

I plan to continue with a programme of regular visits across the business, as soon as this becomes possible again.

These visits have given me the opportunity to meet and talk with a range of our employees from sector management to local managers and the front line, as well as groups of graduates and apprentices, and diversity networks. Across the operations, I have been struck by the local man local man local deepk bytmannd diversity

Chair induction visits to date

- Bovington to visit Land's DSG operations
- Faslane to visit Marine's operations at the Clyde Naval Base
- Rosyth to visit Marine's Rosyth Royal Dockyard
- Albacete to visit Aviation's HEMS operations
- Bristol to visit Marine's Technology operations
-



Russ Houlden
Independent Non-Executive Director

Appointed: April 2020

Tenure: 2 months

Nationality: British

Experience: Russ brings accounting and treasury management experience along with his extensive knowledge of driving performance improvement.

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

Previous roles: He was Chairman of the Financial Reporting Committee of the 100 Group (from 2013 to March 2020), Chief Financial Officer (from 2010 to July 2020) of United Utilities Group PLC and Chief Financial Officer of Telecom New Zealand (from 2008 to 2010).

Qualifications: Russ holds a first class honours degree in Management Sciences from Warwick Business School and is a Fellow of the Chartered Institute of Management Accountants, a Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

- E Executive Committee
- A Audit and Risk Committee
- R Remuneration Committee

- N Nominations Committee
- Board Committee Chair



Myles Lee
Independent Non-Executive Director

Appointed: April 2015

Tenure: 5 years

Nationality: Irish

Experience: Myles brings extensive global experience in management, M&A and finance.

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

Previous roles: He was Chief Executive Officer (from 2009 to 2013) and Finance Director (from 2003 to 2008) of CRH PLC.

Qualifications: Myles holds a degree in Civil Engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.



Kjersti Wiklund
Independent Non-Executive Director

Appointed: April 2018

Tenure: 2 years

Nationality: Norwegian

Experience: Kjersti brings broad technology and business experience gained across Europe, Eastern Europe/Russia and Asia.

External appointments: Kjersti is a Non-Executive Director of Spectris PLC, Trainline plc and Zegona Communications PLC.

Previous roles: She has held senior roles, including Director, Group Technology Operations of Vodafone, and Chief Operating Officer of VimpelCom Russia, Deputy Chief Executive Officer and Chief Technology Officer of Kyivstar in Ukraine, Executive Vice President and Chief Technology Officer of Digi Telecommunications in Malaysia, and Executive Vice President and Chief Information Officer at Telenor in Norway.

Qualifications: Kjersti holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.



Jeff Randall
Independent Non-Executive Director

Appointed: April 2014

Tenure: 6 years. Jeff will retire from the Board at the 2020 AGM.

Nationality: British

Experience: Jeff brings extensive experience of the media, particularly in politics, business and finance.

External appointments: Jeff is an Independent Non-Executive at BDO, the accounting and business-services firm, and Fundsmith, and a Visiting Fellow at Oxford University's Said Business School.

Previous roles: He worked at Sky News and was editor-at-large of the Daily Telegraph. Jeff was business editor of the BBC, the launch editor of Sunday Business and, for six years, City Editor of the Sunday Times. He is a former director of Times Newspapers.

Qualifications: Jeff holds a degree in Economics from the University of Nottingham, where he is an Honorary Professor in the School of Economics.



Carl-Peter Forster
Independent Non-Executive Director

Appointed: June 2020

Nationality: German

Experience: Carl-Peter brings extensive manufacturing and international experience.

External Appointments: Carl-Peter is currently the Chairman of Chemring Group PLC and Senior Independent Director of IMI plc.

Previous roles: Carl-Peter held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). He was also previously a Non-Executive Director of Rexam PLC and Rolls-Royce plc.

Qualifications: Carl-Peter holds a Diploma in Economics from Bonn University and a Diploma in Aeronautical Engineering from the Technical University in Munich.



Archie Bethel CBE
Chief Executive

Appointed: Board Director May 2010 and Chief Executive September 2016

Tenure: 10 years

Nationality: British

Experience: Archie was Chief Executive, Marine and Technology division, from June 2007, having joined the Group in January 2004. He was appointed Chief Executive on 1 September 2016.

He is President of the Society of Maritime Industries and is a Lay Member of the Court of the University of Strathclyde.

Previous roles: He held various Engineering and Senior Management roles in Vetco Gray International Inc. in both the UK and US. He was also Chief Executive of Scottish Enterprise Lanarkshire and Chief Operating Officer of Motherwell Bridge Group.

Qualifications: BSc, MBA and DSc (h.c.) from University of Strathclyde. Archie is a Chartered Mechanical Engineer, a Fellow of the Royal Academy of Engineering and a Fellow of the Royal Society of Edinburgh.



Franco Martinelli
Group Finance Director

Appointed: Board Director August 2014

Tenure: 6 years

Nationality: British

Experience: Franco served 12 years with the Group as Group Financial Controller, prior to his appointment as Group Finance Director. Before joining Babcock, Franco worked across the support services and engineering sector.

