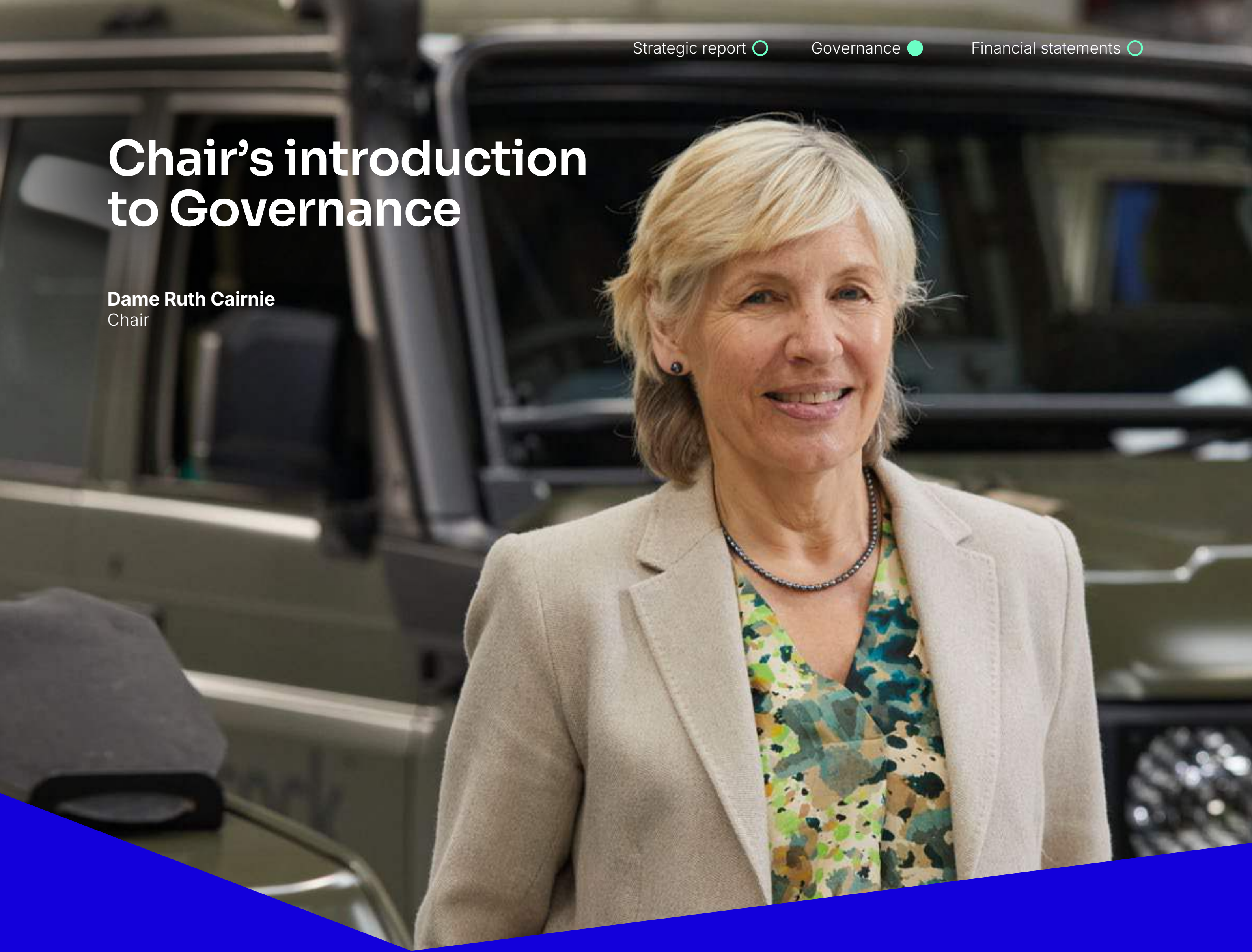
Chair's introduction to Governance

Dame Ruth Cairnie
Chair



Dear fellow Shareholder

I am pleased to start my introduction to our Governance report by saying that we have continued to make significant progress over the year.

The Board's governance focus through FY25 has been to continue delivery of our control enhancement plan and to drive improvements in operational delivery. Our progress made over several years provides the solid platform from which we can now develop the growth opportunities we see before us, as well as the tools to navigate the uncertainties arising in an increasingly turbulent world.

Risk and controls

Since FY21, we have been focused on improving our risk management and control environment. Over this time, we have made significant steps to achieve our ambition to be in line with the best-in-class peer FTSE companies. We have invested in our risk management capability, establishing a dedicated function to improve the quality of risk data and assurance evidence for both controls and overall risk performance. We have designed and implemented our Blueprint Fundamentals, 15 key controls covering contract reviews, bid reviews and financial reporting controls.

Statement of compliance

The Board confirms that for the year ended 31 March 2025, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied and all provisions complied with.

Further information on the Code can be found on the Financial Reporting Council's website at: **www.frc.org.uk**.

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

In FY25, we have been building on these and other improvements to prepare for the changes introduced by the Financial Reporting Council in its 2024 UK Corporate Governance Code. Provision 29 of the new Code will require the Board to identify material controls over financial and non-financial reporting as well as our principal risks, and then to provide a declaration of effectiveness as at our balance sheet date.

In response, we have undertaken an exercise led by the Audit Committee to review our material transactional and broader framework controls. We have made an initial identification of our material controls, which we will continue to refine, and are now building out our control activities as well as defining the testing and assurance plan. We aim to have our process designed and operational well in advance of the implementation of Provision 29 in FY27.

As well as working on our risk management and internal controls programme, the Audit Committee has led on the appointment and on-boarding of our new auditors, Forvis Mazars. I would like to thank the Audit Committee for all their hard work in ensuring a smooth transition.

Growth and stakeholder engagement

Now that the changes we have implemented over the last five years are embedded in the organisation, we can increasingly focus on our strategy for growth. We believe that we are well positioned in markets that show sustainable growth potential. Over the year, we have developed our strategy by refining our strategic framework, against which we can evaluate the Company's growth opportunities. Building on this, we are now enhancing our approach to monitoring our strategic progress. This will be an important aid to help us navigate an increasingly uncertain world with transparency and discipline.

As we develop our strategy and look at growth opportunities, the interests of our stakeholders are an important consideration. We engage with our stakeholders in numerous ways, including face-to-face meetings with shareholders, multiple channels to hear from colleagues such as our site visits, our Director designated for workforce engagement, and our Global People Survey. In respect of our customers, we understand their priorities through the direct contact we have with them as well as the regular business updates that we receive.

Board membership and effectiveness

At a time of uncertainty, a critical driver of a board's effectiveness is how well it works together to address new and unforeseen issues, effectively harnessing the skills of all its members. This was a particular focus of our Board review during last year, which was externally led. The review concluded that the Board had continued to operate effectively with a collegiate and transparent culture, and made some helpful recommendations about how to enhance further the Board's performance. We will provide an update on progress against these recommendations in next year's report.

There were no changes to Board membership during the year. Looking ahead, after seven years of service Lucy Dimes has decided to retire from the Board and will not seek re-election at this year's AGM. I would like to thank Lucy for her commitment and advice over the last seven years and wish her well for the future. We will be looking to appoint a new Non-Executive Director and a recruitment process is underway.

People and culture

Babcock is a people business. For us to succeed, we must ensure that we have the right people, with the right skills and experience, to deliver the products and services that our customers require. Over the year, the Board agenda (via the Nominations Committee) includes a number of sessions focused on different aspects of our People Strategy, including the restructuring of our People function and its priorities, to ensure its alignment with the priorities of our businesses.

This year, in response to the Global People Survey findings, we have focused on leadership and talent development. The development programme for the Senior Executive team has been refreshed and will be used as a template for a consistent approach to leadership and its development throughout the Group. This new approach will give us a closer view of the talent we have across the organisation and naturally feeds into our succession planning, which has been significantly enhanced during the year.

Sustainability

ESG remains important to our stakeholders: our people want to work for responsible employers, our customers want help in delivering their ESG targets, and our shareholders want to invest in a sustainable business. In FY21, we set ourselves a target to achieve Net Zero carbon emissions for our estate, assets and operations by 2040. This year, we decided the time was right to review our strategy to deliver this and other sustainability objectives, as our approach had been evolving with the inclusion of additional commitments and targets. Recognising the importance of simplicity and prioritisation, we have updated the strategy to focus on just six specific targets.

These targets reflect both regulatory requirements and business imperatives: emissions reduction, improvement of energy efficiency, increased biodiversity, reduced number of lost workdays, increased volunteering, and increased female representation. We believe that each of these resonates with our stakeholders and adds value to our proposition as a responsible business. The simpler strategy will enable us to harness resources across the Group more effectively.

The year ahead

The business is demonstrating strong momentum and our plan is to continue to build on this. To support this, we will be careful to maintain and further strengthen our governance, from the continued focus on risk management and controls I have discussed, to ensuring rigour and discipline in our evaluation and, where appropriate, execution of growth opportunities to secure benefit for our stakeholders.

I hope this summary has given a good sense of the Board's activities during FY25 and our ambitions for the future. I look forward to meeting you at our AGM on Thursday, 25 September 2025.

Dame Ruth Cairnie
Chair

Board of Directors

Creating a safe and secure world, **together**

1. Dame Ruth Cairnie DBE
Chair

2. David Lockwood OBE
Chief Executive Officer

3. Carl-Peter Forster
Senior Independent Director

4. John Ramsay
Independent Non-Executive Director

5. David Mellors
Chief Financial Officer

6. The Right Honourable The Lord Parker of Minsmere, GCVO, KCB
Independent Non-Executive Director

7. Lucy Dimes
Independent Non-Executive Director

8. Sir Kevin Smith CBE
Independent Non-Executive Director

9. Jane Moriarty
Independent Non-Executive Director

10. Dr Claudia Natanson MBE
Independent Non-Executive Director

Board of Directors *(continued)*

Dame Ruth Cairnie DBE
Chair

N

Appointed
April 2019

Nationality
British

Key contribution: Extensive experience of the engineering sector, strong strategic vision and leadership.

Skills and experience: Ruth brings experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc. She has also advised government departments on strategic development and capability building. She has been a Non-Executive Director of Rolls-Royce Holdings plc, Associated British Foods plc, ContourGlobal plc and Keller Group PLC as well as a member of the finance committee of the University of Cambridge. Ruth is a Master of Advanced Studies in Mathematics from the University of Cambridge and holds a BSc Joint Honours in Mathematics and Physics from the University of Bristol.

Current appointments: Non-Executive Director of BT Group plc and Serendipity Capital, a venture capital investor focused on critical technologies. She is a patron of the Women in Defence Charter and a member of the CBI Board.

Carl-Peter Forster
Senior Independent Director

R N

Appointed
June 2020

Nationality
German and British

Key contribution: Extensive manufacturing and international experience.

Skills and experience: 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, and Senior Independent Director of IMI plc, as well as being Chair of Chemring Group PLC.

Current appointments: Chair of Vesuvius plc and Keller Group Plc.

John Ramsay
Independent Non-Executive Director

A R N

Appointed
January 2022

Nationality
British

Key contribution: Extensive financial, international and boardroom experience.

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

Current appointments: Member of the Supervisory Board at DSM Firmenich AG and Non-Executive Director of RHI Magnesita N.V. He is Audit Committee Chair at each of these companies.

David Lockwood OBE
Chief Executive Officer

E

Appointed
September 2020

Nationality
British

Key contribution: Wide-ranging knowledge of defence and aviation markets, and a wealth of experience in both technology and innovation.

Skills and experience: David was CEO of Cobham plc (from 2016 to March 2020), and prior to that he was CEO of Laird PLC (from 2012 to September 2016). His career includes senior management roles at BT Global Services, BAE Systems and Thales Corporation. He received an OBE for services to industry in Scotland in 2011. David has a Degree in Mathematics from the University of York and is a Chartered Accountant. He is a Fellow of the Royal Aeronautical Society and the Royal Society of Arts and Commerce.

Current external appointments: President of ADS, the UK trade association for the aerospace, defence, security and space industry.

David Mellors
Chief Financial Officer

E

Appointed
November 2020

Nationality
British

Key contribution: Extensive CFO experience in defence, aerospace, and commercial markets.

Skills and experience: David was previously CFO of Cobham plc and prior to that he was CFO of QinetiQ Group plc from 2008 to 2016, where he also served as interim Chief Executive for a period. His career includes several roles at Logica PLC, CMG plc and Rio Tinto PLC. David has a degree in Physics from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Current external appointments: None.

Appointment key

- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- D Director designated for workforce engagement
- ○ Board Committee Chair

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

Independent Non-Executive Director

N D

Appointed
November 2020

Nationality
British

Key contribution: Extensive experience of working at the highest level of public service, including a focus on new technology-centred change and championing inclusion.

Skills and experience: Lord Parker has had a long career in a wide range of national security and intelligence roles in the UK, which culminated in him becoming the Director General of MI5, the UK Government's national security agency, in 2013. He retired from this role in 2020 after which he served as Lord Chamberlain (head of the Royal Household).

Current appointments: Member of the House of Lords, a Non-Executive Director of Vertical Aerospace and Board Adviser to Telicent Ltd. Lord Parker is a Distinguished Fellow at the Royal United Services Institute.

Lucy Dimes

Independent Non-Executive Director

R A N

Appointed
April 2018

Nationality
British

Key contribution: Experience in industries at the forefront of growth and technology-based innovation, and an understanding of complex outsourcing and global strategic partnerships.

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

Current appointments: None.

Sir Kevin Smith CBE

Independent Non-Executive Director

A N

Appointed
June 2023

Nationality
British

Key contribution: Expertise in aerospace, defence and engineering sectors and board room experience.

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

Current appointments: Member of L.E.K. Consulting's European Advisory Board.

Dr Claudia Natanson MBE

Independent Non-Executive Director

N

Appointed
March 2024

Nationality
British and Jamaican

Key contribution: Extensive information and cybersecurity expertise.

Skills and experience: Claudia works internationally as an information and cybersecurity professional, and brings over 20 of experience in this field across globally diverse industries in the public and private sectors. She has previously held senior roles in cyber security, as security strategic advisor and chief security officer with Aramark Corporation in the USA, the Department for Work and Pensions, Smiths Group plc and Diageo Global. Claudia holds a PhD in computing and education from the University of Birmingham. In 2022, she was awarded an MBE for services to the cyber security profession.

Current appointments: Chair of the Board of Trustees of the UK Cyber Security Council, Board member of the UK National Cyber Advisory Board and a registered European Commission Security and Cyber expert.

Jane Moriarty

Independent Non-Executive Director

A R N

Appointed
December 2022

Nationality
Irish

Key contribution: Extensive international business and finance experience.

Skills and experience: Jane, a Chartered Accountant, brings with her over 30 years of international business and finance experience. After a long executive career with KPMG, where she was a senior advisory partner, Jane has held a number of Non-Executive roles, including Quarto Group Inc where she was Vice-Chair and Chair of the audit and remuneration committees.

Current appointments: Non-Executive Director, Chair of the audit committee and Senior independent Director of Mitchells & Butlers plc.

Board leadership and company purpose

Board leadership

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

The Board

The Board's role is to lead the Group for the long-term sustainable success of Babcock, by setting our strategy and supervising the conduct of the Group's activities within a framework of prudent and effective internal controls.

The Board has adopted a schedule of matters reserved for its, or its Committees', specific approval (see page 136). For other matters, authority is delegated to management according to a delegation matrix.

