

# Remuneration policy report

Shareholders approved our current Remuneration policy at our 2023 AGM with a vote in favour of 98%. We intend to apply the policy, which came into effect on 28 September 2023, for up to a three-year period until we propose a new Remuneration policy to shareholders for their approval at the 2026 AGM at the latest. You can find the current policy at [www.babcockinternational.com/who-we-are/leadership-and-governance](http://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

<b>Purpose and link to strategy</b>	To recruit and retain the best executive talent to execute our strategic objectives at appropriate cost.
<b>Operation</b>	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.
<b>Opportunity</b>	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.
<b>Performance metrics</b>	Business and individual performance are considerations in setting base salary.

### Pension

<b>Purpose and link to strategy</b>	To provide market-competitive retirement benefits.
<b>Operation</b>	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.
<b>Opportunity</b>	Executive Directors receive pension benefits up to the value (10% of salary, as of FY25) 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.
<b>Performance metrics</b>	Not performance-related.

### Benefits

<b>Purpose and link to strategy</b>	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.
<b>Operation</b>	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.
<b>Opportunity</b>	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.
<b>Performance metrics</b>	Not performance-related.

## Annual bonus

<b>Purpose and link to strategy</b>	<p>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.</p> <p>The requirement to defer a substantial part of the bonus into Company shares strengthens the link to long-term sustainable growth.</p>
<b>Operation</b>	<p>Performance targets are set at the start of the year and reflect the responsibilities of the Executive Directors in relation to the delivery of our strategy.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<b>Opportunity</b>	<p>Maximum bonus opportunity is 150% of salary.</p> <p>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.</p>
<b>Performance metrics</b>	<p>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.</p> <p>The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting.</p> <p>The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.</p>

## Performance Share Plan (PSP)

<b>Purpose and link to strategy</b>	<p>To incentivise delivery of sustainable value creation over the longer term.</p> <p>Long-term measures guard against the Company taking short-term steps to maximise annual rewards at the expense of future performance.</p>
<b>Operation</b>	<p>The Committee has the ability to grant nil-cost options or conditional share awards under the PSP.</p> <p>The Committee reviews award levels and performance conditions, on which vesting depends, 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 they would have received 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 the Company releases them.</p> <p>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.</p>
<b>Opportunity</b>	<p>Maximum annual PSP award opportunity is 250% of base pay.</p> <p>16.7% of the maximum award opportunity will vest for threshold performance.</p>
<b>Performance metrics</b>	<p>Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period.</p> <p>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).</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

<b>Purpose and link to strategy</b>	To encourage employee ownership of Company shares.
<b>Operation</b>	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.
<b>Opportunity</b>	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.
<b>Performance metrics</b>	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

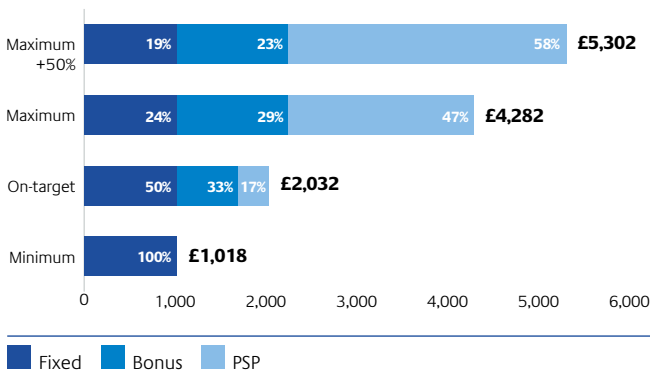
The policy with regard to the remuneration of senior executives below the Board is broadly consistent with that for the Executive Directors, in that it weights remuneration to variable components which are delivered through an annual bonus and equity-based incentives, albeit that restricted stock awards,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

### Chief Executive

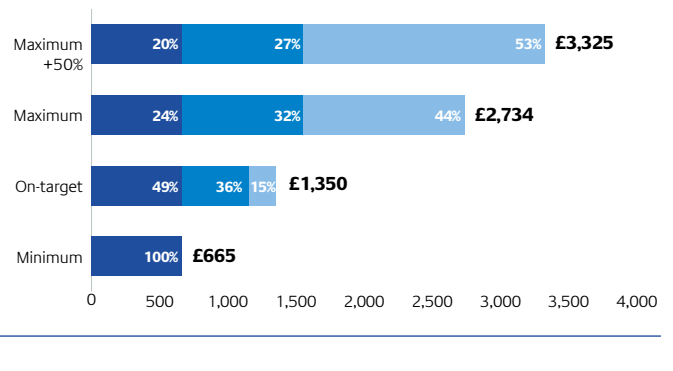
David Lockwood (£'000)



Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY25, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 April 2024. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

### Chief Financial Officer

David Mellors (£'000)



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 FY21 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
<b>Annual bonus</b>	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.
<b>Deferred bonus awards</b>	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.
<b>PSP</b>	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, David Lockwood joined the board of John Wood Group PLC as a non-executive director. The Chair was satisfied that the appointment would not detract from his role as CEO and the exchange of experience and practice would be beneficial.

## 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
Claudia Natanson	1 March 2024	12 February 2024	AGM 2027

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
<b>To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company</b>	<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). 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).</p> <p>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.</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. 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. 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 its Annual Report, which sets out in detail executive pay. However, in addition, the Company also engages directly with employees through the Global People Survey and through the 'ask David' email; and indirectly through an in-person meeting between the Chair of the Remuneration Committee and the Shadow Executive Committee, a committee made up of representatives from across the Group. At the FY24 meetings, the Chief HR Officer explained the Company's approach to executive pay, including that of the Executive Directors. 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.