Previous roles: He was Group Financial Controller at Powell Duffryn PLC and before that he held divisional and group roles at Courtaulds, James Capel and BP.

Qualifications: Franco is a Chartered Accountant and has a degree in Physics from Exeter University.

Executive Committee

B Board

Biographies for Archie Bethel CBE and Franco Martinelli are on page 99.



Archie Bethel CBE
Chief Executive



Franco Martinelli
Group Finance Director



John Howie MBE
Chief Executive, Marine



Simon Bowen
Chief Executive, Nuclear



John Davies
Chief Executive, Land




Neal Misell
Chief Executive, Aviation




Jon Hall
Managing Director, Technology



Kevin Goodman
Group Director of Organisation and Development



Kate Hill
Group Director of Communications



Jack Borrett
Group Company Secretary and General Counsel

John Howie MBE

Appointed: April 2016

Experience: John joined Babcock in April 2001. He has been sector CEO for Marine since 2016 and has responsibility for Babcock's warship operations, as well as the commercial and international marine operations. John is a Visiting Professor at Strathclyde University, a Director of the Society of Maritime Industries, a member of the Glasgow Economic Leadership Board and Acting Chair of Maritime Research & Innovation UK.

Simon Bowen

Appointed: April 2017

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

John Davies

Appointed: July 2010

Experience: John joined Babcock in 2010 on the acquisition of VT Group, and was appointed Divisional Chief Executive of the then Defence and Security division. In November 2015, he moved to lead the Support Services division and is now sector CEO, Land. Previously John worked extensively across the support services and defence sectors within Bombardier, BAE Systems and VT Group. John is a lawyer by background and a graduate of the University of Manchester and Chester Law College.

Neal Misell

Appointed: April 2020

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

Jon Hall

Appointed: April 2017

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

Kevin Goodman

Appointed: July 2010

Experience: Kevin joined Babcock in 2001. He was a Director of both our Defence and Security and Marine and Technology divisions prior to his current Group appointment. In his present role, he is responsible for remuneration, talent management, executive development and diversity. He is a trustee of the Babcock International Group pension scheme.

Kate Hill

Appointed: April 2017

Experience: Kate joined Babcock in 2014 on the acquisition of the Avincis Group. She was subsequently appointed Babcock's Group Director of Communications. Prior to her role as Communications Director at Avincis, she was a Partner in a financial PR consultancy, which she joined from Royal Dutch Shell plc where she held a number of senior communications roles. Trained as a journalist, Kate is a member of the Chartered Institute of Public Relations.

Jack Borrett

Appointed: April 2016

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

Our governance framework

Board

The Board of Directors of Babcock International Group PLC (the Board) is collectively responsible to the Company's shareholders for the long-term success of the Company. This responsibility includes matters of strategy, performance, resources, standards of conduct and accountability. The Board also has ultimate responsibility for corporate governance, which it discharges either directly or through its Committees, as well as the structures described in this Governance statement.

Chair

The Chair is responsible for the leadership and overall effectiveness of the Board. In particular, her role is to:

- With the Chief Executive, demonstrate ethical leadership and promote the highest standards of integrity throughout the business
- Ensure effective operation of the Board and its Committees
- Set the agenda, style and tone of Board discussions in order to promote constructive debate and effective decision-making
- Foster effective working relationships between the Executive and Non-Executive Directors, support the Chief Executive in his development of strategy and, more broadly, support and advise the Chief Executive
- Ensure effective communication with shareholders and other key stakeholders and make the Board aware of their views.

Executive

Responsible for implementing the strategy, led by the Chief Executive.

Chief Executive

The Chief Executive is responsible for the day-to-day leadership of the business. In particular, his role is to:

- Develop strategic proposals for recommendation to the Board and implement the agreed strategies
- Develop an organisational structure, establishing processes and systems to ensure that the Company has the capabilities and resources required to achieve its plans
- Be responsible to the Board for the performance of the business consistent with agreed plans, strategies and policies
- Oversee the application of Group policies and governance procedures
- Develop and promote effective communication with shareholders and other key stakeholders.

Attendance at Board meetings

Chair	
Mike Turner*	3 of 3
Ruth Cairnie	12 of 12
Executive Directors	
Archie Bethel	12 of 12
Franco Martinelli	12 of 12
John Davies	12 of 12
Non-Executive Directors	
Sir David Omand**	11 of 12
Victoire de Margerie**	11 of 12
Ian Duncan	12 of 12
Lucy Dimes**	11 of 12
Myles Lee	12 of 12

Board effectiveness

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. Each year, an evaluation is conducted to assess these aspects and also the effectiveness of the ways of working at the Board and Committees. The last two reviews have been conducted internally by the Company Secretary and so, in line with the Corporate Governance Code, this year the review should have been carried out by an external evaluator. However, with a new Chair having been appointed during the year and with a number of changes occurring to the Board composition, it was decided that an external review would add much more value in a year's time once the membership changes, and a number of procedural changes introduced by the new Chair, have bedded down. Therefore, the review for the financial year ending 31 March 2020 has once again been an internal process conducted by the Company Secretary. The Board remains fully committed to external review, which it sees as a valuable support to its continuous development and improvement.

