

Extract of the 2020 Remuneration Report

Remuneration Policy Report

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

Key principles of the Remuneration policy

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

Remuneration policy for Executive Directors

Base salary

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

Pension

Purpose and link to strategy	To provide market competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	<p>Policy for new appointments</p> <p>Executive Directors appointed after 1 April 2020 will receive pension benefits up to the value equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market as may be in effect or amended from time to time.</p> <p>Transition arrangements for existing Executive Directors</p> <p>The existing directors will transition from the arrangements immediately prior to the new policy (25% of salary) to alignment with the workforce, as per the new appointment policy, by 1 April 2023.</p>
Performance metrics	Not performance-related.

Benefits

Purpose and link to strategy	Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.
Operation	<p>A range of benefits is provided which may include (but is not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home to work travel and related costs; accommodation benefits and related costs.</p> <p>Other benefits (e.g. relocation) may be offered if considered appropriate and reasonable by the Committee.</p>
Opportunity	<p>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.</p> <p>The cost of the benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the period of this policy. The Committee retains the discretion to approve a higher cost in certain circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially.</p>
Performance metrics	Not performance-related.

Annual Bonus

Purpose and link to strategy	<p>To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer-term risks to the Company.</p> <p>The requirement to defer a substantial part of bonus into Company shares strengthens the link to long-term sustainable growth.</p>
Operation	<p>Performance targets are set at the start of the year and reflect the responsibilities of the Executive in relation to the delivery of our strategy.</p> <p>At the end of the year, the Committee determines the extent to which these targets have been achieved. 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, 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 it may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance.</p> <p>At least 40% of annual bonus payments for Executive Directors is 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.</p> <p>Malus and clawback provisions apply to cash and deferred bonus awards: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or caused the Committee to exercise any discretion differently.</p>
Opportunity	<p>Maximum bonus opportunity is 150% of salary.</p> <p>For achievement of threshold, up to 15% of maximum bonus is earned; for achievement of target up to 55% of maximum bonus is earned.</p>
Performance metrics	<p>Performance is determined by the Committee on an annual basis by reference to Group and/or sector financial measures, e.g. PBT, OCF, as well as the achievement of non-financial objectives.</p> <p>The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting.</p> <p>The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.</p>

Performance Share Plan (PSP)

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

All-employee plans – Babcock Employee Share Plan

Purpose and link to strategy	To encourage employee ownership of Company shares.
Operation	<p>Open to all UK tax-resident employees, including Executive Directors, of participating Group companies.</p> <p>The plan is an HMRC approved share incentive plan that allows an employee to purchase shares out of pre-tax salary which, if held for periods of time approved by HMRC (currently three to five years), are taxed on a favourable basis.</p> <p>The Company can match purchased shares with an award of free shares.</p>
Opportunity	<p>Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate.</p> <p>The Company currently offers to match purchases made through the plan at the rate of one free matching share for every ten shares purchased. The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.</p>
Performance metrics	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 where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its Shareholders. The Committee may also make an award in respect of a new external appointment to 'replace' incentive arrangements forfeited on leaving a previous employer over and above the limits set out in the Policy in the table above. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. In order to facilitate like-for-like compensatory awards on recruitment, the Committee may avail itself of the relevant Listing Rule, if required.

When appointing a new Executive Director by way of promotion from an internal role, the pay structure will be consistent with the 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, these would be expected to transition over time to the arrangements stated above.

When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director and Chairmanship of the Audit and Risk, and Remuneration Committees.

Payments from existing awards and commitments

Executive Directors are eligible to receive payment from any award or other commitment made prior to the approval and implementation of the Remuneration Policy detailed in this report.

Performance measure selection and approach to target-setting

The measures used under annual bonus plans are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set 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 believes that TSR, EPS, cashflow and ROCE are effective measures of long-term performance for the Company, providing a good balance between shareholder value creation and line of sight for Executives.