Principal Board Committees

Audit Committee

Responsible for overseeing the Company's systems for internal financial control, risk management and financial reporting.

● See pages 146 to 149

Remuneration Committee

Determines and applies the Remuneration policy for the Executive Directors, as well as the Group Executive Committee, and is responsible for oversight of the remuneration policies and practices relating to the wider workforce.

● See pages 150 to 177

Nominations Committee

Reviews the composition of the Board and leads on Board appointments, as well as considering succession planning at both Board and senior management level and leading on the Company's Diversity and Inclusion policy.

● See pages 144 to 145

Group Executive Committee

Reviews and discusses all matters of material significance to the Group's management, operational and financial performance, as well as strategic development. The Committee consists of the CEO, the CFO, the Chief Corporate Affairs Officer, the Chief Executive Marine, the Chief Executive Nuclear, the Chief Executive Land, the Chief Executive Aviation and France, the Chief Executive Mission Systems, the Chief Executive Africa, the Chief Executive Australasia, the Chief People Officer, the Chief Engineering & Technology Officer, the Chief Delivery Officer and the Group Company Secretary and General Counsel.

For more information see **www.babcockinternational.com/who we are/leadership-and-governance**

Principal Management Committees

Corporate Sustainability Committee

Responsible for Group-wide sustainability initiatives, the management of climate-related issues and driving the wider sustainability agenda. The Committee is chaired by the Chief Executive Land and members include the Chief Financial Officer, sector Chief Executives, Chief People Officer, the Group General Counsel, the Group Director of Sustainability and the Group Health and Safety Director.

● See page 64

Executive Safety Committee

Provides direction and executive management of the safety, health and environmental protection framework controls to ensure risks are as low as reasonably practicable and our approach is coherent to enable continuous improvement in performance across Babcock. The Committee is chaired by the Group Health & Safety Director and members include sector and DRC CEOs, the Chief People Officer and the Chief Delivery Officer.

● See page 119

Group Executive Risk and Controls Committee

Provides leadership and oversight of the Group's Enterprise Risk Management Framework, acting as an interface between the Audit Committee and the business. The Committee has as its principal deliverable the review and challenge of the mitigation and control of the principal risks. The Committee membership includes the Executive Committee, Group Financial Controller, Group Director of Internal Audit, Risk Assurance & Insurance and the Group Director of Controls.

● See page 106

Company purpose

The Board sets the Company's Purpose and reviews how the Company aligns to it, including assessing how the Company's strategy is set to fulfil the Purpose. Our principles of be curious, think: outcomes, be kind, collaborate, be courageous, and own and deliver underpin our Purpose and the culture the Board is seeking to embed in the Company.

Effective decision-making and oversight

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

All scheduled meetings consider:

- Health and safety reports
- Operational update
- Financial update
- Investor relations update
- Legal/governance reports
- Conflicts of interest review
- Reports from Chairs of Remuneration, Audit and Nominations Committees.

The Board regularly considers:

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

Setting and overseeing strategy

The Board held its dedicated strategy review meeting in June 2024, offsite. At the meeting, the Board reviewed the Company's strategic aims and tested their alignment to the interests of the Company's stakeholders. In addition to its dedicated review, the Board has regular updates throughout the year, as the Board believes that strategy should be a dynamic process, benefiting from regular Board engagement and supported by dedicated deep-dive review sessions.

How the Board monitors culture

The Board believes that a company's culture must align with and support its strategy. The Board monitors the Company's culture throughout the Group in the following ways:

Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our colleagues through living our principles and demonstrating them in action.

Listening to our people

Our Non-Executive Directors regularly visit our sites. At least once a year, the Board holds one of its meetings at a site to give the Non-Executive Directors the opportunity to engage with colleagues together. As well as the Board site visit, individual Non-Executive Directors take time to visit other sites to engage with colleagues. In addition, our designated Non-Executive Director for workforce engagement has his own programme of site visits. His programme includes extensive engagement with colleagues and he feeds back the key themes to the Board. As well as visiting sites, the Non-Executive Directors engage in other ways with colleagues, such as meeting with different colleague groups such as the upcoming talent cohort and attendance at leadership events. The Board also hears from colleagues through the questions and feedback received by the CEO's dedicated email 'Ask David', as well as from employee forums and surveys. This year, the Company conducted its third Group-wide employee engagement survey. The Board reviewed the results of the survey along with an action plan for responding to the key themes.

● See page 134

Ethics and whistleblowing

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

Other cultural indicators

The Board regularly receives health and safety metrics and thematic reviews through its regular 'People' sessions. These sessions also cover Diversity and Inclusion.

● **More information on the implementation of the strategy overseen by the Board can be seen on pages 8 and 9 and throughout the Strategic report.**

Board leadership and company purpose *(continued)*

Board leadership

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

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

This section, through to page 138, forms part of the s172(1) statement which can be found in the Strategic report on page 62.

Further information on how the Company engages with its stakeholders can be found on pages 62 and 63.

How the Board engages

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement[1]
Customers	• Monthly written reports from Executive Directors include material customer matters • Sector CEOs and the Executive Directors give briefings at Board meetings	During the year the Executive Directors had regular meetings with the Group's key customers. These meetings happen throughout the year and across all levels of our key customers.	• **Order intake by sector** • **Safety balanced scorecard** • **Major operational programmes' RAG status**
Investors	• Reports from Investor Relations • Treasury reports • Investor meetings/roadshow • AGM	The Board engaged directly with its investors, principally through meetings with the Executive Directors and the Chair. In addition, the Board receives regular feedback from the Group Head of Investor Relations. The Committee Chairs are available to meet shareholders when required. This year, the Chair of our Remuneration Committee consulted with shareholders on the Committee's proposals to amend its Remuneration Policy. Please see pages 161 and 162 for more details. Our AGM gives the Board an annual opportunity to meet with private investors and for them to ask questions directly to the Board.	• **Underlying operating profit** • **Operating cash flow** • **Analysis of share register movements** • Investor feedback from results presentations and investor meetings • AGM feedback and voting from shareholders and proxy agencies
Employees	• Bottom-up reports from Lord Parker, the Director designated for workforce engagement • Global People Survey, our Group-wide employee survey • Top-down reports from the Chief People Officer • Principal trade union meeting with the CEO and the Chief People Officer • Whistleblowing reports	Lord Parker visited four sites during the year and engaged with over 200 colleagues over 12 meetings. After his visits, Lord Parker gave an overview of his findings to the Board. Other members of the Board meet with colleagues during their visits to our sites. Additionally, the CEO engages with colleagues Group-wide via vlogs, and colleagues can contact him directly via a dedicated email address. Members of the senior leadership team regularly present to the Board.	• Participation rate and engagement score in Global People Survey • **Safety balanced scorecard together with monthly overview of significant safety events and Total Recordable Injury Rate** • Ethics training compliance rate • Gender pay gap • Subject matter of whistleblowing reports

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement[1]
Communities	• Health, safety and environment updates • Material issues are included in the monthly reports from Executive Directors or in sector CEO briefings • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is concentrated, with no direct engagement by the Board of Directors. The Board continues to believe that this level of engagement is appropriate as any material issues are brought to the Board's attention through the monthly operational reports or the functional reports to the Board. However, the Board does take the opportunity to engage when appropriate. For example, on site visits, the Board seeks to engage the community leaders as well as colleagues.	• **Safety balanced scorecard including Total Recordable Injury Rate and updates on any environmental issues** • Diversity performance against target • Performance against carbon emissions target
Suppliers	• Briefings from the Chief Delivery Officer on an annual basis • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Transparency Statement	Principal engagement is undertaken by operational management, which reports annually to the Board to give it oversight of the function and its operation.	• Subject matter of whistleblowing reports • Modern slavery review

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

Board leadership and company purpose *(continued)*

How the Board took stakeholders' interests into account in its decision-making

When the Board makes its decisions, it seeks to consider the Company's stakeholders and their interests. Sometimes these interests are aligned, but on other occasions the Board must balance different stakeholder interests and take the decision that it believes is most likely to promote the long-term success of the Company in accordance with its duties under s172 of the Companies Act 2006. In all its decisions, the Board keeps in mind the Company's Purpose and principles to ensure alignment. Set out below is a description of how the Board addressed stakeholder interests in its discussions and decision-making in relation to the Board's key areas of focus.

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors[1]	More information
1 **New Sustainability Strategy**	The approach to corporate sustainability has evolved since the Board adopted a new Sustainability Strategy in FY21. Over this period, the Company has added additional commitments and targets, while our focus now is increasingly on delivery and harnessing our resources to achieve our goals. As a result, the Board decided that it was an appropriate time to review the Company's strategy to ensure that it meets the demands of stakeholders as well as the needs of the Company. As inputs, the Board considered how stakeholder demand has developed, building on insights from its engagement with them (please see pages 134 and 135 for more information as to the ways in which the Board engages with its stakeholders). The Board's assessment was that: (i) shareholders continue to expect the Company to focus on compliance with current and emerging regulations, they want to understand the financial risks and opportunities that sustainability may pose, and to see focused action; (ii) our colleagues (and the communities in which we operate and they live) expect the Company to provide environmental and social improvements alongside the economic benefits the Company provides through its employment; and (iii) our customers want to see continued improvement in sustainability performance, to support them in their sustainability strategies but without incurring excess cost as a result. The Board concluded that, while the sustainability demands of our stakeholders might have evolved, their level of ambition remains the same. The Board then assessed the effectiveness of its strategy and decided that it would focus on six strategic priorities reflecting both regulatory requirements and business imperatives: emissions reduction, improvement of energy efficiency, increased biodiversity, reduced number of lost workdays, increased volunteering, and increased female representation. For more information on the six strategic priorities, please see page 164. The Board believes the simpler strategy will enable better engagement with our stakeholders as well as driving business improvement.	• **Shareholders** • **Employees** • **Customers** • **a, b, c, d, e, and f**	● Pages 64 and 65

1. s172(1) a-f factors are detailed in the s172(1) statement on page 62.

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors[1]	More information
2 **People Strategy**	In FY21, the Board decided that, while the Company had key fundamental strengths, it needed to adapt its business model to meet the needs of a changing market. Part of this change was the implementation of a new People Strategy. The aim of this strategy was to create an agile and inclusive workplace with harmonised processes and policies, improved diversity, and a new approach to talent management. Stakeholders supported this strategy as it was one of five strategic actions to unlock the Company's potential: for shareholders it would lead to improved returns; for customers to improved delivery; and for colleagues, a better place to work. Over the last five years, the Board has worked hard to implement its People Strategy and in FY25 took further decisions to continue its work. A focus for FY25 was the Company's early careers programmes. The Board approved a record intake of early careers colleagues across the Group, with a significant investment in our nuclear sector as part of our commitment to the Government's National Nuclear Endeavour. We also opened the Babcock Engineering & Nuclear Skills building in Devonport. This modern facility will enhance our growing workforce capabilities in the UK's nuclear programmes by building a new pipeline of talent, while also upskilling the existing workforce with the complex skills required to perform our work at Devonport. We have also expanded our successful pre-apprenticeship programme at Clyde, which saw a 90% success rate of participants continuing onto our modern apprenticeship programme, with further plans to roll this out at Rosyth. These programmes provide an alternative route into Babcock for a broader range of talented people to start their career. We have also formally signed up to Interchange, a collaborative secondment initiative enabling the sharing of skills and talent across the nuclear enterprise, providing development and upskilling opportunities for our people. However, before making any decision regarding its People Strategy, the Board considered the interests of the Company's stakeholders and agreed that those decisions were aligned with stakeholder interests, as shareholders want to invest in organisations that have access to the best talent; colleagues want to work in organisations that support and develop talent that reflects the communities they serve; and customers want to receive their services from the best talent available.	• **Shareholders** • **a, b, and c**	● Pages 19 and 86

1. s172(1) a-f factors are detailed in the s172(1) statement on page 62.

Board leadership and company purpose *(continued)*

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors[1]	More information
3 **Our capital allocation strategy**	In FY23, the Board set out its refreshed capital allocation framework, which was underpinned with a commitment to maintain a strong balance sheet and an investment-grade credit rating. If there was any capital available after investing organically in the business and adhering to these commitments, the Board would apply it to three clearly identified areas: bolt-on M&A, pensions, and returns to shareholders. In developing the framework, the interests of stakeholders had been taken into account: shareholders appreciated the alignment of the framework with our strategy to maximise value, while customers and colleagues recognised how the Board's commitment to maintaining a strong balance sheet and investment-grade credit rating would make the Company a more stable and sustainable business. As the Company has returned to growth, over FY25 the Board has considered possible M&A opportunities. Bearing in mind the priorities of our stakeholders, the Board has applied strict discipline in its review of these opportunities: a strong fit with the Company's strategy and existing portfolio is seen as essential, and strong scrutiny is applied to assure that any opportunity will strengthen the business in accordance with stakeholder interests and will not undermine the Board's commitment to balance sheet strength and an investment-grade credit rating. To ensure that this discipline is reflected throughout the Company, during the year the Board has refreshed its governance requirements for M&A. The Board has retained the right of approval for all acquisitions or disposals above £10 million. Over the year, the disciplined approach has led to several decisions to decline M&A growth opportunities that were being considered.	• **Employees** • **Shareholders** • **Customers** • **a, b, c, d, e, f**	● Pages 7 and 19 to 20

1. s172(1) a-f factors are detailed in the s172(1) statement on page 62.

How the Board keeps s172 on its agenda

The Board makes sure that in its decisions it considers the long-term success of the Company and considers the interests of its stakeholders as follows:

- The Board sets the Company's Purpose and strategy. Every year, it carries out an annual strategy review to assess the long-term sustainable future of the Group and its impact on key stakeholders. As part of those discussions, it considers the matters the Directors must have regard to as part of their Section 172 duties
- The Board's risk management procedures identify the principal risks facing the Group and the mitigations in place to manage the impact of these risks. Many of these risks relate to our stakeholder groups
- The Board's standing agenda covers areas of stakeholder interest, such as sector operational reports, functional reports, financial reports, health and safety reports, and litigation reports, to ensure that the Board receives relevant updates on matters of interest to our stakeholders
- There are regular reports from the Audit Committee Chair and the Remuneration Committee Chair on items within their remit
- When making decisions which require judgement to balance the interests of different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for examples, please see above. Members of the Board regularly engage with our investors and colleagues, and the Board uses the stakeholder engagement summarised on pages 62 and 63 and on pages 134 and 135 to ensure that it understands the priorities of each stakeholder group and then uses that understanding to inform its decision-making process.

Division of responsibilities

Defining Board responsibilities

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

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

Non-Executive

Chair

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

Senior Independent Director

- Acts as a sounding board for the Chair;
- Available to shareholders if they have any concerns which require resolution;
- Leads the annual evaluation of the Chair's performance; and
- Serves as an intermediary to other Directors when necessary.

Independent Non-Executive Directors

- Support and constructively challenge the Executive team;
- Contribute to the development of the Company's strategy;
- Provide an external perspective and bring a diverse range of skills and experience to the Board's decision-making;
- Contribute to Board discussions on the nature and extent of the risks the Company is willing to take to achieve its strategic objectives;
- Satisfy themselves as to the integrity of financial information;
- Ensure financial controls and systems of risk management are robust and defensible; and
- Play a primary role in appointing and, where necessary, removing Executive Directors, setting their remuneration and succession planning.