The review was conducted via confidential one-on-one meetings between the Company Secretary and each Director. Topics considered included the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its Committees, the Chair and individual Directors performed and how they worked together; as well as other factors relevant to effectiveness.

The main conclusions from the prior year's review focused on the pending change of Chair and need for further recruitment, given the length of tenure of both Sir David Omand and Ian Duncan. Progress is therefore reflected in the appointments that have been announced. This year, there was general satisfaction regarding the way in which the Board and its Committees function, the support given to them, the matters covered at meetings, the way issues are dealt with, and the contribution of individual Directors. A number of developments were noted as positive including the external input received for the annual strategy review, the external review of senior talent, the participation of customers in some contract reviews at the Board, and the streamlining of membership of the Board and Committees.

The Board discussed the evaluation at its meeting in March 2020. The focus for the current financial year will be to align further the Board's agenda and workings with the strategy and strategic priorities set out in the Group's Capital Markets Day, to shift the balance of the Board's time further towards strategic rather than operational matters. At a private meeting, Sir David Omand, SID, led a review of the Chair's performance, which confirmed her effectiveness.

Board induction and development

New Non-Executive Directors receive comprehensive and tailored induction programmes. The Chair's induction, parts of which are described on pages 96 and 97, was built using induction programmes developed previously for Lucy Dimes and Kjersti Wiklund as a starting point. The Company Secretary will set up a similar programme for Carl-Peter Forster and Russ Houlden as and when circumstances allow. The programme will involve:

- Meetings with the Executive Directors and the sector CEOs
- An overview of the Group's governance

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Russ Houlden provides valuable expertise in accounting, reporting and performance improvement as well as international experience. He will chair the Company's Audit and Risk Committee after Ian Duncan's retirement at the AGM.

Carl-Peter brings extensive manufacturing and international experience to the Board. He will take over as the Group's SID from the AGM at which point Sir David Omand will step down from that role.

The Committee has also had to consider a successor for Chair of the Remuneration Committee, as Jeff Randall announced his retirement. The Committee was pleased to recommend the appointment of



Audit and Risk Committee

Membership of the Committee

The Audit and Risk Committee was during the year made up entirely of all the independent Non-Executive Directors. Committee membership, as well as attendance at its meetings in the year, is set out below. However, with effect from the beginning of the current financial year, the Committee decided to streamline its membership in order to make its operation more efficient and Sir David Omand decided to step down as a member of the Committee after 11 years of service. Currently, the members of the Committee are Ian Duncan, Russ Houlden, Kjersti Wiklund, Myles Lee and Lucy Dimes.

Unless otherwise stated, members were members throughout the year. Please see pages 98 and 99 for further details of the backgrounds and qualifications of the members of the Committee.

The Board is satisfied that Ian Duncan, who has been Chair of the Committee since July 2011, has recent and relevant financial experience and that the Committee complies with the UK Corporate Governance Code. Ian is a chartered accountant and former Group Finance Director of Royal Mail Holdings PLC.

Currently, Ian is the Senior Independent Director of Bodycote PLC, as well as being the Chair of its Audit Committee. He is also a Non-Executive Director and Audit Committee Chair of SIG PLC.

Role of the Committee

The principal responsibilities of the Audit and Risk Committee are to:

- Monitor the integrity of the full-year and half-year financial statements and any formal announcements relating to the Company's financial performance
- Provide advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
- Review the statement in the Annual Report confirming that the Directors have carried out a robust assessment of the principal and emerging risks facing the Company and how the Company manages them
- Make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor
- Review and monitor at least once a year the external auditor's independence and objectivity, as well as the effectiveness

Committee meeting attendance

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chair, the Chief Executive, the Group Finance Director, the sector Chief Executives and the Group Financial Controller to attend meetings. The Committee is satisfied that having these invited attendees present does not influence or constrain the Committee's

Audit and Risk Committee continued

Whistleblowing

The Committee has monitored the Group whistleblowing policy on behalf of the Board. It receives regular reports of calls and emails to the Group's external independent whistleblowing services and how the Group investigates them. With effect from 1 April 2020, the Board has decided that it will review the whistleblowing reports. The total number of whistleblowing reports in the year to 31 March 2020 was 66 (2019: 71). For further explanation of the whistleblowing procedure, please see page 82.

Audit/non-audit fees and auditor independence

The Committee reviews the audit and non-audit fees for the external auditor and considers them in relation to auditor independence. The Committee is satisfied that PwC maintained its independence throughout the year.

Significant issue

Contract accounting and revenue recognition

How the Committee addressed it

The Committee considered the Group's material contracts. These require a significant degree of management judgement that could materially affect the appropriate accounting treatment for these contracts; these were the subject of discussion and challenge with management to ensure that the Committee was satisfied as to the reasonableness of those judgements. Additionally, an external provider conducted a review of a number of the Group's most significant and complex long-term contracts. The results of this review confirmed that the Group's long-term contract accounting is consistently conservative.

