trusted to deliver™

Aligned for growth

Babcock International Group PLC
Annual Report and Accounts 2017

Engineering is in our DNA. Babcock provides skilled, bespoke engineering services which allow our customers to improve their own performance whilst reducing costs. We work in highly regulated environments managing complex assets for both defence and civil customers.

We maintain, upgrade, operate and manage expensive infrastructure and essential equipment for a range of government bodies and private sector customers in the UK and internationally. We provide them with better capability, reliability and availability of their critical assets, and in doing so provide significant cost savings.

We are a trusted partner who understands the critical role that our customers' assets and infrastructure play in delivering their business; we share risk with them in delivering innovation and efficiency, and we share the benefits.

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Visit us at www.babcockinternational.com

Realignment and reporting structure

From 1 April 2017 we formally report the Group in four sectors to reflect how we manage the business. In this year's Strategic report we present the Group as it is today, using the sector alignment, pages 1-25, and report on financial and operational progress over the past year using the previous divisional format, pages 26-79.

A year of progress

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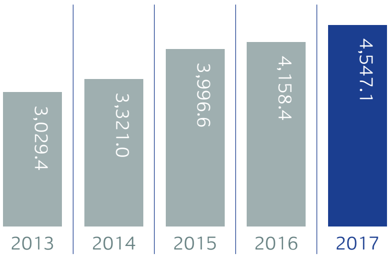
Statutory results

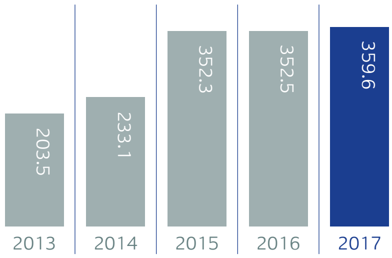
Group revenue

£4,547.1m



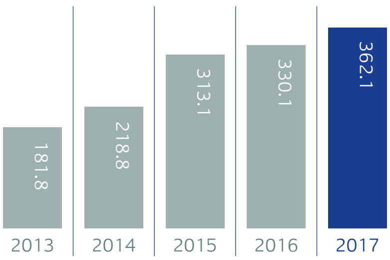
Operating profit

£359.6m



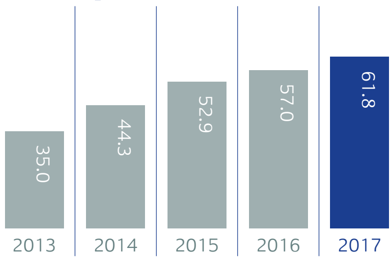
Profit before tax

£362.1m



Basic earnings per share

61.8p



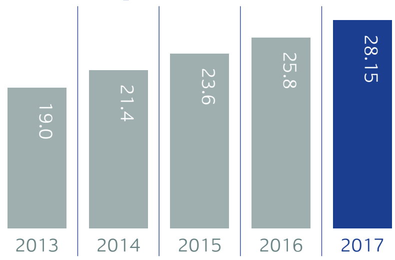
Good progress across contracts and markets

We have continued to deliver across new and existing contracts demonstrating the quality of our operations and the resilience of our business. A healthy order book, at £19.0 billion, was replenished with £4.7 billion of contracts and the bid pipeline, maintained at £10.5 billion, had £6.6 billion of opportunities added, providing clear visibility of revenues.