Designated Non-Executive Director for workforce engagement

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

Executive

Chief Executive Officer

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

Chief Financial Officer

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

Composition, succession and evaluation

Articles of Association

The powers of the Directors are set out in the Company's Articles of Association (the Articles), which the members of the Company may amend by a Special Resolution. The Board may exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection online at www.babcockinternational.com.

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees. These are clearly defined in their terms of reference (available online at www.babcockinternational.com). Other responsibilities are delegated to management under a delegated authorities matrix.

Summary of key matters reserved for the Board

- Group strategy
- Interim and final results announcements and the Annual Report
- Dividend policy
- Acquisitions, disposals and other transactions outside delegation limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management (advised by the Audit Committee)
- Major press releases and shareholder circulars

Meetings and attendance

Each financial year, the Board has eight scheduled full Board meetings held in person, which includes a meeting dedicated to strategy, and two operational updates held by video conference or in person. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. See the table opposite for further information about the meetings held during the year. There was 100% attendance at scheduled Board and Nominations Committee meetings and 95% and 97% respectively for Audit and Remuneration Committees.

Conflicts of interest and independence

Babcock has a procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest or related party transactions in accordance with the Companies Act 2006. The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any new actual or potential conflict of interest, or when there is a material change in any of the conflicts of interest they have already disclosed.

A register is maintained of all the disclosures made and the terms of any authorisations granted. Authorisations can be revoked, or the terms on which they were given varied, at any time if judged appropriate.

In the event of any actual conflict arising in respect of a particular matter, mitigating action would be taken (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him/her of relevant papers).

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

The Committee also considers the circumstances set out in the Code which could compromise an individual's position of independence. The Board is satisfied that throughout the year all Non-Executive Directors remained independent and accordingly the Company is compliant with Provision 10 of the Code.

Time commitment

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

The Board is satisfied that each Director has the necessary time to effectively discharge their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	**8**	**4**	**11**	**9**
Dame Ruth Cairnie	8/8	4/4	–	–
Carl-Peter Forster	8/8	4/4	–	9/9
John Ramsay	8/8	4/4	11/11	9/9
Lucy Dimes[1]	8/8	4/4	10/11	8/9
Lord Parker	8/8	4/4	–	–
Jane Moriarty	8/8	4/4	11/11	9/9
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Sir Kevin Smith[2]	8/8	4/4	10/11	–
Claudia Natanson	8/8	4/4	–	–

1. Lucy Dimes was unable to attend one Audit and one Remuneration Committee meeting due to prior commitments.
2. Sir Kevin Smith was unable to attend one Audit Committee due to a prior commitment.

Composition

The Nominations Committee keeps the composition of the Board under constant review to ensure a balance of skills, experience and knowledge to lead the Group. As at 31 March 2025, the Board comprised the Chair, who was independent on appointment, seven Independent Non-Executive Directors and two Executive Directors. All continuing Directors are required to offer themselves for re-election by shareholders each year at the Annual General Meeting and each appointment is put to a separate vote. Biographical details can be found on pages 130 and 131 and there is more information on appointments to the Board in the Nominations Committee report on pages 144 and 145.

Diversity policy

Our policy is that to be effective in delivering our customers' needs and our future ambitions, the Company must attract, retain, motivate and develop highly capable colleagues. Attracting talent is competitive and therefore the Company must work to ensure that it attracts potential colleagues from every part of society. This requires the Company to foster an inclusive culture where all colleagues feel valued and welcomed. Our aim is to build talented teams with a range of backgrounds, skills and experience, but all aligned around our Purpose "To create a safe and secure world, together".

Board diversity

Throughout FY25, the Board was in line with the Financial Conduct Authority's diversity and inclusion Listing Rules of having at least 40% female representation on the Board, at least one senior Board position held by a female and at least one member of the Board being from an ethnic minority background, as well as those for the FTSE Women Leaders Review (at least 40% female representation on the Board) and the Parker Review (at least one Board member being from an ethnic minority background). For more information on the Group's diversity policy and its objectives, please see pages 85 to 95.

Board and executive management ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
White British or other White (including minority-white groups)	9	90%	4	14	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	1	10%	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	-	–

Board and executive management gender

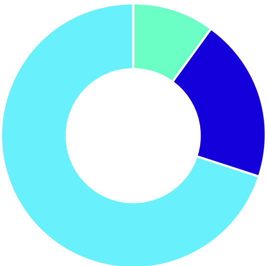
	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
Men	6	60%	3	12	86%
Women	4	40%	1	2	14%
Non-binary	–	–	–	–	–
Use another term	–	–	–	–	–
Not specified/prefer not to say	–	–	–	-	–

The tables and charts in this section show the position at 31 March 2025. The Company has collected the data on which the tables above are based by the individuals concerned self-reporting their data on being asked about their ethnicity and gender in the categories listed.

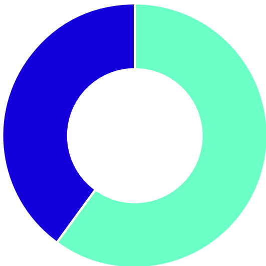
Composition, succession and evaluation *(continued)*

Board information

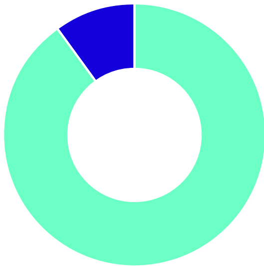
Independence



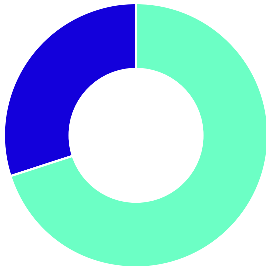
Gender



Ethnicity

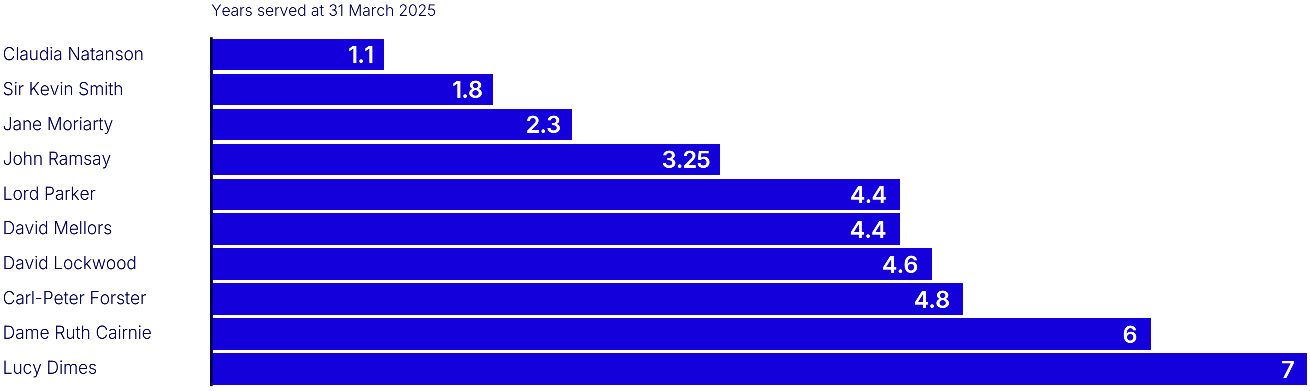


Nationality



Board tenure

The average Board tenure at 31 March 2025 was four years.



Succession

The Chair, Senior Independent Director and Independent Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders. At the end of the first three-year term, the Nominations Committee reviews each Non-Executive Director's tenure to make sure that renewing the appointment is the right decision. The Nominations Committee will usually renew the appointment for a further three years. After the second three-year term, the Nominations Committee reviews the appointment annually.

The ongoing replenishment of the Board is a key focus for the Nominations Committee and more information about succession planning can be found in its report on page 145.

Director training

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

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

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

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

- Meetings with the Executive Directors, the sector CEOs and functional leads
- An overview of the Group's governance policies, corporate structure and business functions
- Details of risks and operating issues facing the Group
- Visits to key operational sites
- Briefings on key contracts and customers

Evaluation

FY25 Board performance review

Each year we conduct an evaluation to assess the Board's ways of working as well as its skills, experience, independence and knowledge, to confirm it is able to discharge its duties and responsibilities effectively. The composition and diversity of the Board and its Committees and how well the Directors are working together is considered, as well as the individual performance of the Directors and the Chair. This year the review was externally led by Better Boards. The review identified that the key strengths of the Board were its breadth and depth of experience and knowledge, and its collegiate ways of working, with open debate between members based on mutual respect facilitated by the Chair. The review did identify actions for the Board to work on over FY26, which are discussed below:

Progress made on actions identified in the FY24 review

Recommendations for FY24	Update
As the Company moves through its turnaround, the Board should consider moving the focus of its strategy from the turnaround to the growth opportunities available to the Company and their alignment to the Company's capabilities.	The Board has refined its strategic framework against which it will evaluate future growth potential.
The Nominations Committee should consider refreshing its agenda to build visibility of talent management and succession for the senior leadership.	The Nominations Committee devoted time in FY25 reviewing a new leadership framework based on our Purpose and principles that the Company will use for career development for senior leadership. The framework makes clear the accountabilities and competencies that the Nominations Committee expects to see at all levels of leadership and will use it as a core underpin for its succession planning.
In light of the ambitious diversity targets that the Nominations Committee has set for the Company, the Committee should consider carefully reviewing the Company's progress and the plans it has in place to meet its targets.	The Nominations Committee has kept under close review the progress that the Company has made to improve its diversity performance despite the sectors and locations in which the Company operates. Notwithstanding these challenges, the Company has made progress, including over 30% of senior management (ie the Group Executive Committee and their direct reports) being female, and a further decrease in our gender pay gap.

Actions identified in the FY25 review

For FY25, the areas identified for action were:

- Review the Company's brand as a tool to establish a joint vision for the Company
- Review the Board's monthly reports to increase the focus on key KPIs
- Agree an approach to tracking progress on the steps that the Company is taking to embed the Board's plans for the Company's culture
- Continue to develop a single leadership framework for implementation across all levels of the Company
- Discuss the best way for the Board to leverage the strengths of each of its members

Composition, succession and evaluation *(continued)*

Highlights

Review of the structure, size and composition of the Board

Review of new leadership framework

Dame Ruth Cairnie
Chair of the Nominations Committee

Nominations Committee report

Dear fellow Shareholder

I am pleased to present the Nominations Committee's report for the year ending 31 March 2025.

Board composition

FY25 has been a year of consolidation for Board composition, with no changes to Board or Committee membership since Claudia Natanson's appointment in March 2024. Claudia has been completing her induction programme, with some Board members accompanying her on selected induction visits. Sir Kevin Smith continues to expand his familiarity with the business with an ongoing schedule of visits. This year's externally led Board evaluation assessed the performance and effectiveness of the Board as good, with its composition well-aligned to the Company's strategy.

Looking ahead, after seven years' service Lucy Dimes has decided to retire from the Board and will not stand for re-election at the 2025 AGM. I would like to thank Lucy for her service over the last seven years and wish her well for the future. With Lucy's departure, we will look to bring on board a new Non-Executive Director, drawing up a profile based on our recently refreshed skills matrix and some observations and suggestions from the Board evaluation. The search will be supported by an external independent recruitment consultant.

Senior leadership and succession

We have dedicated time over the year to refreshing the Company's approach to the development of our senior leadership. This started with a reinvigoration of the development framework for the Senior Executive team, with a particular focus on learning and growth plans. Having settled on our new framework for the Senior Executive team, this is now being used as a template for a consistent approach to leadership and its development throughout the Group. This work will give us a good view of the pipeline of talent deep down into the Company, and will also provide all those who have ambition to progress their careers with a clear view of the development requirements for their chosen path.

All of our colleagues on the Group Executive Committee have had the opportunity of an external, independent leadership assessment which is feeding into strengthened, bespoke development plans. This work is informing our succession planning capability for the most senior roles, with significant Committee involvement in reviewing and challenging these plans. Active work is now underway to commence the development of succession plans for a wider range of critical roles in the organisation.

Inclusion, diversity and talent

At Board level, we have three externally set targets: the FTSE Women Leaders Review target to have 40% women by 2025; the Parker Review target for at least one minority ethnic Board member; and the Financial Conduct Authority target to have at least one of the senior Board roles (Chair, SID, CEO, CFO) being a woman. We met all of these in FY25. We believe that the Board's effectiveness is enhanced by consisting of highly capable and successful individuals with a wide variety of skills and experience, who also bring other aspects of diversity including gender and ethnic background, as well as a focus on difference in styles and thought processes. Supported by a strong culture, this diversity enhances the quality of debate and protects against groupthink.

For the broader organisation, our imperative is to attract, retain, motivate, and develop the staff we need to fulfil our customers' needs and our future ambitions. Attracting talent is highly competitive and we must ensure we are attractive to potential colleagues from every part of society; to achieve this, we focus on fostering an inclusive culture where all staff will feel welcome, valued and able to contribute, and able to learn and develop their careers. We want vibrant teams comprising outstanding people who, whatever their backgrounds and perspectives, are aligned around our Purpose "to create a safe and secure world, together" and our principles.

We have put our policy into action in a variety of different ways, from supporting veterans to fostering early career talent by expanding our STEM outreach efforts. In FY25, we welcomed a record intake of early careers colleagues, particularly in the nuclear sector as part of our commitment to the National Nuclear Endeavour. We achieved this by widening the entry pools for our early careers talent by extending our pre-apprenticeship programme. We have also given some of our apprentices the opportunity to gain international experience by partnering with a Polish institute in Gdynia.

On gender, we remain committed to increasing female representation; this is essential to enable us to compete strongly for female talent, given the need to combat perceptions of the sector and the generally low representation of women. We are making progress but have much still to do, and the Committee continues to provide challenge and advice. We are pleased to report that this year we have reduced our gender pay gap again.

Culture

The Committee has continued to monitor progress on changing the culture of the organisation, through the mechanisms highlighted on page 133: for example, site visits by Non-Executive Directors, review of the results of the Global People Survey, and reports from the Director designated for workforce engagement and the Chief People Officer.

In addition, this year the Committee has given consideration to how best to pull the multiple indicators of culture into a clearer way of tracking progress on a regular basis. We have selected a subset of measures from the People Survey which will give us a measurable indicator and trend, which we can then supplement with the more qualitative information sources we receive.

I hope this report gives you an understanding of the work of the Committee over FY25. If you do have any questions, I would welcome hearing them at this year's AGM.

Dame Ruth Cairnie
Chair of the Nominations Committee

The Committee

Dame Ruth chairs the Committee.

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

● **For biographies of the members, please see pages 130 and 131**

● **For attendance, please see page 140**

Key responsibilities

- Board and Committee composition
- Succession and talent
- Culture
- Inclusion

Audit, risk and internal control

Highlights

Review of the key management judgements and estimates for the FY25 financial statements

Oversight of the on-boarding of Forvis Mazars as our external auditor

Review of the Company's approach to the new 2024 UK Corporate Governance Code requirements

John Ramsay
Chair of the Audit Committee

Audit Committee report

Dear fellow Shareholder

On behalf of the Committee, I am pleased to present to you our report for the work that we have done in FY25. While this has been a year requiring the Committee to support the on-boarding of a new external auditor, it has also been one of capitalising on the determined efforts of previous years to upgrade internal controls and professional standards.

FY25 audit

As we reported last year, we decided to move the external audit to Forvis Mazars. We were delighted shareholders at the 2024 AGM supported the decision with a 99.98% vote approving their appointment.