Cash generating units and carrying value of goodwill

Goodwill is allocated to the Group's cash generating units (CGUs): Marine, Land, Aviation and Nuclear. The Committee reviewed and challenged management's assessment of the goodwill held on the Group's balance sheet by considering, amongst other matters, management's evaluation of the cash flows resulting from the Group's budget and strategy plan, the terminal value assessment, noting the reduced

Internal controls and risk management

The Committee believes that the identification, control, mitigation and reporting of risk is central to the delivery of the Comlelivery

These bottom-up risk reviews carried out by the Sectors also include emerging risks. However, the Group separately also considers emerging risk as part of its strategic or top-down risk review. Top global emerging risks include

Annual Statement of the Remuneration Committee Chair

Summary of proposed changes to the Policy

The changes to the Executive Directors' remuneration policy for 2020 are set out below.

- 1. Rebalancing the annual bonus and PSP performance measures.** Every year the Committee reviews the performance measures, their weightings and their targets for both the annual bonus and the PSP to ensure their alignment with strategy and business priorities respectively. Prior to the COVID-19 outbreak, the Committee had considered simplifying the annual bonus by removing the EPS measure and increasing the weighting for PBT and Cashflow (both measured on an underlying basis) to 40% each. Non-financial measures will continue to be weighted 20%. For the PSP the Committee was considering the inclusion of a new measure focused on cashflow to ensure the scorecard better reflects the Group's strategic focus. This remains the current intention. However, for the 2020/21 financial year, due to the pandemic, the Committee has delayed its decisions on both the annual bonus and the PSP, as it may decide to make adjustments to make sure that they reflect our priorities as we emerge from the current crisis. Any revisions to the current intention will be consistent with the Policy.
- 2. Aligning pensions.** We have already committed that new Executive Director hires will be offered a pension aligned with that offered to the general UK workforce, consistent with investor preferences. In the proposed 2020 Policy, we will be extending this commitment to the incumbent Directors, whereby pensions will be reduced over the course of the life of the Policy to that of the workforce by 1 April 2023.
- 3. Promoting long-term share ownership.** Consistent with the new provisions under the UK Corporate Governance Code, a new requirement to maintain a shareholding post-termination will be adopted in the 2020 Policy. The required level of post-termination holding will be the same as the current in-post shareholding requirement and cover the 2 years following departure.

Remuneration outcomes for 2019/20

Remuneration for the Executive Directors in 2019/20 was consistent with the Remuneration Policy. The Committee reviewed, and was satisfied that, the remuneration outcomes reflected Company performance and the broader context, including Shareholders' experience. After due consideration, and with no discretion required to be used, the Committee approved the following outcomes:

2019/20 annual bonus

The 2019/20 annual bonus was based 80% on underlying financial performance measures (30% on EPS, 20% on PBT and 30% on OCF) and 20% on non-financial measures. While financial performance for the 2019/20 financial year was below the threshold levels set for the Group measures, the Committee determined that some payout would ordinarily be warranted by the achievement of many of the non-financial performance objectives set at the start of the year (ranging from 14% to 38% of maximum bonus for the Executive Directors). However, the final decision on the payment of the bonus warranted for the 2019/20 year will be delayed until after the Board makes its decision on the final dividend. Please see page 130 for more detail.

2017 PSP awards

The vesting of PSP awards granted in 2017 was based on performance measured over 1 April 2017 to 30 March 2020, with EPS, ROCE (both measured on an underlying basis) and TSR equally weighted. Performance against the targets set at the start of the cycle for each element was below threshold, resulting in 2017 PSP awards lapsing in full. Please see page 130 for more detail.

Remuneration for 2020/21

Decisions made for remuneration in 2020/21 are as follows:

Salary/fees

The Committee reviewed the executive director salaries in early 2020. The expectation is that the average increase in the UK workforce for the current financial year would be between 2% and 2.5%. The Committee decided to set the increase for the Executive Director salaries at 2%. In light of the impact on our employees and other stakeholders of the COVID-19 pandemic,

the Committee accepted a proposal by the Chief Executive to suspend the implementation of annual salary increases and keep this under review during the 2020/21 financial year. In addition, the Executive Directors and other senior executives volunteered a temporary 20% reduction to their base salaries. The Non-Executive Directors volunteered a similar reduction to their annual fees.

Pension

The pension for incumbent Executive Directors will reduce to 21.5% of salary, as the first step in the transition from the prior arrangement (a contribution of 25% of salary) to alignment with the workforce over the new Policy period.

2020/21 annual bonus

It is currently anticipated that the 2020/21 annual bonus will be based 80% on underlying financial performance measures (40% on PBT and 40% on OCF), and 20% on non-financial measures. The Committee will disclose targets in the 2020/21 Directors' Remuneration Report. However, the Committee decided to defer its final decision on the annual bonus until it had a better understanding of the impact of the pandemic. Therefore, it will determine the appropriate structure for the bonus in the first half of the financial year. Any final decisions around the annual bonus for Executive Directors will be consistent with the Policy and considered in the context of the bonus for the broader participant population.

