors' fees' table on page 147. Explanations for the observed changes in earlier years relating to former directors are provided in the relevant Annual Report on Remuneration.
2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.
3. The percentage change in fees for former Directors reflects annualised values for FY23 remuneration to facilitate a comparison with FY22.
4. John Ramsay joined in January 2022. To facilitate a comparison with FY23, his FY22 fee (together with his fee for being the Chair of the Audit Committee) has been annualised. The increase shown above reflects his appointment in late FY22 to the role of Audit Committee chair.
5. Jane Moriarty joined during FY23 and hence no year-on-year comparison is available.
6. The single year variable figure for our UK employees is provided in respect of our annual bonus plan, which has been estimated based on our expected bonus outturn for FY23 at the time of disclosure. This estimate is prior to any discretionary adjustments.

Relative importance of spend on pay

	FY23	FY22	% change
Distribution to shareholders	**£0m**	£0m	0%
Employee remuneration	**£1,567m**	£1,516m	3.4%

Distribution 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 143. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees on 31 March 2023 using the 'single figure' methodology, as at 31 March 2023, to provide a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the P25, P50 and P75 employees – Options A, B and C. From FY23, the Committee concluded to adopt Option B, in recognition of the significant workload placed on our colleagues of the previous methodology in adopting Option A. During FY23, the Committee evaluated Option B as an alternative methodology, concluding through back-testing the calculation for recent years that the resulting pay ratios were not unduly sensitive to the methodology adopted. The Company used the data collected for gender pay gap reporting purposes to identify the three employees representing P25, P50 and P75, calculating the total full-time equivalent remuneration for these three employees on a similar basis to that adopted for the CEO's single figure of total remuneration.

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 FY23 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 FY23 was 60:1, compared to 48:1 in FY22.

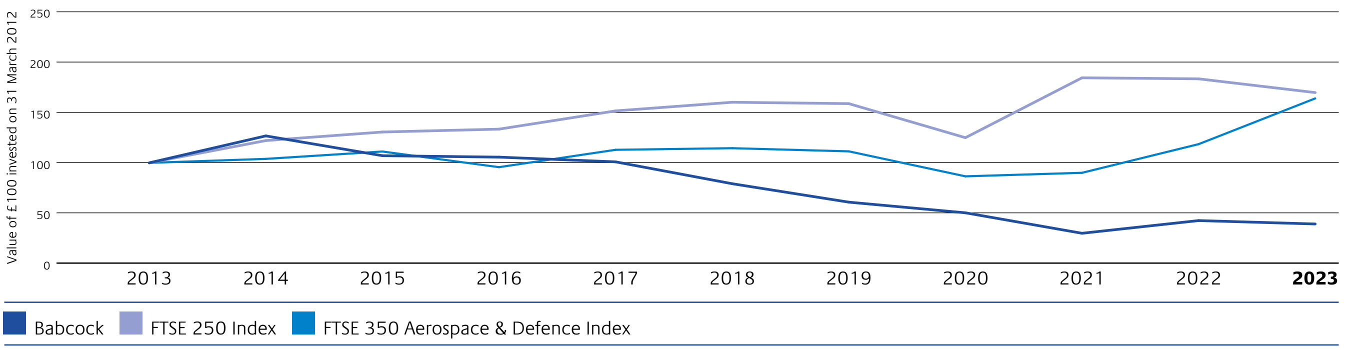
The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The increase within the FY23 ratios is primarily driven by the higher CEO's single total figure of remuneration for the latest financial year, a result of the inclusion in that of an expected 50% vesting level under the 2020 PSP (the first award made to the CEO since joining Babcock). As the remuneration of the CEO has a significant weighting towards variable pay to align his remuneration with Company performance, it is likely that there will be greater variability in his pay year to year, than that observed at other levels which have a greater proportion of their pay linked to fixed components. This is consistent with market practices and the Company's reward policies across the organisation. In respect of the general workforce, Babcock understand the need to ensure competitive pay packages across the organisation. For the Committee, it considers the ratios below when making its decisions around the remuneration of the Executive Directors.

Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY23	Option B	73:1	60:1	45:1
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)
FY23	Total remuneration (£'000)	£32.3	£39.3	£52.8
	Salary (£'000)	£30.9	£37.4	£48.9

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 2013. 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.

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Peter Rogers[1]										
Single figure (£'000)	3,809	4,448	2,491	1,091						
Bonus vesting (% max)	93%	78%	60%	66%						
DBMP matching shares vesting (% max)	n/a	88.4%	57.8%	17.0%						
PSP/CSOP vesting (% max)	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	2,372
Bonus vesting (% max)								0%	80%	59%
PSP vesting (% max)								n/a	n/a	50%[5]

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 2020.
5. Reflects 100% vesting of the FCF component and an expectation of zero vesting of the TSR component.

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 2023:

	At 31 March 2022	At 31 March 2023[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**	–	–	**1,335,413**	**281,373**	**300%**	**127%**	**Building**
David Mellors	71,268	**71,268**	–	–	**934,789**	**194,495**	**200%**	**94%**	**Building**
Ruth Cairnie	120,000	**120,000**							
Lucy Dimes	5,000	**5,000**							
Kjersti Wiklund [4]	2,100	**2,100**							
Russ Houlden [5]	–	–							
Carl-Peter Forster	10,000	**10,000**							
Lord Parker	–	–							
John Ramsay	30,000	**30,000**							
Jane Moriarty	n/a	–							

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 2023 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 2023 and a three-month average share price to 31 March 2023 of 309p and are calculated post tax.
4. Kjersti Wiklund retired from the Board in September 2022.
5. Russ Houlden retired from the Board in July 2022.