Following their appointment, our attention swiftly moved to ensuring a smooth and effective transition from Deloitte to Forvis Mazars to avoid the transition compromising our commitment to audit quality and effectiveness.

To enable the best transition possible, we took certain key steps. We agreed a scope of interaction between Deloitte and Forvis Mazars, which included Forvis Mazars attending key audit meetings and observing the FY24 audit. Alongside this workstream, Forvis Mazars had multiple meetings with key members of the Company's finance team, including the CFO, the Group finance teams and the Sector finance teams. These meetings included all-day familiarisation and ways of working sessions. They quickly helped to build a good working relationship between the Company and the new external audit team, while at the same time allowing Forvis Mazars to build their knowledge of our business. This was essential in facilitating their scoping and planning for the FY25 audit.

I have no doubt that this early work helped the transition, and we were pleased that with the relationship built up between the Company and Forvis Mazars to deliver the audit, the FY25 audit will provide a solid foundation for us to accelerate our year-end reporting without sacrificing quality.

Internal controls

As well as the FY25 audit, our other key focus was to prepare the Company for the reforms introduced last year by the 2024 UK Corporate Governance Code, in particular, the new requirement that will come into effect for our FY27 year end. This new requirement will require the Board to monitor the Company's risk management and internal control framework, and at least annually to carry out a review of its effectiveness. This review will cover all material controls, whether financial, operational, reporting or compliance controls. Following this review, on advice from the Committee, the Board will describe how it has monitored and reviewed the effectiveness of the Company's framework, and will make a declaration about the effectiveness of its risk management and material controls as at the year end, including a description of any material controls which have not operated effectively.

The work that we are doing to prepare for this new requirement is building on our internal controls improvements that I have described in my previous reports and which have continued this year. The Company has appointed a dedicated senior finance professional to lead our preparation plans, which will include "dry run" testing in the second half of FY26 and FY27 to test our readiness for the declaration as of 31 March 2027. We monitor progress through regular updates and reports on the work the Company is doing.

Priorities for FY26

Our main priority for FY26 is to continue with our improvement plan, both in controls and in the audit process, and hopefully to further advance the year-end reporting timetable without sacrificing audit quality or effectiveness. Alongside that work, we will continue to prepare for the introduction of the new 2024 UK Corporate Governance Code requirement.

As ever, I am available to all shareholders to discuss any significant matter related to our work. Alternatively, all the Committee will be at the 2025 AGM, and I hope to meet as many of you as possible there. We will be available to answer any questions you may have on this report or the Committee's activities.

John Ramsay
Chair of the Audit Committee

The Committee

John Ramsay chairs the Committee.

John is a Chartered Accountant, formerly the Chief Financial Officer of Syngenta AG, and an experienced Audit Committee chair (see page 130 for John's full biography). The Board has designated him as the financial expert on the Committee for the purposes of the UK Corporate Governance Code.

In FY25, the other members of the Committee were Lucy Dimes, Jane Moriarty and Sir Kevin Smith. All members of the Committee are Independent Non-Executive Directors. Please see pages 130 and 131 for their biographies and page 140 for attendance and number of meetings.

During the year, the Committee invited the Chair of the Board, other Non-Executive Directors, the CEO, the CFO, the Group Financial Controller, the external audit team, the internal audit team, and key senior management to attend its meetings, as appropriate.

From time to time, the Committee meets separately with the external audit lead partner as well as meeting with internal audit, to give them the opportunity to discuss matters without management being present.

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

Key responsibilities

- Ensuring the independence and quality of the audit conducted by the external auditor
- Reviewing the Company's Annual Report and Financial Statements, as well as any announcements relating to financial performance
- Challenging the accounting policies, judgements and estimates, as well as disclosures, in those statements
- Reviewing the scope, remit, objectivity and effectiveness of the internal audit function
- Reviewing the effectiveness of the Group's internal control and risk management systems

Audit, risk and internal control *(continued)*

Audit Committee report

Below is our report on our activities over FY25. The report, along with my letter, describes the activities during the year including meeting the requirements of the Financial Reporting Council's Audit Committees and External Audit: Minimum Standard.

Audit independence

One of our key responsibilities is to ensure the independence and objectivity of the Company's external auditors. To do this, we have set a policy to control the mandates the Company can give its external auditors outside the external audit itself. We recognise that there may be some element of non-audit services for which the Company might wish to use its external auditors. However, before instructing its external auditors, the Company must obtain prior approval as follows: for the provision of non-audit services for fees up to £10,000, the CFO may give the approval; for fees between £10,000 and £100,000, the approval must come from the Committee Chair; and, for fees of more than £100,000, the Company will need the approval of the Committee.

In addition to the protection provided by our policy, we also ask Forvis Mazars for a confirmation that they comply with their relevant ethics codes and believe themselves to be independent. Forvis Mazars have provided this confirmation. The only non-audit service that they have supplied to the Company related to Babcock Australia, which engaged Forvis Mazars to provide an audit of a grant claim for immaterial compensation in the context of the Company and the audit fee. They have also confirmed that, if any issue with their independence did arise during the audit, they would formally report this to us in their Audit Completion Report. Accordingly, we are satisfied that Forvis Mazars are independent and have the required objectivity to deliver the Company's external audit. For the FY25 audit, Louis Burns was the lead audit partner and is in his first year.

Audit quality

We are committed to doing all that we can to ensure the quality of the Company's audits. That was why, as we reported last year, we were so pleased with the conclusion of the review by the Financial Reporting Council (the FRC) of our FY23 Annual Report. Although the scope of their review is limited as it was based solely on our FY23 Annual Report without the benefit of detailed knowledge of the Company's business, or an understanding of the underlying transactions and it does not provide any assurance that the FY23 Annual Report is correct in all material respects, the review is conducted by FRC staff who understand the relevant legal and accounting framework and their conclusion was that they did not wish to raise any questions or queries with the Company, although they did make certain minor observations regarding improvements to our disclosures. The Committee has ensured that the Company addressed all these observations in its FY24 accounts, for example, by the inclusion of additional definitions in the glossary.

Our commitment to quality played a key role in the selection criteria when we were considering appointing Forvis Mazars as the Company's external auditors. As part of the process, we asked Forvis Mazars to demonstrate why they believed that they had the capability and capacity to deliver the Company's audit to the standard that we require. This included a presentation on the significant investments Forvis Mazars are making to strengthen their audit quality. At the end of the selection process, we were satisfied that Forvis Mazars did have this capability and the capacity. Since their appointment, we have asked Forvis Mazars to update us on their quality improvement plans including the investments that they continue to make to their teams, tools and processes, to assure ourselves that they are making progress to being able to provide consistent high-quality audits.

In addition to reviewing Forvis Mazars' audit quality transformation plan, at the start of this year, as it was Forvis Mazars' first year as the Company's external auditors, we took particular care to make sure that both the Company and Forvis Mazars were agreed on the approach to the audit, its scope, and its timeline. Forvis Mazars provided us with their plan for the audit that documented the procedures that they would adopt at different stages of the audit, as well as the work they would perform on the Company's material components. They also listed the significant risks, key audit matters, and other key judgement areas that would be relevant to their work. For their audit, they set a financial statement materiality of £24 million with a performance materiality of £12 million and a "de minimis" of £0.7 million. Their plan applied a full scope of work over all key and material components of our business that covered approximately all our revenues.

Having agreed the plan, we tested its progress by monitoring Forvis Mazars' performance against certain quality indicators covering their responsiveness, their adherence to timetable, and the consistency of their team throughout the audit. At the end of the process, we were satisfied that Forvis Mazars have delivered an audit to the standard that we require.

FY25 external audit

A central responsibility for our Board is to confirm that the Company has prepared its financial statements in accordance with the relevant financial reporting framework and that those statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company as well as ensuring that its annual report including the financial statements are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

To assist the Board in complying with this responsibility, we reviewed the Company's Annual Report and Financial Statements and recommended them for approval to the Board. Our review considered the basis for the preparation of the Company's financial statements through our consideration of the Going Concern and Viability statement (please see pages 124 and 125 for more detail). Having confirmed that the Company should prepare its financial statements as a going concern, we then reviewed the judgements and estimates that the Company had incorporated into those statements, together with the related disclosures, to ensure that the financial statements gave a true and fair view as required. Finally, we considered the totality of the Annual Report alongside the Company's financial statements to decide whether they, taken as a whole, were fair, balanced, and understandable. During our review, we ensured that we challenged and tested the positions the Company takes.

In our review, the areas that we considered most significant were:

- **The Company's Type 31 programme:** in FY23, the Company announced that its Type 31 programme would be a loss-making contract. As such, the accounting standards require the Company to base its loss provision on its best estimate of the costs of delivering the programme with no bias towards prudence or optimism. Since then, we have taken great care to review the judgements and estimates the Company has used to calculate its loss provision. This year, the key judgements and estimates that we reviewed were delay liquidated damages, performance liquidated damages, production hours, procurement actions, labour, risk, price indexation, and wage inflation. We tested and challenged the assumptions the Company used in its calculation of the loss provision as well as the process that the Company had used to formulate it. In our review, we were aware of the complexity involved in making the judgements and estimates as not only was there a range of possible outcomes for each judgement and estimate, but, in addition, the judgements and estimates were often inter-related. This complexity could result in a material increase or decrease in the value of the programme's loss provision. The programme has about £800 million of estimated cost still to go. If actual recoveries or costs were to differ from those the Company has assumed by 10%, the potential impact on the contract outturn could be about £80 million. For more information, please see page 201.

- **The Company's Future Maritime Support Programme:** the Company has a five-year contract ending March 2026 to deliver engineering and other services to support the MOD principally at Devonport and Clyde. As part of this contract, the Company must deliver transformation savings. Failure to deliver the savings would result in a deduction to the price of the programme. We tested the Company's assumption that it would deliver almost all the savings. We considered that the Company was in its last year of the contract with the savings embedded in its cost base, and were satisfied that it was highly probably that the savings would not be reversed.
- **Other contract judgements:** we reviewed the accounting for a number of other key programmes including the Deep Maintenance Programme for the Vanguard class submarines, with work now underway on HMS Victorious, our Australian High Frequency Communications System programme (JP9101), the Defence Support Group programme to support the British Army's armoured vehicle fleet which enters a five-year extension from the end of March 2025, and our SKYNET contract to operate the UK's military satellite communications capability. We were satisfied that the key judgements and estimates applied were appropriate.

The conclusion of our review was that we were pleased to recommend to the Board that the FY25 Annual Report and Financial Statements were representative of the Company's year and presented a fair, balanced, and understandable overview of the year. A key support for our review is Forvis Mazars' audit (please see page 185 for their independent auditor's report). The total fees paid to Forvis Mazars in respect of their audit of the Company's FY25 financial statements was £9.1 million.

FY25 internal audit

This was the first year that the Company had conducted its internal audit with its in-house team following the full insourcing of the internal audit function last year. We have made good progress ensuring that the function is resourced so that it can deliver effective quality reviews. At the start of this year, following the release of the new Global Internal Audit Standards, we reviewed internal audit's terms of reference and approved a new Global Internal Audit Charter. This charter defines internal audit's role, authority and responsibilities, in line with the standards set by the Internal Audit Standards Board. We will review the charter on an annual basis to ensure that our internal audit is in line with best practice.

At the start of FY25, we agreed an internal audit plan for FY25. The plan delivered 13 audits split across sectors, direct reporting countries, and Group Functions. As you would expect, these audits make recommendations for improvements. We monitor the implementation of these improvements to make sure that the Company has actioned them. We ensure that each action has an owner responsible for the implementation of the improvement as well as a date for implementation. If any action becomes overdue, the internal audit team chases progress on our behalf until the recommendation is in place, while keeping us abreast of developments.

Through our review of the internal audit plans and the reports that we receive from the internal audit team, we are satisfied that the team is both objective and effective.

Risk management and internal control systems

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

We describe the Company's risk management framework in detail on pages 104 to 107. The Group's internal control processes have been under a multi-year improvement programme, which was reported upon in prior years' Committee reports. The centrepiece of our internal control framework is our Document of Controls, which summarises in one place our key reporting, financial, compliance and operational controls. Each business reports adherence to the Document on a bi-annual basis. In FY25, there was no significant non-adherence that would undermine the reported financial statements.

To carry out our review of the risk management and internal control processes for the Board, we receive regular reports on both over the course of the year, which the Director of Risk and the Group Director of Controls prepare and present to us, giving us the opportunity to challenge and test these reports. This year, like last year, we were satisfied with the progress that the Company was making both with its improvement plan and preparations for the introduction of the new reporting requirement under the 2024 UK Corporate Governance Code, in respect of effectiveness of the Company's risk management and internal controls framework. We have reviewed the exercise used to identify the Group's material controls and were pleased that the Company had delivered control enhancements against the matters raised by Deloitte in their FY24 external audit report.

FY26

The Committee has two priorities for FY26: first, to build on the on-boarding of Forvis Mazars and on their experience from their first year of auditing the Company, to hopefully advance our reporting timetable without sacrificing audit quality or effectiveness; and second, to monitor and support management in embedding the control improvements of recent years, while continuing preparations for the introduction of Provision 29 of the 2024 UK Corporate Governance Code.

Remuneration

Highlights

Review of the Company's Remuneration policy

Engagement with shareholders to consult on changes to the Company's Remuneration policy

Review of FY25 remuneration outcomes

Deciding on the FY26 implementation of the Remuneration policy

Carl-Peter Forster
Chair of the Remuneration Committee

Remuneration Committee report

Dear fellow Shareholder

We as a Committee have had another busy year. This has principally been due to our review of the Company's Remuneration policy, to assure ourselves that the policy incentivises value creation for the benefit of all our stakeholders. This year we were happy that the current policy, which shareholders approved at our 2023 AGM with a 98% vote in favour, was serving us well regarding aligning pay with the fundamental drivers of value. However, following feedback from some shareholders in late 2024, we felt that we could do more to send a strong message to the market to support the Board's focus on addressing the gap between the value which the Board believe the Company's shares warrant and the Company's actual share price. Therefore, at the start of 2025, we engaged with our shareholders as to whether we could make changes to our policy to reinforce the confidence that the Board has in the Company's prospects, without diluting our focus on the sustainable growth and margin expansion that underpins the Company's warranted value.

In January, we wrote to shareholders representing approximately 60% of the Company's share capital, to invite feedback on our proposals. This gave us the opportunity to test whether our proposals aligned with shareholder priorities and interests, and we were delighted with the responses and engagement that we received. We incorporated all the feedback we received into our final proposals, set out in detail below, which the Committee signed off in principle in March. However, in the intervening period up to the date of finalising this report, the Group's share price has performed strongly and the valuation gap to our closest FTSE comparators has reduced. This caused the Committee to re-evaluate whether our proposed changes, conceived in late 2024 in response to the prevailing and persistent valuation gap at the time, retained their merit. We concluded from this in-depth assessment that the proposals remain valid and should be submitted for shareholder approval at the 2025 AGM; while the valuation gap has narrowed, as a Board we believe that there remains a significant opportunity ahead for the creation of further and material shareholder value by executing and striving to outperform our ambitious medium-term strategic plan. By proceeding with our proposals, we are seeking to ensure that our well-regarded and strong-performing management team is incentivised and rewarded to deliver our strategic ambitions in a manner that creates sustainable and material value for shareholders. As a result, we are proceeding to put our proposals to all shareholders for took part in our consultation for their contributions.