The Remuneration Committee has the discretion to make adjustments to 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. No material reduction in long-term incentive targets for future awards would be made without prior consultation with our major shareholders.

Executive Director and general employee remuneration

The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The Remuneration Policy for our Executive Directors is considered 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 seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the policy for executives as set out above but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair having regard to such factors.

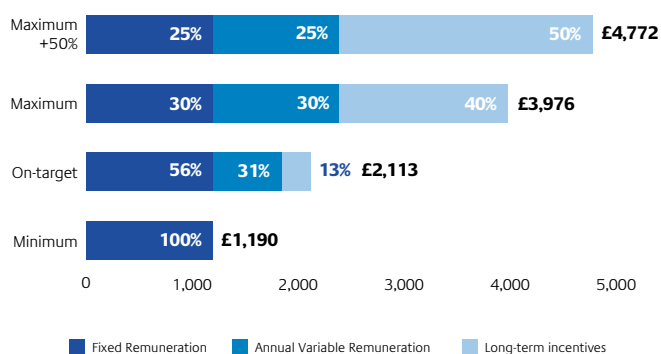
Balance of remuneration for Executive Directors

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

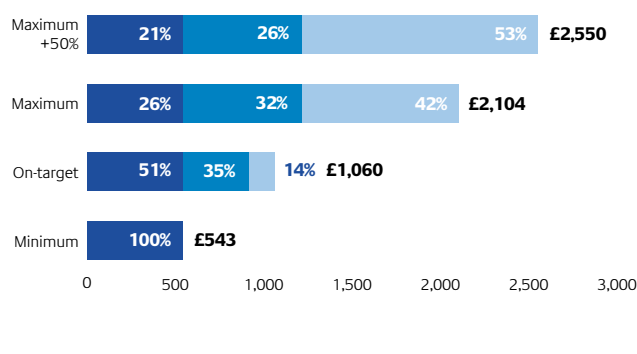
Remuneration continued

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

Chief Executive Archie Bethel (£'000)



Group Finance Director Franco Martinelli (£'000)



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

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

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

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

Shareholding guidelines for Executive Directors

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

For the 2020 Policy onwards, the shareholding requirements will be extended post-cessation such that departing Executive Directors will be required to hold vested Company shares, received through incentive plans granted from the 2020/21 financial year onwards, for two years at a level equal to the lower of their actual shareholding on cessation and the in-post shareholding requirement. Any shares purchased by an Executive Director will not be part of this holding requirement.

Details of Directors' service contracts and exit payments and treatment of awards on a change of control

The following summarises the key terms (excluding remuneration) of the Executive Directors' service contracts:

Executive Directors

Name	Date of service contract	Notice period
Archie Bethel (Chief Executive)	1 April 2016	12 months from Company, 12 months from Director
Franco Martinelli (Group Finance Director)	1 August 2014	12 months from Company, 12 months from Director

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

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

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

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

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

External appointments of Executive Directors

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

Chair and Non-Executive Directors

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

Remuneration continued

The latest written terms of appointment are available for inspection at the Company's registered office and at the Company's Annual General Meeting. The expected time commitment of Non-Executive Directors is set out in their current written terms of appointment.

The Group's Non-Executive Directors serve under letters of appointment as detailed in the table above, normally for no more than three-year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director. All Non-Executive Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code.

Details of the Non-Executive Directors' terms of appointment are shown in the table. The appointment and re-appointment, and the remuneration of Non-Executive Directors are matters reserved for the Nominations Committee and Executive Directors, respectively.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

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

Function	Operation	Opportunity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	<p>Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit and Risk Committee, and Chair of the Remuneration Committee.</p> <p>Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of nominal travel and accommodation expenses).</p> <p>Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. This may result in higher fee levels for overseas Directors.</p>	<p>Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review.</p> <p>Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees.</p> <p>In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.</p>	None

Consideration of employee views

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

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

Consideration of shareholder views

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

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