There have been no changes to the continuing Directors’ (or their spouses’) shareholdings between 31 March 2023 and 20 July 2023.

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 2023 was 298.8p. The highest and lowest mid-market share prices in the year ended 31 March 2023 were 367.6p and 268.6p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2022	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2023	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
	PSP 2022		474,418			**474,418**		344	Aug 2027	Aug 2028
	DBP 2022[4] (1 year)		168,824			**168,824**		344	Aug 2023	Aug 2024
	DBP 2022[4] (3 year)		112,549			**112,549**		344	Aug 2025	Aug 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2022	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2023	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
	PSP 2022		332,093			**332,093**		344	Aug 2027	Aug 2028
	DBP 2022[4] (1 year)		116,697			**116,697**		344	Aug 2023	Aug 2024
	DBP 2022[4] (3 year)		77,798			**77,798**		344	Aug 2025	Aug 2026

1. PSP = the Company's Performance Share Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on page 146.
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.
4. The Company only requires the Executive Directors to defer 40% of any annual bonus awarded into shares, which vest after three years. The remaining 60% of any annual bonus is paid in cash. In FY22, David Lockwood and David Mellors agreed to defer the 60% usually paid in cash into shares for one year to align their interests with shareholders.

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

No awards vested for the Executive Directors during the year to 31 March 2023.

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 FY23

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

The Board approved this Remuneration report on 20 July 2023.

Carl-Peter Forster
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 158 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 as provided in the table below:

Listing rule	Topic	Location
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 24 on page 228

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 22, page 221
Greenhouse gas emissions	Page 63
Employee engagement	Pages 57, 78, 107 and 112
Fostering business relationships with suppliers, customers and others	Pages 56 to 57, 83 to 85 and throughout the Strategic report
Subsequent events	Note 33 on page 227
Likely future developments in the business of the Group	Pages 18 and 19
Details of important events affecting the Group	Strategic and Directors' reports, in particular pages 12 to 17 and 24 to 39

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 (2022: nil) and, as part of our continued focus on building a strong balance sheet, has not recommended a final dividend (2022: nil). Given the stronger than expected cash performance and further de-gearing of the balance sheet, the Board expects to reinstate a dividend in FY24.

Major shareholdings

As at 31 March 2023, 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%
Silchester International Investors LLP	25,567,748	5.06%
Invesco Ltd	24,896,615	4.92%
Cobas Asset Management, SGIIC, S.A.	20,458,556	4.05%
Oaktree Capital Management (UK) LLP	15,330,960	3.03%

There have been no further notifications between 31 March 2023 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

Equal opportunities are available for all employees at Babcock including those with disability. We recognise that disability covers a much broader range of both visible and non-visible conditions. To address this, during FY23, we undertook a full review of options available for personal data including language and definitions.

We define disability within the HR system as: A person is disabled under the Equality Act 2010 if they have a physical or mental impairment that has a 'substantial' and 'long-term' negative effect on their ability to do normal daily activities. This does not mean a person must be registered as disabled. A long-term disability might include something physical (such as a mobility issue, hearing or sight impairment or long-term illness). It also covers people with mental health conditions. Additionally neurodivergence (for example dyslexia, dyspraxia, Asperger's and autism) are caught within the definition, including where someone is undergoing diagnosis.

Declarations have increased as a result, with more of our people completing options around health conditions and impairments and informing us that they have a physical and/or other disability. To support continued employment, training, career development and promotion of disabled employees we have:

- created and rolled out a dedicated Disability Action Plan; informed by data and insight and following the employee lifecycle from attraction to progression and retention, the action plan details support and provisions for disabled colleagues
- made progress towards achieving Disability Confident Employer Level 2 (UK Government Disability Confident scheme) as we continue to develop our processes, ensuring we are inclusive and providing support for our employee's to enable them to stay in work
- launched a Group wide Disability Network Group

We are also working to review/refresh additional elements of the employee lifecycle, ensuring that disability is a clear consideration at different stages, including recruitment and onboarding.

For more information about the broadening of our inclusion strategy and our About Me data collection campaign, see page 77.

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 2022, 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 26 September 2022 (the date the current authority was granted) to the date of this report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made during the year to 31 March 2023 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 24 on page 229.

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 redeemed 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 139 and 140.

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.

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.

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.

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 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, if there is 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 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 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 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

There is a robust process in place to enable the Board to have assurance around the overall risk management including 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. Following the Committee's FY23 review, the Board is satisfied that the Company has successfully delivered its improvement plans for FY23, whilst recognising that there remains ongoing scope for further improvement in FY24, including lessons learnt from the FY23 closing.

For more detailed information on the improvements in internal controls please see the Audit Committee report on page 127. Further information on the principal internal controls and risk assurances in use in the Company can be found in the Strategic report on pages 87 to 92.

Auditor

Deloitte, appointed as Independent Auditor of the Company following a competitive tender process in 2021, 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
John Ramsay	Non-Executive Director
Lucy Dimes	Non-Executive Director
Lord Parker	Non-Executive Director
Jane Moriarty	Non-Executive Director
Sir Kevin Smith	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 1 to 158) for the year ending 31 March 2023 have been approved by the Board and signed on its behalf by:

Ruth Cairnie
Chair

David Lockwood
Chief Executive Officer

20 July 2023