2020 PSP awards

Participant population: R12 gs 0 g q 10 Oovel of

Please see page 126 for a summary of his outcomes for the last financial year and page 131 for his arrangements for the current financial year. In addition, in order to simplify the workings of the Board, John Davies stepped off the Board on 31 March 2020 and is no longer an Executive Director, although, as the CEO of the Land Sector, he remains a key member of the senior leadership team. However, we disclose below on page 126 his pay outcomes for the last financial year.

Finally, the composition of the Committee has been reviewed for 2020 onwards. To streamline its membership in order to make its operation more efficient and following Sir David Omand's decision to step down as a member of the Committee after 11 years' service, from 1 April 2020, the membership of the Committee was Kjersti Wiklund (Chair), Jeff Randall, Victoire de Margerie and Russ Houlden, with Carl-Peter Forster joining the Committee on his appointment to the Board on 1 June 2020.

Kjersti Wiklund
Committee Chair

Compliance statement

This report has been prepared by the Committee according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and other relevant requirements of the FCA Listing Rules. In addition, the Committee has applied the principles of good corporate governance set out in the UK Corporate Governance Code 2018, and has considered guidelines issued by its leading Shareholders and bodies such as the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association. In accordance with Section 439 of the Act, an advisory resolution to approve this Annual Statement and the Annual Report on Remuneration will be proposed at the Annual General Meeting on 4 August 2020. A binding resolution to approve the remuneration policy will also be proposed at the Meeting.

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

Remuneration Committee membership and attendance during the year

Jeff Randall (Chair)	7 of 7
Sir David Omand	6 of 7
Ian Duncan	7 of 7
Myles Lee	7 of 7
Victoire de Margerie*	6 of 7
Lucy Dimes	7 of 7
Kjersti Wiklund	7 of 7

* Victoire de Margerie was unable to attend one meeting due a pre-existing business commitment.

Remuneration at a Glance

This section provides an overview of the Company's performance over the 2019/20 financial year and the remuneration received by our Executive Directors. Full details can be found in the Annual Report on Remuneration on pages 125 to 136.

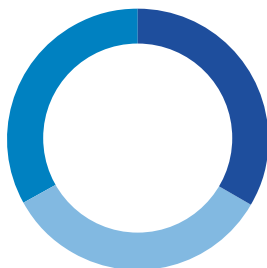
2019/20 remuneration outcomes

Annual bonus

The annual bonus for the 2019/20 financial year was based on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below:

	A Bethel	F Martinelli	J Davies
Group Earnings per Share (EPS)			
Group Profit Before Tax (PBT)			
Group Operating Cash Flow (OCF)			
Sector Profit Before Interest & Tax (PBIT) ¹			
Sector Operating Cash Flow (OCF) ¹			
Non-financial ²			
Total			

The 2017 PSP vests subject to three performance measures, the targets for which (and actual performance against these) are summarised below:



Measure & weighting	Performance range		Outcome	Warranted vesting (% of total award)
	Threshold (25% vesting)	Stretch (100% vesting)		
EPS growth (3-year CAGR) 33%	4% p.a.	11% p.a.	(4.4%) p.a.	0%
Return on Capital Employed (ROCE) (3-year average) 33%	12.0%	14.5%	11.7%	0%
Relative Total Shareholder Return (TSR) (vs FTSE350) 33%	Median	Median +9% p.a.	Below median	0%
TOTAL				0%

Based on the performance outcomes set out above, 2017 PSP awards shall lapse in full.

Remuneration Policy Report

The Remuneration policy set out in this section is to be submitted to a binding Shareholder vote at the 2020 AGM and it is intended that this policy will apply for three years from that date. The key changes from the previous remuneration policy and the rationale for the changes are explained in the Committee Chair's introduction on pages 113 to 115.

Key principles of the Remuneration policy

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

Remuneration policy for Executive Directors

Base salary

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

Pension

Purpose and link to strategy	To provide market competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Policy for new appointments

Remuneration continued

Performance Share Plan (PSP)

Purpose and link to strategy	<p>To incentivise delivery of top-quartile shareholder returns and earnings growth over the longer term.</p> <p>Long-term measures guard against short-term steps being taken to maximise annual rewards at the expense of future performance.</p>
Operation	<p>The Committee has the ability to grant nil-cost options or conditional share awards under the PSP.</p> <p>The award levels and performance conditions, on which vesting depends, are reviewed from time to time to ensure they remain appropriate.</p> <p>Participants will receive cash or shares equal to the value of any dividends that would have been paid over the vesting period on awards that vest.</p> <p>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.</p> <p>An additional two-year holding period will apply to Executive Directors' vested PSP awards before they are released.</p> <p>Malus and clawback provisions apply to PSP awards: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.</p>
Opportunity	<p>Maximum annual PSP award opportunity is 200% of base pay.</p> <p>16.7% of the maximum award opportunity will vest for threshold performance.</p>
Performance metrics	<p>Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period.</p> <p>It is intended that PSP awards made during the life of this Policy will be based on the achievement of stretching EPS, cashflow (added for the 2020 Policy), TSR and ROCE targets, equally weighted.</p> <p>The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.</p>