Proposed changes to the Remuneration policy

Following our consultation, we propose the following changes to our policy for shareholder approval at the 2025 AGM:

Changes to our Performance Share Plan (PSP): Our policy includes a PSP, under which we make annual awards of shares that vest according to three-year performance targets; following vesting, we require the Executive Directors to hold any awards for a further two years. In recent cycles, vesting of the awards has been based on a scorecard of measures, capturing cashflow, margin, revenue and ESG metrics. We consider the basic structure and scorecard basis of the PSP to be fit-for-purpose. However, to send a strong message about closing the valuation gap, we are proposing to introduce an additional absolute Total Shareholder Return (TSR) 'kicker' to the award opportunity.

If approved by shareholders at the 2025 AGM, we will continue to apply our existing 'core' scorecard to determine the vesting of PSP awards up to the existing 'core' opportunities (of 250% and 200% of salary for the CEO and CFO, respectively).

Starting with the FY26 awards, an additional multiplier, based on the Company's absolute TSR performance, would then be applied to the vested core PSP awards. At 10% pa absolute TSR, the multiplier would be 1.0x, meaning that there would be no increase in value beyond that earned under the core PSP award. The maximum multiplier of 2.0x (ie we would double the core PSP award outcome) would require absolute TSR to be at least 30% pa. The performance periods for the core scorecard measures and the TSR kicker would be the same (ie 1 April 2025 to 31 March 2028 for the FY26 awards), in line with our past practice and our preference to align the performance periods for all measures captured in a single PSP cycle.

Analysis of historical returns across FTSE companies indicates that the performance range for the TSR kicker would be broadly equivalent to median (10% pa) to upper decile (30% pa) outcomes. Based on the current salaries of the Executive Directors, the cumulative value of the maximum PSP kicker in any one PSP cycle would be approximately 0.2% of the incremental value created. Furthermore, as the kicker is a multiplier to the core award, the kicker's value also relies on Babcock achieving strong vesting against the measures captured in the core PSP scorecard. It is for this reason that we are proposing to introduce absolute TSR as a kicker to the existing PSP core award opportunity. We debated whether instead to add TSR as a further measure to the scorecard for the core award, but concluded that it was not desirable to have to downweight the other measures to accommodate the linkage to TSR. The multiplicative combination of the measures also creates a sharper link between performance and pay, because strong vesting outcomes under the PSP require both the achievement of the stretch targets set for the core measures as well as upper decile shareholder returns. As the maximum kicker, earned at 30% pa absolute TSR, would double the current PSP award opportunity, we are proposing to raise the PSP award opportunity in the policy to 500% of salary, which requires shareholder approval, to be sought at the 2025 AGM, for a revised Remuneration policy and PSP rules.

Shareholders' feedback on the proposed TSR kicker ranged from support for increasing the maximum kicker even further, to a preference for the kicker to apply on a one-off basis in FY26. We also welcomed the support indicated for calibrating the TSR kicker on an absolute, rather than relative, basis. Having considered this feedback in the round, the Committee proposes to maintain the proposed maximum kicker of 2.0x, which we feel provides the right balance between reinforcing the drivers of our strategy (through the 'core' award scorecard) and closing the valuation gap (through the kicker).

The Committee

Carl-Peter Forster has chaired the Committee since September 2022 and has been a member of the Committee since joining the Board in June 2020. The other Committee members are currently John Ramsay, Lucy Dimes and Jane Moriarty. Please see pages 130 and 131 for biographies and page 140 for attendance.

Key responsibilities

- Setting the Company's Remuneration policy
- Oversight of reward matters across the Group
- Maintenance of a strong link between strategy, stakeholder experience and Executive Director reward
- Approval of reward outcomes for the Executive Directors

Remuneration *(continued)*

Illustration of kicker approach

Up to 250% of salary (200% CFO) can be earned for achieving the PSP scorecard...

Core PSP scorecard

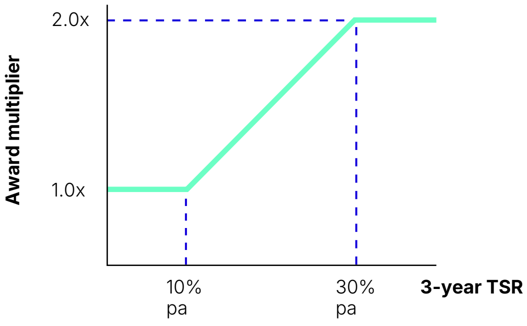
Measure	Weighting*
Underlying free cash flow	30%
Underlying operating margin	30%
Organic revenue growth	25%
ESG	15%

* weighting proposed for FY26 cycle

x

...and this would be subject to a kicker which could double the core award if strong TSR is delivered over the three years of the PSP performance period

TSR kicker



The kicker also provides additional performance leverage in the package while ensuring the aggregate incentive opportunity remains within the range seen in the UK market. If approved by shareholders, we will apply the kicker to the FY26 PSP award. However, in response to the preference expressed for the kicker to be a one-off in FY26, for future years of the policy we are committed to carefully reviewing whether it is still appropriate to apply the kicker before doing so.

Changes to our annual bonus scheme: We are proposing two changes to our annual bonus scheme: (i) to increase the annual bonus opportunity for the Executive Directors from 150% to 180% of salary to ensure competitiveness with companies of similar size and in our market; and (ii) to retain a requirement for mandatory bonus deferral provisions (currently 40% of earned bonus deferred into shares for three years), but to disapply the deferral provision for those Executive Directors who have achieved their shareholding requirements. In such a scenario, we would pay any bonus earned in cash. The overwhelming majority of shareholders who were consulted did not express any concerns about this proposal.

The changes to the annual bonus structure would be effective from the FY26 bonus cycle (ie they would not be applied to the current FY25 cycle). In respect of the waiver of the mandatory bonus deferral, both the CEO and the CFO have already exceeded their shareholding guidelines, so we would expect to pay any bonus for FY26 and future years in cash. As a reminder, the CEO is required to maintain a shareholding of 300% of salary, and the CFO 200%.

Regarding the waiver, we view bonus deferral as a means of aligning the interests of shareholders and executives over the medium term through exposure to Babcock's share price. Where an Executive Director has acquired (through self-purchases) or earned (through share-based incentives) a significant total holding of Babcock shares, we believe it is appropriate to waive the mandatory deferral requirement and instead allow the bonus earned to be paid entirely in cash. We believe this approach is fairer overall, without diluting our clear emphasis on the importance of an alignment of executive and shareholder interests through meaningful share ownership. We are also satisfied that, notwithstanding this change, we retain sufficient powers to exercise malus and clawback which apply to the cash bonus (and PSP awards during the three-year performance period and mandatory two-year post-vesting holding period) should the need arise.

Conclusion: We are convinced that these changes will help drive an enhanced focus on shareholder returns. As mentioned above, the Board believes that the proposals remain appropriate notwithstanding the re-rating of our share price since January 2025, with only modest increases in the costs of the pay arrangements; our modelling suggests that the proposals would increase overall target pay for the Executive Directors by c.19% (CFO 10%) and bring pay to around the upper quartile of sector peers, reflective of the proven experience, quality and performance of our Executive Directors. We consider this to be an appropriate trade-off given the PSP kicker will have value only if significant further returns have been delivered to shareholders; based on the Company's closing market capitalisation on 31 March 2025, threshold performance (absolute TSR of 10% pa, for which no incremental reward will be delivered relative to the existing PSP arrangement) would deliver c.£1.2 billion of shareholder value at the end of the FY26 PSP performance period; full vesting of the TSR kicker opportunity would result in c.£4.4 billion of shareholder value created over the three-year period. We also considered very carefully the feedback received from one shareholder about whether TSR should be measured from the date of grant, rather than the start of FY26, given the strong share price performance in recent months. As a Committee, we concluded that our proposal as originally designed (ie to align the performance period with three financial years commencing 1 April 2025) remains appropriate; the value of the proposed PSP awards remains conditional on achieving the stretching three-year performance targets set for each core award measure, as well as further improvements in TSR being delivered – and sustained – over the remaining c.34 months of the performance period. Our preference is to measure TSR using starting and ending values based on an averaging period of at least three months, to ensure incentive outcomes are not unduly impacted by short-term volatility in share price. However, in recognition of the share price appreciation through the months of 2025, we have resolved to use a one-month average (to 31 March 2025) as the starting point for the FY26 PSP TSR kicker calculation; this is c.20% higher than the three-month average we would set ordinarily. Our intention is also to apply these changes to our Remuneration policy for other members of the senior leadership team as appropriate to ensure alignment of interest down through the organisation.

Remuneration in FY25

When we discuss the implementation of our Remuneration policy over the year, we always consider the business context to assure ourselves that our remuneration outcomes reflect the Company's performance and the broader context, including shareholders' experience and interests.

Following our discussions, in summary, we approved the following outcomes:

FY25 salary: In my letter last year, we reported that, due to his consistently strong performance and the limited salary increases that he had taken since his appointment, we had granted Mr Lockwood an increase in salary of 11% with effect from 1 July 2024. We were pleased to note that shareholders overwhelmingly supported this decision by voting (97%) in favour of our remuneration report at last year's AGM. In respect of Mr Mellors, the Committee increased his salary by 4%, in line with the average increase for those UK colleagues not subject to collective pay bargaining.

FY25 annual bonus: As we reported last year, we kept the same structure for the FY25 annual bonus for Executive Directors as used over the last three years. Underlying financial performance measures comprise 80% of the bonus, split equally between underlying operating cash flow (OCF) and underlying operating profit (OP) with the remaining 20% allocated to non-financial measures. As in previous years, we adopted a wide range for the performance targets and retained discretion to ensure that the outcome aligned to the experience of the Group's stakeholders. We as a Committee, and as a Board more generally, are delighted to report the strong OCF and OP performance as described on page 26, which resulted in an annual bonus payout for FY25 of 100% of maximum being awarded to David Lockwood and 100% of maximum being awarded to David Mellors. This outcome was approved by the Committee, following our assessment of the formulaic outcome in the wider performance context for the Company, and the experience of our key stakeholders. Please see page 165 for more detail.

FY23 PSP vesting: We granted the FY23 PSP award in August 2022 with the same performance measures as the FY21 and FY22 PSP grants – underlying FCF and relative TSR, equally weighted and both over the same three-year performance period ending on 31 March 2025. As we do every year, at the time of grant, we reviewed the Company's share price performance to satisfy ourselves that the award of the full opportunity (then 200% of salary) was appropriate. We are pleased to say that the outturn for the FY23 PSP award will be 100% of the overall award, reflecting Babcock's strong performance over the performance period. In approving this vesting outcome, we undertook our normal assessment for windfall gains, using a range of quantitative tests to do so. These tests supported our view that the value at vesting which we are reporting for the FY23 PSP in respect of the Executive Directors is not a windfall, but instead reflects the intrinsic value of the business following its successful reset and transformation under the leadership of David Lockwood and David Mellors. For more information, please see page 168.

FY25 PSP grant: We granted the FY25 PSP award for the Executive Directors in August 2024. In line with our approach to the FY24 PSP grant, we set the award opportunity for the CEO at 250% of salary and at 200% for the CFO (within the limits approved by shareholders at the 2023 AGM). We retained the same PSP measures to align closely with the drivers of the Company's long-term performance and strategy. The measures include underlying free cash flow (an indicator of cash generation), underlying operating margin (an important indicator of operating efficiency), organic revenue growth (an indicator of business growth) and ESG (reflecting the strategic importance of visible improvements, due both to shareholder sentiment that companies need to play their part in improving the UK's performance in this area and to the increasing importance of the ESG agenda to our people). We have set the targets for each measure to ensure that they are appropriately stretching. For more detail, please see page 169.

Remuneration for FY26

I have explained the changes that we are proposing to our Remuneration policy at the start of my letter. If shareholders approve these changes at the 2025 AGM, we will implement them for FY26. Subject to receiving shareholder approval, we propose the following, which balances the wish of shareholders that we incentivise our Executive Directors to deliver the Board's strategic actions with the need to align the implementation of the policy with shareholder interests.

FY26 salary increase: In keeping with our usual practice, we reviewed the Executive Directors' base salaries at the same time as other UK colleagues not covered by collective bargaining, being the population that we believe is the best internal comparator for the Executive Directors. Our review was informed by the range of increases awarded to those colleagues of up to 5% for our highest performers (and 3% on average). We believed that both the Executive Directors merited consideration for a maximum award of 5% following their performance over the year. However, as the Committee had awarded Mr Lockwood a 11% increase last year, the conclusion of our review was to award Mr Lockwood a salary increase of 3% to £932,933. Mr Mellors was awarded a salary increase of 5% to £645,582, which remains below that which would have resulted if increases had been awarded annually at a lower rate than the average workforce increase over his tenure. Mr Mellors' salary is considered appropriate in the context of his contribution to Babcock as well as competitive practice in our key talent markets.

FY26 annual bonus: We will keep the structure of the Executive Directors' annual bonus consistent with that for FY25, with measures based on underlying OCF, underlying OP and non-financial objectives. If shareholders approve our proposed policy changes, we will set the maximum award opportunity at 180% of salary and will pay the bonus in cash, provided the Executive Directors continue to meet their shareholding guidelines. We will disclose the targets in full in our report next year. Please see page 170 for more detail.

FY26 PSP grant: We will grant awards under the PSP to the Executive Directors after the 2025 AGM and, subject to shareholder approval, introduce the absolute TSR kicker. The award will cover the three-year period FY26 to FY28. Vesting of the core PSP award will continue to be based on the measures we adopted for the FY24 and FY25 PSP awards (underlying free cash flow, underlying operating margin, organic revenue growth and ESG), as we believe they still align closely with the drivers of the Company's long-term performance and strategy. We have set the targets for each measure to ensure that they are appropriately stretching. For more detail, please see page 171.

Focus for FY26

We hope that you find our description of the work done by the Committee to further the interests of shareholders helpful. We believe that the changes we are proposing are in the best interests of all our shareholders, as not only will they continue to incentivise a strong and high-performing executive team to continue to deliver value for shareholders, but they will also send a strong message to the market of our underlying view of the value of the Company. On behalf of the Committee, I recommend and hope that you do vote in favour of the changes.

I will be at the 2025 AGM and would be happy to discuss any aspects of this report at the meeting.

Carl-Peter Forster
Chair of the Remuneration Committee

Remuneration *(continued)*

Remuneration at a glance

This section provides an overview of the Company's performance over FY25, and the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 163 to 177.

FY25 remuneration outcomes

FY25 annual bonus

The Committee based the FY25 bonus on a mix of financial and non-financial measures; the performance targets for which (and actual performance against these) are set out below. For a full description of the FY25 annual bonus, please see page 165.

Measures	Warranted payout (% of maximum bonus)				Performance targets	
	D Lockwood		D Mellors			
					Threshold	£313.5m
					Target	£330.0m
					Stretch	£363.0m
Underlying operating profit (OP)[1]	40% Max	40% Outturn	40% Max	40% Outturn	Outturn	£365.3m
Underlying operating cash flow (OCF)[1]	40% Max	40% Outturn	40% Max	40% Outturn	Threshold	£170.0m
					Target	£200.0m
					Stretch	£230.0m
					Outturn	£296.1m
Non-financial[2]	20% Max	20% Outturn	20% Max	20% Outturn		
Total	100% Max	100% Outturn	100% Max	100% Outturn		

1. For definitions, please see the fuller description of the FY25 bonus on page 165.
2. The Committee has merged several measures into an overall assessment in this table for disclosure purposes.