Full year dividend*

28.15p

+9.1%

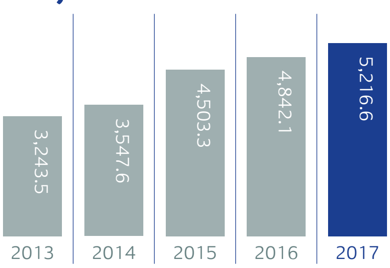


Underlying results

Total revenue*

£5,216.6m

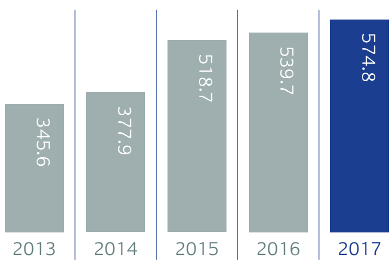
+8%



Operating profit*

£574.8m

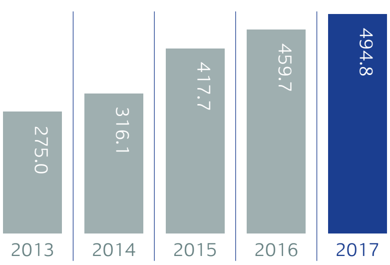
+7%



Profit before tax*

£494.8m

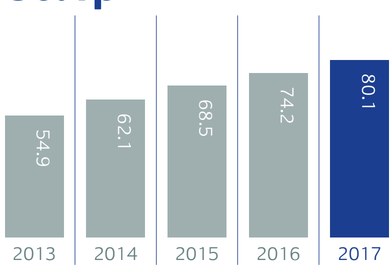
+8%



Basic earnings per share*

80.1p

+8%



*Underlying

The adjustments described below, collectively, are made to derive the underlying operating results of the Group. The underlying figures provide a consistent measure of business performance year to year, thereby enabling comparison and understanding of Group financial performance.

Throughout the Strategic report, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures and associates. Operating profit and operating margin include investment income arising under IFRIC12 which is presented as financial income in the Income Statement. All numbers are stated before the effect of corporate tax rate changes. A reconciliation of statutory to underlying results is set out on page 31.

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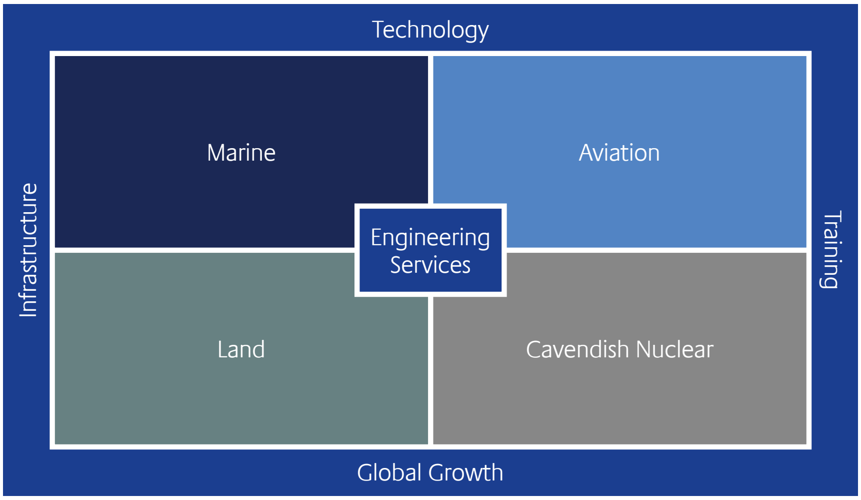
Focusing on delivering for customers

“I’ve always loved knowing how and why things work. With Babcock, I’m being given the chance to do exactly that. My PhD in Marine Toxicology certainly had a nuclear element to it, which comes in handy when I’m fixing a technical problem or making sure that people stay safe. A typical day involves writing reports – just as it did when I was a research scientist – but it also includes talking to colleagues inside Babcock and to clients about safety or technical queries that might have been raised. I’m also likely to get my overalls on to go and examine a submarine.

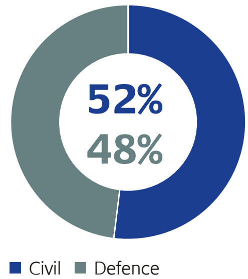
As chair of Plymouth Women in STEM (Science, Technology, Engineering and Mathematics), I’m very involved with sending our STEM Ambassadors to events and schools. Teaching was an enjoyable and integral part of my role as a postdoctoral research scientist. My STEM work allows me to continue teaching people about why science is so important to society and the great careers that women can build in the sector.”