All-employee plans – Babcock Employee Share Plan

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

Approach to recruitment remuneration

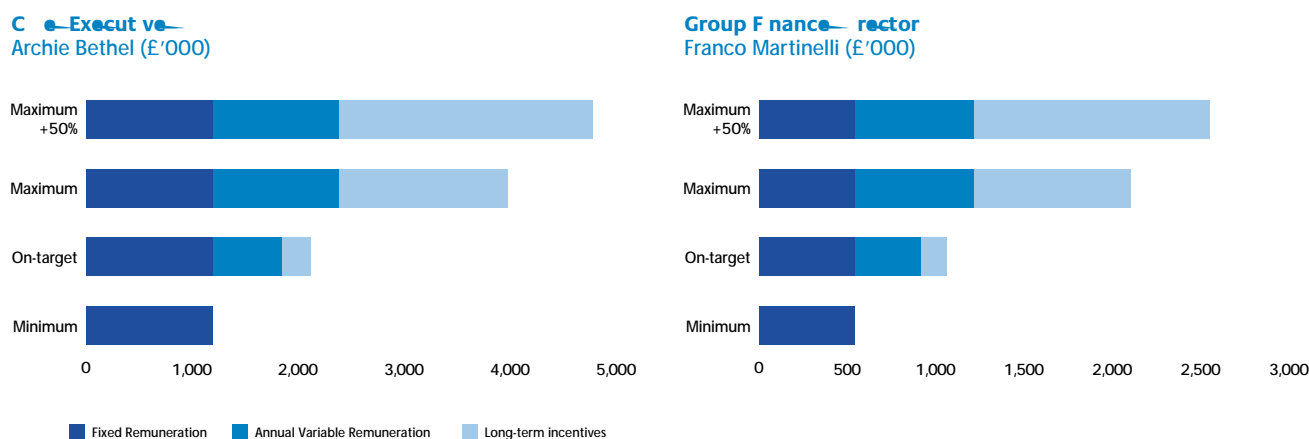
In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the components of remuneration (and subject to the same limits) set out in the Policy above.

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

When appointing a new Executive Director by way of promotion from an internal role, the pay structure will be consistent with the

Remuneration continued

Potential reward opportunities are based on the Company's Remuneration Policy and implementation in 2020/21, as outlined in the Committee Chair's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2020. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.



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

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

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

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

Shareholding guidelines for Executive Directors

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

For the 2020 Policy onwards, the shareholding requirements will be extended post-cessation 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
Archie Bethel (Chief Executive)	1 April 2016	12 months from Company, 12 months from Director
Franco Martinelli (Group Finance Director)	1 August 2014	12 months from Company, 12 months from Director

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

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

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

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

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

External appointments of Executive Directors

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

Chair and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment (subject to annual re-election)
Ruth Cairnie (Chair)	3 April 2019	2 April 2019	AGM 2022
Sir David Omand	1 April 2009	17 May 2018	AGM 2021
Ian Duncan	10 November 2010	1 April 2019	AGM 2020
Jeff Randall	1 April 2014	22 February 2017	AGM 2020
Myles Lee	1 April 2015	17 May 2018	AGM 2021
Victoire de Margerie	1 February 2016	1 April 2019	AGM 2022
Lucy Dimes	1 April 2018	5 March 2018	AGM 2021
Kjersti Wiklund	1 April 2018	5 March 2018	AGM 2021
Russ Houlden	1 April 2020	4 February 2020	AGM 2023
Carl-Peter Forster	1 June 2020	6 April 2020	AGM 2023

Remuneration continued

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.

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.

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	<p>Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit and Risk Committee, and Chair of the Remuneration Committee.</p> <p>Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of nominal travel and accommodation expenses).</p> <p>Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. This may result in higher fee levels for overseas Directors.</p>	<p>Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review.</p> <p>Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees.</p> <p>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.</p>	None

Consideration of employee views

When reviewing Executive Directors' remuneration, the Committee is aware of the proposals for remuneration of all employees. The Committee receives regular updates on salary increases, bonus and share awards made to employees throughout the Group. These matters are considered when conducting the annual review of executive remuneration.

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

Consideration of shareholder views

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

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

The Committee

The members of the Committee are appointed by the Board on the recommendation of the Nominations Committee and, in accordance with the UK Corporate Governance Code, the Committee is made up of independent Non-Executive Directors. The membership of the Committee during the year to 31 March 2020 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown below. The Group Chair and the Chief Executive normally attend meetings by invitation, as does the Group Finance Director on occasion, but they are not present when their own remuneration is being decided. The Group Director of Organisation and Development also attends meetings.

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

Remuneration continued

- considering performance against the measures applied to, and level of payout of, the 2018/19 annual bonus
- agreeing the level of 2019 PSP awards
- reviewing share ownership guidelines for senior executives
- reviewing the Directors' Remuneration report
- approving the procedure for the authorisation of Chairman and CEO expenses
- reviewing the continued appointment of the Committee's independent advisors.