FY23 PSP

The Committee approved the FY23 PSP grant in August 2022. Vesting was based 50% on underlying free cash flow (FCF) and 50% on relative Total Shareholder Return (TSR), both over three years to 31 March 2025. Performance against both measures warranted 100% vesting.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outturn	Vesting (% of overall award)
3-year FCF post exceptional items	50%	£176m	£264m	£389m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Median TSR + 27.4% pa	50%
				Total vesting	100%

Implementation of the Remuneration policy in FY26

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

Base salary		Pension	Benefits
David Lockwood:	£932,933	10% of salary	Unchanged from FY25
David Mellors:	£645,582	10% of salary	Unchanged from FY25
The Committee reviewed the base salary of the Executive Directors in June 2025 and increased Mr Lockwood's salary by 3% and Mr Mellors' salary by 5%.			

Annual bonus and Deferred Bonus Plan (DBP)	PSP
The bonus structure will be consistent with that used for FY25, but, subject to shareholder approval at the 2025 AGM, with awards of up to 180% of salary based on the achievement of financial targets (underlying operating profit (OP) and underlying operating cash flow (OCF), each a 40% weighting) and non-financial measures (a 20% weighting).	PSP 'core' awards of 250% and 200% of salary for the CEO and CFO respectively, with vesting based on measures the Committee believes are most appropriate: underlying FCF (weighted 30%), underlying operating margin (weighted 30%), organic revenue growth (weighted 25%, and subject to a discretionary operating margin underpin) and ESG (weighted 15%).
Subject to shareholder approval, the bonus will be paid in cash if an Executive Director continues to meet their shareholding guidelines. For more information about the guidelines please see page 160.	Subject to shareholder approval, an absolute TSR "kicker", of up to 2.0x, will be applied to the core award. For more information, please see pages 151 and 152.

Compliance statement

This report has been prepared in compliance with all relevant remuneration reporting regulations in force at the time and in respect of the financial year under review.

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

Remuneration *(continued)*

Remuneration policy report

Shareholders approved our current Remuneration policy at our 2023 AGM with a vote in favour of 98%. Following consultation with our shareholders, we now wish to make certain changes to the policy. The changes require shareholder approval, which we will seek at the 2025 AGM. We set out the changes to the Remuneration policy for Executive Directors in italics below. We also set out a minor change to the Remuneration policy for Non-Executive Directors to include additional flexibility to pay travel allowances. You can find the current policy at www.babcockinternational.com/who-we-are/leadership-and-governance.

Key principles of the Remuneration policy

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

Remuneration policy for Executive Directors

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

Pension	
Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Executive Directors receive pension benefits up to the value (10% of salary, as of 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.
Performance metrics	Not performance-related.

Benefits	
Purpose and link to strategy	Designed to be competitive in the market in which the Group employs the individual, or to meet costs effectively incurred at the Company's request.
Operation	The Group provides a range of benefits, which may include (but are not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home-to-work travel and related costs; and accommodation benefits and related costs. The Group may offer other benefits (eg relocation) if the Committee considers it appropriate and reasonable.
Opportunity	Benefit values vary by role and are periodically reviewed and set at a level that the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions, which will determine the maximum amount that the Company would pay in the form of benefits during the period of this policy. The Committee retains discretion to approve a higher cost in certain circumstances (eg relocation) or in circumstances where factors outside the Company's control have changed materially.
Performance metrics	Not performance-related.

Annual bonus	
Purpose and link to strategy	To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of the achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of the bonus into Company shares, *while building up a holding to meet the in-post shareholding guideline*, strengthens the link to long-term sustainable growth.
Operation	Performance targets are set at the start of the year and reflect the responsibilities of the Executive Directors in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which the Group has achieved these targets. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, and changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. At least 40% of annual bonus payments for Executive Directors are deferred 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. *The Committee may waive the requirement to defer any element of annual bonus in respect of any Executive Director who has met their shareholding guideline.* Malus and clawback provisions apply to cash and deferred bonus awards until the third anniversary of the payment/vesting date: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or would have caused the Committee to exercise any discretion differently.
Opportunity	Maximum bonus opportunity is *180% of salary, increased from 150% subject to shareholder approval at the 2025 AGM*. For achievement of threshold, the Executive Directors earn up to 15% of maximum bonus; for achievement of target, they earn up to 55% of maximum bonus.
Performance metrics	The Committee determines performance on an annual basis by reference to Group financial measures, eg underlying operating profit, underlying OCF, as well as the achievement of non-financial objectives. The weighting of non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Remuneration *(continued)*

Performance Share Plan (PSP)	
Purpose and link to strategy	To incentivise delivery of sustainable value creation over the longer term. Long-term measures guard against the Company taking short-term steps to maximise annual rewards at the expense of future performance.
Operation	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The Committee reviews award levels and performance conditions, on which vesting depends, from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that they would have received over the vesting period on awards that vest. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. An additional two-year holding period will apply to Executive Directors' vested PSP awards, *whether or not these are exercised before the expiry of the period.* 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. *Subject to shareholder approval at the 2025 AGM, the Committee will introduce an absolute "TSR kicker", acting as a multiplier to the core PSP awards based on the Company's absolute Total Shareholder Return.*
Opportunity	The maximum annual PSP award opportunity is, *whether or not these are exercised before the expiry of this period, 500% of salary if the TSR kicker is applied in full to the core PSP award. This represents an increase from 250% of salary under the 2023 Remuneration policy.* *The core PSP award for the CEO is 250% of salary, with a further 250% of salary if the TSR kicker is applied. It is the current intention that the CFO's core award will be set at 200% of salary, with an overall maximum of 400% of salary after application of the TSR kicker.* *The TSR kicker will be a feature of the FY26 PSP cycle. The Committee will reserve the discretion at each subsequent award cycle as to whether that PSP cycle will be subject to the TSR kicker.* 16.7% of the core award will vest for threshold performance.
Performance metrics	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. Core PSP awards made during the life of this policy will vest on the achievement of stretching targets that align to key drivers of strategy (including, but not limited to, free cash flow, operating margin, organic revenue growth and ESG). *The vesting of the TSR kicker will be based on absolute total shareholder return, with full vesting of the TSR kicker at 30% pa and with no kicker below 10% pa (with a straight-line sliding scale between these points).* The Committee will review the performance measures, their weightings and performance targets annually to ensure continued alignment with Company strategy.

All-employee plans – Babcock Colleague Share Plan	
Purpose and link to strategy	To encourage employee ownership of Company shares.
Operation	Open to all UK tax-resident employees, including Executive Directors, of participating Group companies. The plan is an HMRC-approved share incentive plan that allows an employee to purchase shares out of pre-tax salary. *The Company can also make matching awards on purchased shares as well as make awards of free shares that are not conditional on employees purchasing shares. If held for a period approved by HMRC (currently three to five years) awards are taxed on a favourable basis.*
Opportunity	Participants can purchase shares up to the prevailing HMRC limit from time to time. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every 10 shares purchased. The Committee reviews the matching rate periodically, but it will remain bound by the prevailing HMRC limit. *The Company may also make awards of free shares to eligible employees, the value of which will be determined by the Committee within the prevailing HMRC limit.*
Performance metrics	Not performance-related.

Approach to recruitment remuneration

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

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

When appointing a new Executive Director by way of promotion from an internal role, the pay structure will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate the Committee would expect these to transition over time to the arrangements stated above.

When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director, Chair of the Audit and Remuneration Committees, and Director designated for workforce 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 the Company reserves the discretion to use restricted stock awards, and not the PSP, for some participants below Board level, when appropriate. 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 Executive Directors 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.

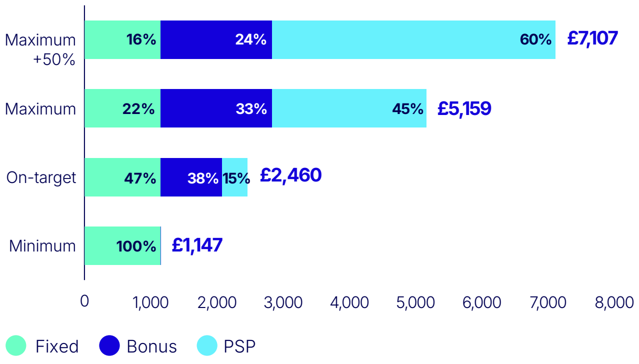
Remuneration *(continued)*

Balance of remuneration for Executive Directors

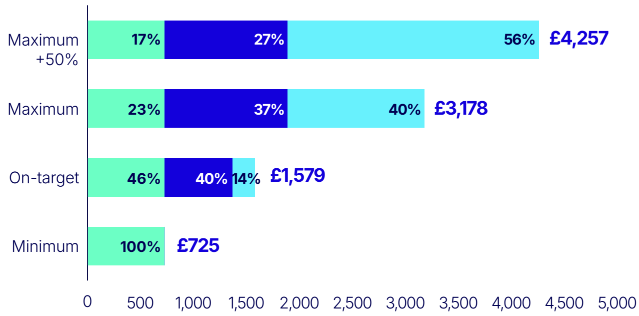
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-target', 'Maximum' and 'Maximum+50%'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY26, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 July 2025. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

Chief Executive
David Lockwood (£'000)



Chief Financial Officer
David Mellors (£'000)



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 core award under the PSP (ie c.42% of salary for the CEO, c.33% for the CFO).

The 'Maximum' scenario reflects fixed remuneration, plus full payout under the annual bonus (of 180% of salary), and full vesting of the core PSP award (250% of salary for the CEO and 200% for the CFO). None of the PSP TSR kicker, which is based on absolute TSR, vests in this scenario given the assumption of no share price growth.

The 'Maximum+50%' scenario reflects fixed remuneration, full payout under the bonus, plus full vesting of the core PSP award (250% of salary for the CEO and 200% for the CFO) and a c.1.22x TSR kicker (equivalent to a further PSP award of 56% of salary for the CEO and 45% for the CFO), with PSP awards also reflecting an increase of 50% in the share price from grant. Note: under this scenario the TSR kicker does not fully vest as this would require the share price to grow by c.120% (assuming no dividends) over the three-year performance period.

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

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)
Dame Ruth Cairnie (Chair)	3 April 2019	25 March 2025	AGM 2026
Lucy Dimes	1 April 2018	25 March 2025	AGM 2026
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	25 March 2025	AGM 2028
Jane Moriarty	1 December 2022	25 March 2025	AGM 2028
Sir Kevin Smith	1 June 2023	26 April 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 remuneration of the Chair is a matter reserved for the Remuneration Committee.

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.

Remuneration *(continued)*

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair). Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit Committee, Chair of the Remuneration Committee and Director designated for workforce engagement. *Allowances may also be paid to reflect the time commitment of travel required to fulfil the role.* Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of travel and accommodation expenses). The Company reviews fee levels by reference to FTSE-listed companies of similar size and complexity. It takes into account time commitment, level of involvement required and responsibility when it reviews fee levels. This may result in higher fee levels for overseas Directors.	Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review. Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None

Consideration of employee views

When reviewing Executive Directors' remuneration, the Committee is aware of the proposals for remuneration of all colleagues. When considering executive pay, the Committee takes into account the experience of colleagues 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 colleagues and business performance as required. The Committee engages with colleagues through its Annual Report, which sets out in detail executive pay. However, in addition, the Company also engages directly with colleagues through the Global People Survey and through the 'ask David' email. 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, and also engaged shareholder representative bodies. We had a good level of engagement and are pleased to report that virtually all investors who provided feedback indicated support for the approach initially proposed.

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

Annual report on remuneration

The Committee

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

In total there were nine meetings in the year to 31 March 2025. The Chair and the CEO attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief People Officer also attends meetings.

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

Advisors

Ellason advised the Committee during the year. Ellason reports directly to the Committee Chair and provides objective and independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. A representative from Ellason typically attends Committee meetings. Ellason also provides participant communications, performance reporting and Non-Executive Directors' fee benchmarking services to the Company. Ellason is a member of the Remuneration Consultants Group and a signatory to the Code of Conduct for consultants to remuneration committees of UK listed companies. Please see www.remunerationconsultantsgroup.com for details.

Ellason adheres to this Code of Conduct. The Company paid fees to Ellason in respect of work for the Committee carried out in the year under review totalling £125,988 based on time and materials, excluding expenses and VAT.

The Committee reviews Ellason's involvement each year and considers any other relationships that it has with the Company that may limit its independence. Ellason has no relationship with the Company or its Directors beyond those formed in its capacity as appointed advisor to the Committee. The Committee is satisfied that the advice provided by Ellason is objective and independent.

Matters considered

The Committee considered a number of matters during the year to 31 March 2025, including:

- renewing the Remuneration policy bearing in mind market trends and corporate governance best practice
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing share ownership guidelines for senior executives
- approving the Directors' Remuneration report
- reviewing the continued appointment of the Committee's independent advisors
- making share awards under the Company's share plans
- approving the performance measures and targets to be applied under the Company's PSP
- approving Executive Director salaries for the financial year
- considering performance targets and non-financial objectives for the FY26 annual bonus plan
- approving the level of vesting of the FY22 PSP awards
- considering performance against the measures applied to, and level of payout of, the FY24 annual bonus
- agreeing the level of, and targets for, FY26 PSP awards

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy (at the 2023 AGM), as well as the advisory vote on the Annual report on remuneration (at the 2024 AGM):

	2023 Remuneration policy		2024 Annual report on remuneration	
Votes cast	Total number of votes	% of votes cast for and against	Total number of votes	% of votes cast for and against
For (including discretionary)	363,326,457	98.29%	364,997,185	97.11%
Against	6,310,888	1.71%	10,857,090	2.89%
Total votes cast (excluding withheld votes)	369,637,345	100%	375,854,275	100%
Votes withheld	230,578		4,349,953	
Total votes cast (including withheld votes)	369,867,923		380,204,228	

Remuneration *(continued)*

Single total figure of remuneration for Executive Directors for FY25 (audited)

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

	David Lockwood		David Mellors	
	FY25 £'000	FY24 £'000	**FY25 £'000**	FY24 £'000
Fixed remuneration				
Salary[1]	**883**	816	**609**	586
Benefits in kind and cash[2]	**120**	120	**15**	15
Pension[3]	**88**	82	**61**	59
Annual variable remuneration				
Annual bonus (cash)[4]	**795**	438	**548**	306
DBP (deferred annual bonus plan)[5]	**530**	292	**365**	204
Long-term incentives				
PSP[6]	**2,918**	2,391	**2,042**	1,674
Dividends[7]	**33**	23	**23**	16
Total (of which)	**5,367**	4,162	**3,663**	2,860
Total fixed remuneration[1,2,3]	**1,091**	1,018	**685**	660
Total variable remuneration[4,5,6,7]	**4,276**	3,143	**2,978**	2,200

The figures have been calculated as follows:

1. Salary: Base salary amount paid in the year.
2. Benefits in kind and cash: The value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, and car and fuel benefits. David Lockwood in FY25 received £98k in connection with his accommodation costs in London, which were, at the Company's request, to enable him to lead the business effectively.
3. Pension: The numbers above represent for each year the value of the cash supplement, which for David Lockwood and David Mellors was 10% of base salary.
4. Annual bonus (cash): This is the 60% of total annual bonus earned for performance during the year (see pages 165 to 167) that is not required to be mandatorily deferred into shares under the DBP (see page 157) and is paid in cash.
5. DBP: This is the mandatorily deferred element of the annual bonus earned for performance during the year (40% of earned bonus), which will vest after three years.
6. PSP: The FY23 PSP award was granted in August 2022 with a three-year performance period to 31 March 2025 and will vest in August 2025. The values in the table are based on 100% of the award vesting at an average share price for the three months to 31 March 2025 of 615.02p. The values attributable to share price appreciation over the FY23 PSP vesting period are presently estimated to 31 March 2025, at £1,286k and £900k for David Lockwood and David Mellors, respectively. The PSP FY24 value has been updated to reflect the share price of 528.50p on the vest date of the FY22 PSP award.
7. Dividends: Since HY24 the Company has returned to the dividend list. All dividends accrued to the FY23 PSP will be payable in cash on exercise of the award. The FY24 PSP value has been updated to reflect the August 2024 dividend of 3.3p which accrued to awards prior to vesting.

Neither of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2025. They instead received a cash supplement equal to 10% of salary. There are no additional early retirement benefits.

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

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

Director	FY25 £'000 pa	FY24 £'000
David Lockwood	**5**	4
David Mellors	**3**	3

FY25 annual bonus (audited)

The Committee based the FY25 annual bonus on a mix of financial and non-financial measures. The financial element, weighted 80%, was based equally on Group underlying operating profit performance and Group underlying operating cash flow (based on budgeted foreign exchange rates). There was a 100% payout under the underlying operating profit element due to the Company's strong performance over the year. The payout under the underlying operating cash flow element was equally strong at 100%. Please see pages 26 to 39 for more information on the Company's performance. The non-financial measures were principally the themes that the Committee considers to be of material importance to the continued success of the Company. The Committee concluded that the outturn for the non-financial measures should be a 100% payout for Mr Lockwood and a 100% payout for Mr Mellors.
The Committee was satisfied that the total outturn of the FY25 bonus, of 100% of maximum for Mr Lockwood and 100% of maximum for Mr Mellors, reflected the Company's performance over the year and aligned to shareholders' experience.

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

Bonus element	Threshold[1]	Target	Maximum	Outturn		David Lockwood	David Mellors
Achieving budgeted underlying operating profit[2]	£313.5m	£330.0m	£363.0m	£365.3m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Achieving budgeted underlying operating cash flow[3]	£170.0m	£200.0m	£230.0m	£296.1m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Non-financial objectives[4]					Maximum potential (% of salary)	30%	30%
					Outturn (% of salary)	30%	30%
Total					Maximum potential (% of salary)	150%	150%
					Outturn (% of salary)	150%	150%

1. Threshold vesting is 18.8% of maximum for the operating profit and cash flow elements, and 0% for non-financial measures. In line with our policy, overall vesting at threshold is no more than 15% when all measures are considered. Vesting outcomes are determined on a straight-line sliding scale for performance outturns between threshold and target, and between target and maximum.
2. For the definition, please see page 1.
3. For the definition, please see page 1.
4. Further details on the non-financial objectives set for FY25 are given below.

Remuneration *(continued)*

FY25 annual bonus non-financial measures

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

David Lockwood

Theme	Progress	Assessment
Strategy	Provided visible and unifying leadership during a year of exceptional strategic momentum, including Babcock's promotion to the FTSE 100: • H&B Defence launched, a JV with HII, supporting AUKUS priorities and securing the first contract win in Australia. • Led the strategic reset of organisational capability to enable future international growth. Aligning structure, leadership, and ambition to drive global business winning.	Exceeded Expectations
Performance	Led a step change in performance focus across all sectors and major programmes. Driving alignment between ambition, delivery and accountability: • Provided visible support and challenge to accelerate maturity in risk management practices both at corporate and programme levels. • Promoted a culture of proactive issue identification, championing the use of tools like the Global and Sector watchlist to identify earlier insight and intervention.	Exceeded Expectations
Growth	Provided strategic oversight to drive strong, profitable growth across all sectors, both in the UK and internationally: • DSG contract extension secured including additional option years, and follow-on contract to build additional 53 High Mobility Transporter Jackal Vehicles. • Supported expansion in Civil Nuclear through the build and decommissioning opportunities, and strengthened strategic relationships in Submarine Support.	Exceeded Expectations
People and Culture	Continued tangible improvement in performance culture: • Sponsoring the development of the Leadership Framework and supported the relaunch of learning access to global colleagues. • Championed the embedding of our Purpose and Principles, ensuring they shape behaviours and leadership standards at all levels. • Building a stronger performance and leadership culture across the organisation. Significant increase in the use of formal performance ratings connected to reward.	Exceeded Expectations
Sustainability	Provided strategic leadership in the re-setting of our Sustainability Strategy. Focusing the agenda on fewer, higher-impact goals aligned with our Purpose: • Reset Sustainability Strategy with high-impact goals. • Achieved 30% women in the Senior Leadership Team. • Prioritised climate accountability with clear expectations and ownership.	Exceeded Expectations

David Mellors

Theme	Progress	Assessment
Strategy	Supported exceptional strategic delivery through strong financial governance and disciplined planning during Babcock's promotion to the FTSE 100: • Provided financial and risk oversight for the formation of H&B Defence as a key board member, and the successful bid for the initial AUKUS-related contract in Australia. • Signing of the DSG contract extension including additional option years.	Exceeded Expectations
Performance	Drove significant improvements in performance focus across Babcock through enhanced financial oversight and reporting: • Led the advancement of risk management maturity. Embedding consistent practices at both the corporate and programme levels. • Successfully de-risked the pension position, and further strengthened the balance sheet through disciplined financial planning. • Strengthened the internal controls environment and enhanced the effectiveness of the Global and Sector watchlist as an early warning mechanism for emerging risks.	Exceeded Expectations
Growth	Enabled strong profitable growth through disciplined commercial oversight and robust financial evaluation of all substantial growth opportunities: • Ensured financial planning and controls supported strong growth in new build and decommissioning work in Civil Nuclear, and the scaling of submarine support operations. • Played a key role in ensuring financial visibility and risk management of the extended Miecznik frigate programme contract in Poland through to 2031. • Some organic and potential inorganic opportunities passed due to disciplined approach.	Exceeded Expectations
People and Culture	Continued tangible improvement in performance culture including: • Supported the development and implementation of the Leadership Framework. • Played a key role in succession planning for critical roles across Finance and other functions, focusing on continuity, depth and leadership strength.	Exceeded Expectations
Sustainability	Provided financial oversight and governance to support the re-set of the Sustainability Strategy, ensuring a focus on achievable, high-impact goals: • Supported tracking and uptake of "Be Kind" days, through reporting and data on volunteering engagement. • Oversaw the detailed mapping and baselining of carbon emissions. Delivering credible plan, measurement and investment to support long-term carbon reduction.	Exceeded Expectations

Remuneration *(continued)*

As it does every year, the Committee reviewed the Company's health and safety performance as it is an underpin for the annual bonus. The Committee considered the totality of the Group's health and safety environment over the year and decided not to exercise its discretion.

The FY25 bonus outcomes for each Executive Director are as follows (40% of which will be deferred under the DBP):

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus (£'000)
David Lockwood	120%	30%	150%	1,325
David Mellors	120%	30%	150%	913

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

FY23 PSP

The Committee granted the Executive Directors PSP awards in August 2022 over 474,418 shares for David Lockwood and 332,093 shares for David Mellors. Vesting of the awards is based on cumulative underlying free cash flow (FCF) and relative Total Shareholder Return (TSR), equally weighted. The performance period for these awards was the three financial years 1 April 2022 through to 31 March 2025.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outcome	Vesting (% of overall award)
3-year underlying FCF	50%	£176m	£264m	£389m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Median TSR + 27.4% pa	50%

In line with its standard practice, the Committee considered whether any windfall gains have arisen on this vesting PSP cycle. After assessing the vesting of the FY23 PSP from a range of perspectives, the Committee was satisfied that the outcomes against the measures were reflective of the strong underlying performance of the Company and there were no windfall gains. Accordingly, there was no requirement for the Committee to apply its discretion. As a result, the Executive Directors' FY23 awards will vest in full in August 2025 (though subject to a two-year holding period from that date). Dividends were accrued on these awards, which will also vest in August 2025.

Long-term incentive scheme (PSP) award granted during FY25 (audited)

The Committee granted PSP awards in the form of nil-cost options in August 2024 to the Executive Directors, consistent with the Remuneration policy.

Director	Number of shares[1]	Face value[2]	Face value (% of salary)[3]	% of award receivable for threshold performance
David Lockwood	425,905	£2,264,409	250%	16.7%
David Mellors	231,287	£1,229,684	200%	16.7%

1. Awards are in the form of nil-cost options.
2. Based on three-day average share price (of 531.67p) at time of grant.
3. Expressed as a percentage of salary at the date of the award (1 August 2024).

The FY25 PSP awards are subject to a scorecard of measures comprising underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%). The performance period for these awards is the three financial years 1 April 2024 through to 31 March 2027.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	15.0%	23.0%
3-year weighted average underlying operating margin[1]	30%	8.0%	9.0%
3-year cumulative underlying free cash flow	30%	£394.4m	£591.6m

1. Weighted to focus more heavily on the final year of the performance period: FY25 and FY26 each accounts for 25% of the measure whereas FY27 accounts for 50%.

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

The targets for the ESG measures are:

- A reduction in the Company's carbon emissions in FY27 within a range of (9.4)% and (11.8)% from 2020 baseline. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). A reduction of (9.4)% will result in 16.7% vesting of this portion of the ESG element, with a reduction of (11.8)% warranting full vesting.
- The achievement of senior management gender diversity range in FY27 of between a threshold of 29.5% and a maximum of 32.6%. This measure will have a 7.5% weighting, with 16.7% vesting at threshold and full vesting at maximum. The definition of senior management is employees, excluding Executive Directors, who have responsibility for planning, directing or controlling activities of the Group or a strategically significant part of the Group (sector/functional leadership teams) and/or are directors of subsidiary business units (business unit leadership).

Remuneration *(continued)*

Deferred Bonus Plan awards made during FY25 (audited)

In 2024, the Committee approved the payment of annual bonuses to both Executive Directors under the FY24 annual bonus plan. For more detail, please see the single total figure table on page 164.

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

The table below sets out the total remuneration received by each Non-Executive Director. For details of the fees that applied during FY25, please see page 172:

	Base fee		Additional fee[1]		Total[2]		Total fixed remuneration		Total variable remuneration	
	FY25 £'000	FY24 £'000	FY25 £'000	FY24 £'000	FY25 £'000	FY24 £'000	FY25 £'000	FY24 £'000	FY25 £'000	FY24 £'000
Fixed remuneration										
Dame Ruth Cairnie	**346**	336	**–**	–	**346**	336	**346**	336	**–**	–
Lucy Dimes	**65**	62	**–**	–	**65**	62	**65**	62	**–**	–
Carl-Peter Forster[3]	**76**	73	**15**	15	**91**	88	**91**	88	**–**	–
Lord Parker	**65**	62	**15**	12	**80**	74	**80**	74	**–**	–
John Ramsay[4]	**65**	62	**23**	22	**88**	84	**88**	84	**–**	–
Jane Moriarty	**65**	62	**–**	–	**65**	62	**65**	62	**–**	–
Sir Kevin Smith	**65**	52	**–**	–	**65**	52	**65**	52	**–**	–
Claudia Natanson	**65**	5	**–**	–	**65**	5	**65**	5	**–**	–

1. Relating to role as Chair of the Audit Committee (John Ramsay), Remuneration Committee (Carl-Peter Forster), and Director designated for workforce engagement (Lord Parker).
2. Non-Executive Directors did not receive any taxable benefits in FY24 or FY25.
3. Carl-Peter Forster is the Senior Independent Director and Remuneration Committee Chair.
4. A Committee of the Chair and the Executive Directors decided to grant John Ramsay additional ex gratia payments of £5,000 in FY24 and FY25 in thanks for the material additional time and commitment shown by John, which was significantly above that expected in his letter of appointment.

Sourcing of shares

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

Executive Directors' remuneration for FY26

The Committee has set the remuneration for Executive Directors for FY26 in line with the 2025 Remuneration policy being presented for shareholder approval at the 2025 AGM.

Fixed pay

As explained in the Committee Chair's opening remarks at the start of the Remuneration Committee report on page 153, the Committee reviewed the Executive Directors' base salaries and resolved to increase Mr Lockwood's salary by 3% and Mr Mellors' salary by 5% from 1 July 2025.

Salary	1 July 2025	1 July 2024	1 April 2024
David Lockwood	**£932,933**	£905,760	£816,000
David Mellors	**£645,582**	£614,840	£591,192

The Executive Directors will receive the same pension arrangements (ie at 10% of salary) and the same benefits as in FY25.

FY26 annual bonus

The scorecard of the Executive Director annual bonus for FY26 is consistent with that for FY25, with measures based on underlying operating cash flow, underlying operating profit and non-financial objectives. The Committee has agreed the targets but, due to their commercial sensitivity, it will only disclose them in next year's Annual report on remuneration.

Following our consultation with shareholders, we are proposing certain changes to the FY26 bonus. These changes are subject to shareholder approval at the 2025 AGM. If shareholders approve the changes, we will increase the annual bonus opportunity for both Executive Directors from 150% to 180% of salary and we will disapply the 40% deferral provision for those Executive Directors who, at the time of deciding the FY26 bonus outcome, have achieved their shareholding requirements.

FY26 PSP awards

The Committee intends to grant awards under the PSP to the Executive Directors in 2025 covering the three-year period FY26 to FY28, with the measures for the core award scorecard being underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%), as follows:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	16.9%	25.4%
3-year weighted average underlying operating margin[1]	30%	8.0%	9.2%
3-year cumulative underlying free cash flow	30%	£538.4m	£807.6m

1. Weighted to focus more heavily on the final year of the performance period: FY26 and FY27 each account for 25% of the measure whereas FY28 accounts for 50%. In determining the range for the underlying operating margin measure, the Committee approved the setting of threshold in line with the Company's medium-term guidance, to incentivise achievement of this goal.

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

The targets for the ESG measures are:

- Environment: The last two PSP cycles have incorporated a measure based on reduction in the Company's carbon emissions. On reviewing the mechanics of this measure again this year, the Committee noted that it was heavily reliant on only one or two of the Company's sites, and concluded that it is no longer an appropriate measure for a pan-Group scheme, as only a limited subset of the participants in the scheme would have any influence over the delivery of the measure. Therefore, the Committee is proposing for the FY26 PSP cycle to align the environmental measure to the new energy efficiency improvement target that the Company has adopted (please see page 80 for more detail). The new target will not only support our journey to Net Zero but also deliver cost savings by incentivising efforts across the Group to improve energy efficiency and reduce energy waste. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). The target range is a cumulative reduction over the three-year performance period of (8.6)% to (9.5)%. A reduction of (8.6)% will result in 16.7% vesting of this portion of the ESG element, while a reduction of (9.5)% will warrant full vesting.
- Gender diversity: we want to build on the good work that the Company has done at the senior leadership team level and for the FY26 PSP cycle have expanded the scope of this measure to take in the next level of senior management, which will include functional and business unit leadership teams that typically sit three layers below the CEO. This measure will have a 7.5% weighting, with 16.7% vesting at threshold and full vesting at maximum. The target range will be 28.5% to 31.5% of this senior leadership community being female by FY28.