Summary of shareholder voting

Pensions

None of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2020. They instead received a cash supplement equal to 25% of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

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

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

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

Until 31 March 2016, John Davies was a member of the VT Upper Section Ex-Short Brothers section of the Scheme and accrued benefits on earnings up to the scheme earnings cap at the rate of one-sixtieth of pensionable salary for each year of service. John Davies transferred his benefit out of the Scheme during the 2018/19 financial year under review on the standard terms offered under the scheme.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2020 are set out in the following table:

Director ¹	Accrued pension at 31 March 2020

Annual bonus

2019/20 Annual bonus (audited)

The 2019/20 annual bonus was based on a mix of financial and non-financial measures. The financial element, weighted 80%, was based on the Group's underlying PBT and EPS performance (based on budgeted FX rates), and cash flow against budget. The non-financial measures were principally based on the key themes that the Committee considers to be of material importance to the continued success of the Company.

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

Bonus element	Threshold	Target	Maximum	Actual outturn		Archie Bethel	Franco Martinelli	John Davies
EPS ¹ performance stretching targets, with a sliding scale between threshold and maximum	70.5p	74.2p	81.6p	69.3p	Maximum potential (% of salary)	45.0%	45.0%	45.0%
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted Group cash flow	93% of budget	Budget (£378.1m)	107% of budget	£300.3m	Maximum potential (% of salary)	45.0%	45.0%	22.5%
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted Group PBT ²	95% of budget	Budget (£460.7m)	110% of budget	£429.1m	Maximum potential (% of salary)	30.0%	30.0%	15.0%
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted sector cash flow	93% of budget	Budget ³	107% of budget	³	Maximum potential (% of salary)			22.5%
					Outturn (% of salary)			22.5%
Achieving budgeted sector PBIT ²	95% of budget	Budget ³	110% of budget	³	Maximum potential (% of salary)			15.0%
					Outturn (% of salary)			15.0%
Non-financial objectives ⁴					Maximum potential (% of salary)	30.0%	30.0%	30.0%
					Outturn (% of salary)	21.0%	24.0%	20.0%
Total					Maximum potential (% of salary)	150.0%	150.0%	150.0%
					Outturn (% of salary)	21.0%	24.0%	57.5%

1. Threshold vesting is: 10% of maximum for the Group PBT and sector PBIT elements; 27.5% of maximum for the EPS element; and 15.9% of maximum for the Group and sector cash flow elements. In line with our policy, overall vesting at threshold is no more than 15% when all measures are taken into account.

2. Before amortisation of acquired intangibles. The treatment of exceptional items is at the discretion of the Committee.

3. The Committee considers that the sector budgets remain commercially sensitive given the strategic nature of some of our customers or their activities, and they would also be of assistance to competitors, and will not be published.

4. Further details on the non-financial objectives set for 19/20 are set out on the following page.

Remuneration continued

The annual bonus outcome is primarily determined by the extent to which the financial targets and non-financial objectives are met. The Committee was satisfied that the outcomes against the financial measures were reflective of the underlying performance of the

Deferred Bonus Plan awards made during 2019/20* (audited)

The Executive Directors were granted DBP awards in 2019. The awards (details of which are set out below) will normally vest after three years subject to continued employment only.

Director	Number of shares	Face value (£) ¹	Face value (% of salary) ²	% of award receivable for threshold performance	End of performance period
Archie Bethel	56,453	£272,668	34%	n/a	n/a
Franco Martinelli	33,087	£159,810	36%	n/a	n/a
John Davies	28,570	£137,993	32%	n/a	n/a

1. Based for Directors on three-day average share price (of 483p) at time of grant.

2. Expressed as a percentage of salary at the date of the award (13 June 2019).

* In the form of nil-cost options.

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

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

Fixed remuneration	Base fee £'000		Additional fee ¹ £'000		Total £'000	
	19/20	18/19	19/20	18/19	19/20	18/19
Mike Turner	112	330	0	0	112	330
Ruth Cairnie ²	253	n/a	0	n/a	253	n/a
Sir David Omand	72	71	0	0	72	71
Ian Duncan	61	60	15	15	76	75
Jeff Randall	61	60	15	15	76	75
Myles Lee	65	64	0	0	65	64
Victoire de Margerie	65	64	0	0	65	64
Lucy Dimes	61	60	0	0	61	60
Kjersti Wiklund	61	60	0	0	61	60

1. Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).

2. Reflects Ruth Cairnie's fee as a Non-Executive director (from 3 April 2019 until 18 July 2019) and as Chair of Babcock from 19 July 2019 to 31 March 2020.

Sourcing of shares

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

Executive Directors' remuneration for 2020/21

The Committee has set the remuneration for Executive Directors for 2020/21 in line with the proposed 2020 Policy.

Base salary

Executive Directors' base salaries are reviewed each year with any changes usually taking effect on 1 July. In 2019, the base salaries of the Executive Directors were reviewed and adjusted to reflect the proposed 2020 Policy.

Remuneration continued

Pension

The pension for the Executive Directors will reduce to 21.5% of salary as the first step in the transition from the prior arrangements (25% of salary) to alignment with the workforce over the new policy period.