Subject to shareholder approval of the proposed Remuneration policy, the FY26 PSP core award opportunities (of 250% and 200% of salary for the CEO and CFO, respectively) will be subject to an additional TSR kicker of up to 2.0x if absolute TSR over the three-year period to 31 March 2028 is at least 30% pa. If absolute TSR over that period is 10% pa or less, the TSR kicker will be 1.0x, ie there will be no uplift to the vesting outcome approved by the Committee in respect of the FY26 PSP core award opportunity. For absolute TSR of between 10% and 30% pa, the TSR kicker will be interpolated on a straight-line sliding scale basis between 1.0x and 2.0x.

A two-year holding period will apply to Executive Directors' FY26 PSP awards to the extent that they vest. Malus and clawback provisions apply. In keeping with its typical practice, the Committee will assess for any windfall gains at vesting.

Payments for loss of office (audited)

There were no payments for loss of office during the year ended 31 March 2025.

Payments to past Directors (audited)

There were no payments to past Directors during the year ended 31 March 2025.

Remuneration *(continued)*

Non-Executive Directors' fees (including the Chair)

The Committee reviewed the Chair's fee and resolved to increase it by 9% from 1 September 2025. The basic fee for Non-Executive Directors was reviewed by the Chair and the Executive Directors and it was resolved to increase it by 21.2% from 1 September 2025, as set out below. These increases were deemed appropriate, following several years of fee constraint, to help ensure the fee remains competitive as well as the time commitment required of the Board Directors.

Annual rate fee	1 September 2025 £	1 September 2024 £	1 April 2024 £
Chair	381,000	349,440	336,000
Senior Independent Director (inclusive of basic fee)	91,000	77,000	74,000
Basic Non-Executive Director's fee[1]	80,000	66,000	63,000
Chair of Audit Committee[2]	18,000	18,000	18,000
Chair of Remuneration Committee[2]	15,000	15,000	15,000
Director designated for workforce engagement[2]	15,000	15,000	15,000

1. For those Non-Executive Directors who, due to their residence, have long-distance commutes to fulfil their duties, the Company has decided to pay an additional £13,000 pa on top of the basic Non-Executive Director's fee to compensate for the extra time commitment involved in attending meetings.
2. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee and for acting as the Director designated for workforce engagement. The Company does not pay additional fees for membership of Committees.

Percentage change in the remuneration of all Directors compared to the workforce

The table below shows the annual percentage changes in remuneration over the last five years for each individual who was a Director during the year ended 31 March 2025, compared to the average UK colleague, as required under the Companies (Directors' Remuneration policy and Directors' Remuneration Report) Regulations 2019 (the Regulations).

The Regulations require this disclosure to provide a comparison of year-on-year changes in Directors' remuneration compared to all other colleagues of the parent company in the Group. However, the Company does not have any employees, meaning there would be no data to disclose for the broader colleague population. The Committee has therefore elected to compare the change in Directors' remuneration with the change in remuneration for the average of the UK colleague population, as a suitable comparator group for this purpose.

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

	Base salary/fees					Taxable benefits					Single-year variable				
	FY24 to FY25	FY23 to FY24[1]	FY22 to FY23	FY21 to FY22	FY20 to FY21	**FY24 to FY25**	FY23 to FY24[1]	FY22 to FY23	FY21 to FY22	FY20 to FY21	**FY24 to FY25**	FY23 to FY24[1]	FY22 to FY23	FY21 to FY22	FY20 to FY21
Executive Directors															
David Lockwood	**8%**	0%	1%	1%	n/a	**0%**	(1)%	1%	1%	n/a	**82%**	1%	(25)%	n/a	n/a
David Mellors	**4%**	3%	1%	1%	n/a	**0%**	0%	0%	1%	n/a	**79%**	3%	(26)%	n/a	n/a
Non-Executive Directors[2]															
Dame Ruth Cairnie	**3%**	0%	0%	5%	26%	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Lucy Dimes	**4%**	2%	0%	5%	(5)%	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Carl-Peter Forster	**3%**	6%	16%	11%	n/a	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Lord Parker	**8%**	10%	10%	5%	n/a	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
John Ramsay	**5%**	11%	0%	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Jane Moriarty[3]	**4%**	2%	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Sir Kevin Smith[4]	**4%**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Claudia Natanson[4]	**4%**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	n/a
Average for all UK employees[5]	**5%**	7%	5%	2%	2%	**0%**	0%	0%	0%	0%	**34%**	11%	(18)%	100%	(100)%

1. It should be noted that the Directors received an increase in pay or fee part-way through the year.
2. A Committee, made up of the Chair and the Executive Directors, reviews the Non-Executive fees and agrees increases in the basic fee, the fee for the Senior Independent Director, the Audit Committee Chair and the Director designated for workforce engagement, as well as the one-off payment for the Audit Committee Chair in recognition of the material additional time the role required. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.
3. Jane Moriarty joined the Board in December 2022. To facilitate a comparison with FY24, her FY23 fee has been annualised.
4. Sir Kevin Smith and Claudia Natanson joined during FY24. To facilitate a comparison with FY25 their FY24 fees have been annualised.
5. The single-year variable figure for our UK colleagues is provided in respect of our annual bonus plan, which has been estimated based on our expected bonus outturn for FY25 at the time of disclosure. This estimate is prior to any discretionary adjustments and for prior years has been trued up once actual results known.

Relative importance of spend on pay

	FY25	FY24	% change
Distribution to shareholders	**£33m**	£25m	32%
Employee remuneration	**£1,660m**	£1,584m	4.8%

Distribution to shareholders includes all amounts distributed to shareholders.

CEO pay ratio

The table below provides disclosure of the ratio between the CEO's total remuneration and that of the lower quartile, median and upper quartile UK-based colleagues.

Figures for the CEO come from the Executive Directors' single figure table on page 164. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) colleagues on 31 March 2025 using the 'single figure' methodology to provide a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the P25, P50 and P75 colleagues – Options A, B and C. Since FY23, the Committee has adopted Option B, in recognition of the significant workload placed on our colleagues of the previous methodology in adopting Option A. The Company used the data collected for gender pay gap reporting purposes to identify the three colleagues representing P25, P50 and P75, calculating the total full-time equivalent remuneration for these three colleagues on a similar basis to that adopted for the CEO's single figure of total remuneration.

As with last year, the Company excluded bonus payments from the calculations, because it was not feasible to identify those payments for services delivered within the financial year, and because the Company does not know all bonus pay relating to FY25 at the time of publication. Analysis of past data indicates that the three colleagues would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

To validate that the figures presented are representative of the pay and benefits of the UK workforce, the Company considered the pay and benefits of colleagues centred on each of the three colleagues. Whilst there can be variation in the pay mix for individuals throughout the organisation, the Committee believes that the information presented fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time colleagues during the year and none received an exceptional incentive award, which would otherwise inflate their pay figures. The Company made no adjustments or assumptions to the total remuneration of these colleagues and calculated the total remuneration in accordance with the methodology used to calculate the single figure of the CEO.

The median CEO pay ratio in FY25 was 119:1, compared to 94:1 in FY24 (based on the restated FY24 single figure remuneration for CEO).

The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The increase in the ratios reported for FY25, when compared to previous years, is primarily driven by strong incentive vesting outcomes received by the CEO in respect of performance periods ending in FY25.

As the remuneration of the CEO has a significant weighting towards variable pay to align his remuneration with Company performance, it is likely that there will be greater variability in his pay year to year than that observed at other levels which have a greater proportion of their pay linked to fixed components. This is consistent with market practices and the Company's reward policies across the organisation. In respect of the general workforce, Babcock understands the need to ensure competitive pay packages across the organisation. For the Committee, it considers the ratios below when making its decisions around the remuneration of the Executive Directors.

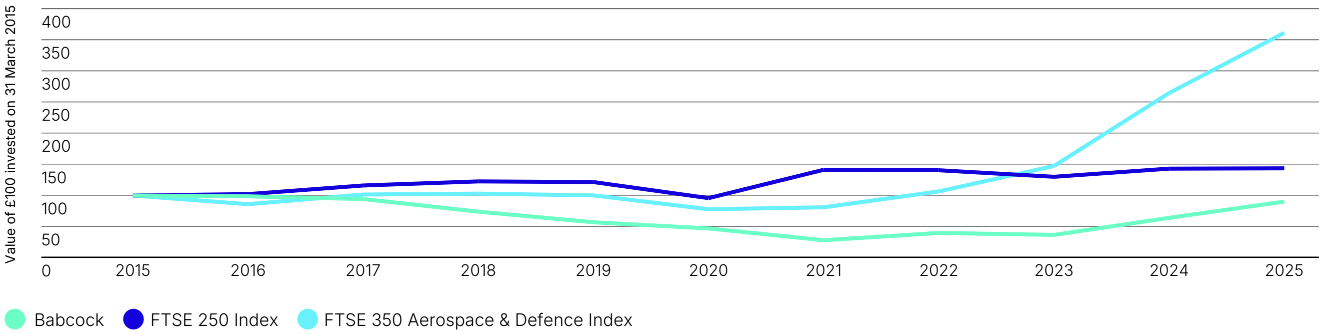
Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY25	Option B	141:1	119:1	94:1
FY24	Option B	111:1	94:1	75:1
FY23	Option B	102:1	84:1	62:1
FY22	Option A	61:1	48:1	36:1
FY21	Option A	30:1	22:1	17:1
FY20	Option C	47:1	37:1	27:1

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY25	Total remuneration (£'000)	£38.2	£45.1	£57.1
	Salary (£'000)	£35.0	£42.5	£50.9

Remuneration *(continued)*

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence index, assuming an investor invested £100 on 31 March 2015. 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 was a constituent for much of the period under review) against which to compare Babcock's performance.



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

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Peter Rogers[1]										
Single figure (£'000)	2,491	1,091								
Bonus vesting (% max)	60%	66%								
DBMP matching shares vesting (% max)	57.8%	17.0%								
PSP/CSOP vesting (% max)	37.3%	26.5%								
Archie Bethel[2,3]										
Single figure (£'000)		1,012	2,079	1,969	1,385	334				
Bonus vesting (% max)		66%	61%	58%	14%	0%				
DBMP matching shares vesting (% max)		17.0%	20.0%	n/a	n/a	n/a				
PSP vesting (% max)		26.5%	23.9%	15.1%	0%	0%				
David Lockwood[4]										
Single figure (£'000)						547	1,975	3,288	4,161	**5,367**
Bonus vesting (% max)						0%	80%	59%	59.6%	**100%**
PSP vesting (% max)						n/a	n/a	100%	100%	**100%**

1. Until retirement on 31 August 2016.
2. Excludes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.
3. Until he stepped down as CEO on 14 September 2020.
4. Excludes his salary between joining the Company in August and joining the Board as CEO on 14 September 2020.

Directors' share ownership (audited)

The Committee sets out below the interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2025:

	At 31 March 2024	At 31 March 2025							
	Shares held	Shares held	Options held						
Director	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?
David Lockwood	276,174	719,465	–	–	1,420,731	243,905	300%	576%	Yes
David Mellors	188,679	501,017	–	–	865,008	168,791	200%	591%	Yes
Dame Ruth Cairnie	120,000	120,000							
Lucy Dimes	5,000	5,000							
Carl-Peter Forster	10,000	10,000							
Lord Parker	–	–							
John Ramsay	30,000	40,000							
Jane Moriarty	–	–							
Sir Kevin Smith	6,000	6,000							
Claudia Natanson	–	–							

1. Beneficially held shares of Director and/or spouse.
2. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2025 and by reference to shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised and options unvested but subject only to continued employment. Holdings are valued assuming options are exercised on 31 March 2025 and a three-month average share price to 31 March 2025 of 615.02p and are calculated post tax.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2025 and 1 July 2025.

Remuneration *(continued)*

Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 31 March 2025 was 724.00p. The highest and lowest mid-market share prices in the year ended 31 March 2025 were 755.50p and 462.40p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2024	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2025	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Lockwood	PSP FY21	385,848		385,848		**0**	529.00	352.47	Aug 2024	Aug 2025
	PSP FY22	452,450		452,450		**0**	529.00	353.63	Aug 2024	Aug 2025
	PSP FY23	474,418				**474,418**		344.00	Aug 2025	Aug 2026
	DBP FY23[4]	112,549				**112,549**		344.00	Aug 2025	Aug 2026
	PSP FY24	520,408				**520,408**		392.00	Sept 2026	Sept 2027
	DBP FY24	76,472				**76,472**		377.73	Aug 2026	Aug 2027
	PSP FY25		425,905			**425,905**		531.67	Aug 2027	Aug 2028
	DBP FY25[4]		54,884			**54,884**		531.67	Aug 2027	Aug 2028

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2024	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2025	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Mellors	PSP FY21	270,093		270,093		**0**	500.58	352.47	Aug 2024	Aug 2025
	PSP FY22	316,715		316,715		**0**	500.58	353.63	Aug 2024	Aug 2025
	PSP FY23	332,093				**332,093**		344.00	Aug 2025	Aug 2026
	DBP FY23[4]	77,798				**77,798**		344.00	Aug 2025	Aug 2026
	PSP FY24	301,628				**301,628**		392.00	Sept 2026	Sept 2027
	DBP FY24[4]	52,623				**52,623**		377.73	Aug 2026	Aug 2027
	PSP FY25		231,287			**231,287**		531.67	Aug 2027	Aug 2028
	DBP FY25[4]		38,370			**38,370**		531.67	Aug 2027	Aug 2028

1. PSP is the Company's Performance Share Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on page 168. As stated in last year's Annual Report, the Committee decided that, in line with market practice, it would vest any PSP award, including in-flight awards, after the three-year performance period and allow the Executive Directors to exercise their awards so long as they hold them in trust for the two-year holding period, so that the Executive Directors cannot sell the net number of shares until the end of the holding period. The expiry dates have accordingly been updated to be the anniversary of the date on which awards can be exercised. The FY21 and FY22 PSP awards completed their performance period during FY24 and FY25 respectively and the awards vested in full. Both David Lockwood and David Mellors exercised their vested awards following the completion of the performance period, selling sufficient shares to pay the tax, and the remaining balance is being held in Trust until the completion of the holding period, ie the end of the five-year period from grant.
2. The PSP awards are structured as nil-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
4. The Company currently requires the Executive Directors to defer 40% of any annual bonus awarded into shares, which vest after three years. The remaining 60% of any annual bonus is paid in cash. If approved by shareholders at the 2025 AGM, this will no longer be a requirement with effect from the FY26 annual bonus if the Executive Directors have met their shareholding requirement.

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

During the year to 31 March 2025 the following awards vested:

Director	Award	Number vesting	Vesting date	Market value of vested shares on award £	Market value of vested shares on vesting date £	Exercise price payable for vested shares (if any) £
David Lockwood	PSP FY21	385,848	Aug 2024	1,359,998	2,048,853	Nil
David Lockwood	PSP FY22	452,450	Aug 2024	1,599,999	2,402,510	Nil
David Mellors	PSP FY21	270,093	Aug 2024	951,997	1,434,194	Nil
David Mellors	PSP FY22	316,715	Aug 2024	1,119,999	1,681,757	Nil

Closing share price on the last dealing date before vesting was 531.00p (23 August 2024).

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in FY25

During the year and until his standing down on 18 June 2025 David Lockwood was a Non-Executive Director of John Wood Group PLC. He retained the fees payable in respect of that appointment. In January 2024, David Lockwood became President of ADS, the UK trade association for the aerospace, defence, security and space industry. There were no other fees received by Executive Directors for any external appointment during the year.

The Board approved this Remuneration report on 1 July 2025.

Carl-Peter Forster
Committee Chair