2020/21 Annual bonus

The structure of Executive Director annual bonus for 2020/21 is expected to be unchanged from that in 2019/20, other than for the removal of EPS and the reweighting of OCF and PBT (OCF from 30% to 40%, PBT from 20% to 40%). Non-financial objectives continue to be weighted 20%. However, at the time of drafting this Report, the Committee was considering the impact on the structure of the bonus of the ongoing COVID-19 pandemic, and will take this into account in the final decision around the bonus for 2020/21, which will be consistent with the shareholder-approved Policy. The Group financial performance targets and non-financial objectives will be disclosed in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive. Non-financial objectives will continue under the categories of:

- Operational excellence: continue to enhance reputation as a trusted partner for our customers
- Growth: focus on our three markets with leadership positions and grow our international business
- Technology: strengthen our offering through the increased adoption of technology
- Resources: develop and retain our people to meet the future growth plans of the business
- Value creation: act to deliver our medium term Capital Markets Day financial targets

40% of any earned bonus will be deferred into shares for three years.

2020 PSP awards

Due to the impact of the current COVID-19 pandemic, the Committee has decided to delay the PSP awards for 2020 until such time as the Committee believes that it can agree appropriate performance ranges. Any award will be consistent with the new Policy, with vesting currently intended to be based on four measures: EPS, cashflow, ROCE (all measured on an underlying basis) and Relative TSR. The weighting of these measures and the targets – which would normally be disclosed prospectively in this report – will be disclosed in the RNS statement announcing the granting of these awards.

Exit payments made in year (audited)

No exit payments were made to Executive Directors during the year under review.

Payments to past Directors (audited)

Peter Rogers retired from the Company on 31 August 2016. During the year under review, 15.1% and 12.5% of his retained interests in the 2016 PSP award and the 2016 legacy deferred bonus matching plan award, totalling 5,377 shares, vested at the normal time and in line with other participants, on 15 June 2019. In addition to the vesting of these shares, Mr Rogers was paid a cash sum of £4,544, representing the total value of dividends accruing on his 2016 PSP award and his legacy deferred bonus matching plan award.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. During the year under review, 15.1% of his retained interests in the 2016 PSP, totalling 8,654 shares, vested at the normal time and in line with other participants, on 15 June 2019. Mr Tame was also paid a cash sum of £7,313, representing the total value of dividends accruing on his 2016 PSP award. Mr Tame's 2016 DBP award (the value of which was disclosed in the 2016 Directors' Remuneration Report) also vested on 15 June 2019.

Non-Executive Directors' fees (including the Chair)

There are no changes to the fees for the Chair and the Non-Executive Directors for the 2020/21 financial year. In line with the Executive team, the Chair and Non-Executive Directors volunteered a temporary 20% reduction in their fees.

Annual rate fee	Year to 31 March 2021 £	Year to 31 March 2020 £	% change since last review (% p.a.)
Chair	336,000	336,000	0%
Senior Independent Director (inclusive of basic fee)	72,000	72,000	0%
Basic Non-Executive Director's fee (UK based Directors) ¹	61,000	61,000	0%
Chairmanship of Audit and Risk Committee ²	15,000	15,000	0%
Chairmanship of Remuneration Committee ²	15,000	15,000	0%

1. Fees for non-UK based Directors will be set having regard to the extra time commitment involved in attending meetings. For Myles Lee, appointed 1 April 2015 and based in Ireland, and for Victoire de Margerie, appointed 1 February 2016 and based in France, the fee has been set at £65,000 for the year to 31 March 2021.

2. Committee chairmanship fees are paid in addition to the basic applicable Non-Executive Director's fee. No additional fees are paid for membership of Committees.

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in remuneration from the prior year for the CEO compared to the average employee. The analysis is based on UK employees as they are operating in the same geography and macro-economic background as the Chief Executive.

	% change 2018/19 to 2019/20	
	Chief Executive	Other employees
Base salary	2%	2.4%

Remuneration continued

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence Indices, assuming £100 was invested on 31 March 2010. 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

Directors' share ownership

Directors' interests in shares (audited)

The interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2020 and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

Director	At 31 March 2019	At 31 March 2020							
	Shares held	Shares held		Option held					
	Owned outright by Director or spouse ¹	Owned outright by Director or spouse ¹	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) ²	Req. met? ²
Archie Bethel	424,063	460,416	0	0	616,878	118,387	300%	331%	Yes
Franco Martinelli	322,509	336,014	0	0	345,578	69,957	200%	422%	Yes
John Davies	197,202	210,852	0	0	333,121	57,859	200%	283%	Yes
Ruth Cairnie	n/a	50,000							
Jeff Randall	5,758	6,097							
Sir David Omand	0	0							
Ian Duncan	0	0							
Myles Lee	20,000	30,000							
Victoire de Margerie	4,800	7,061							
Lucy Dimes	5,000	5,000							
Kjersti Wiklund	2,100	2,100							
Former directors ³		Benefici.99ywned	1	0	0	1	60011	Td (1)Trch 2022	Td (.)..062r39.06 -7TL T*)-5.063.02358(% of sal927 2.