Lorna Dallas
Safety Engineer, Devonport

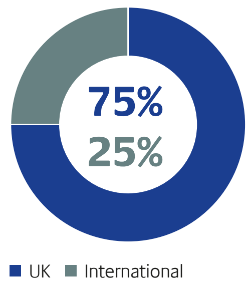
Sector specialists with engineering embedded in our DNA



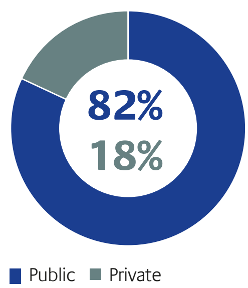
Civil vs defence



UK vs international



Public vs private



Deep sector expertise

In February 2017, we announced that we were going to realign the business around the four core sectors in which we operate. Grouping our business into Marine, Land, Aviation and Cavendish Nuclear brings us even closer to our customers and markets, allows our teams in each sector to really focus on the capabilities we offer and makes the Group easier to understand for all our stakeholders. Most importantly, it provides us with a better platform for future growth, both in the UK and globally. We are still the same company, doing the same things, but aligning to sectors will help us do it better.

The realignment will help us achieve our growth ambitions. Supported by technology and technical training, it enables easier identification and development of international opportunities through Global Growth.

Each sector has a strong base of both defence and civil customers, with operations of scale in the UK and internationally and importantly all four have growth opportunities across the globe.

Furthermore, each sector is underpinned by deep technical knowledge and expertise and is already demonstrating a willingness to embrace Babcock's transformational change and performance improvement models. Through infrastructure, assets, technology or regulation, all four sectors are characterised by high barriers to entry. Each of our sectors is now customer-facing and shares deep sector technical knowledge, experience and understanding of its industry. Moving to a sector-based reporting structure that is more closely aligned with our markets serves to provide clarity and focus. This resonates with our employees, our customers and our shareholders, creating a stronger base from which to build future growth.

How to read this report

From 1 April 2017 we formally report the Group in four sectors to reflect how we manage the business. In this year's Strategic report we present the Group as it is today, using the sector alignment, pages 1-25, and report on financial and operational progress over the past year using the previous divisional format, pages 26-79.

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Our sectors

Historically we have consistently built up our expertise and commercial positions across four key sectors: marine, land, aviation and nuclear. The realignment into our four new sectors provides employees, customers and investors with a clearer, more aligned Babcock and an improved platform for growth.

Marine

Delivers a wide array of complex through-life marine engineering services ranging from supporting UK and international naval fleets, commercial marine, engineering consultancy, weapons handling, equipment support, intelligence and cyber-security and technical training, all delivered through unique owned and managed infrastructure to defence and civil customers across the globe.

Land

Provides large-scale critical fleet management and training for customer-owned defence, emergency services, global airport and commercial vehicle fleets – comprising around 80,000 vehicles – while also providing engineering services and technical training for customers worldwide.

Aviation

Delivers a wide array of critical engineering services to defence and civil customers, ranging from technical training of advanced fixed and rotary wing pilots, engineering, equipment support and maintenance, airbase management and logistics, to the operation of owned and customer-owned aviation fleets delivering emergency and offshore services across the globe.

Cavendish Nuclear

Delivers complex nuclear engineering on major nuclear decommissioning programmes and projects across the UK and nuclear engineering services in training, operation support, newbuild programme management, design and installation and critical safety to both public and private customers. In the UK and, increasingly, internationally.

Our capabilities

Over the years we have continued to develop our capabilities and specialist skills in our four sectors, each of which provides good opportunities for growth in both the UK and, increasingly, internationally. The realignment will enable us to effectively leverage our capabilities and share expertise across the Group through four key enablers:

Technology

We have deep sector-specific technical expertise with decades of experience; we understand risk and resilience and are able to deliver availability with innovation. We are equipment-agnostic which enables us to work with any OEM to specify and support its products. We have the ability to identify and integrate technology into our through-life support.

Training

Technical training is an integral part of our engineering offering. It is a fundamental and ongoing requirement and a core part of our expertise. Driving technical training across the Group allows us to share innovation and successful methodology across sectors to ensure our customers make the best use of their critical resources.

Infrastructure

We have experience of operating and managing complex and critical infrastructure assets in highly regulated environments, from unique owned marine facilities, critical air and land fleets, nuclear licensed sites, naval, air and army bases, technical training sites to customer-owned aircraft.

Global Growth

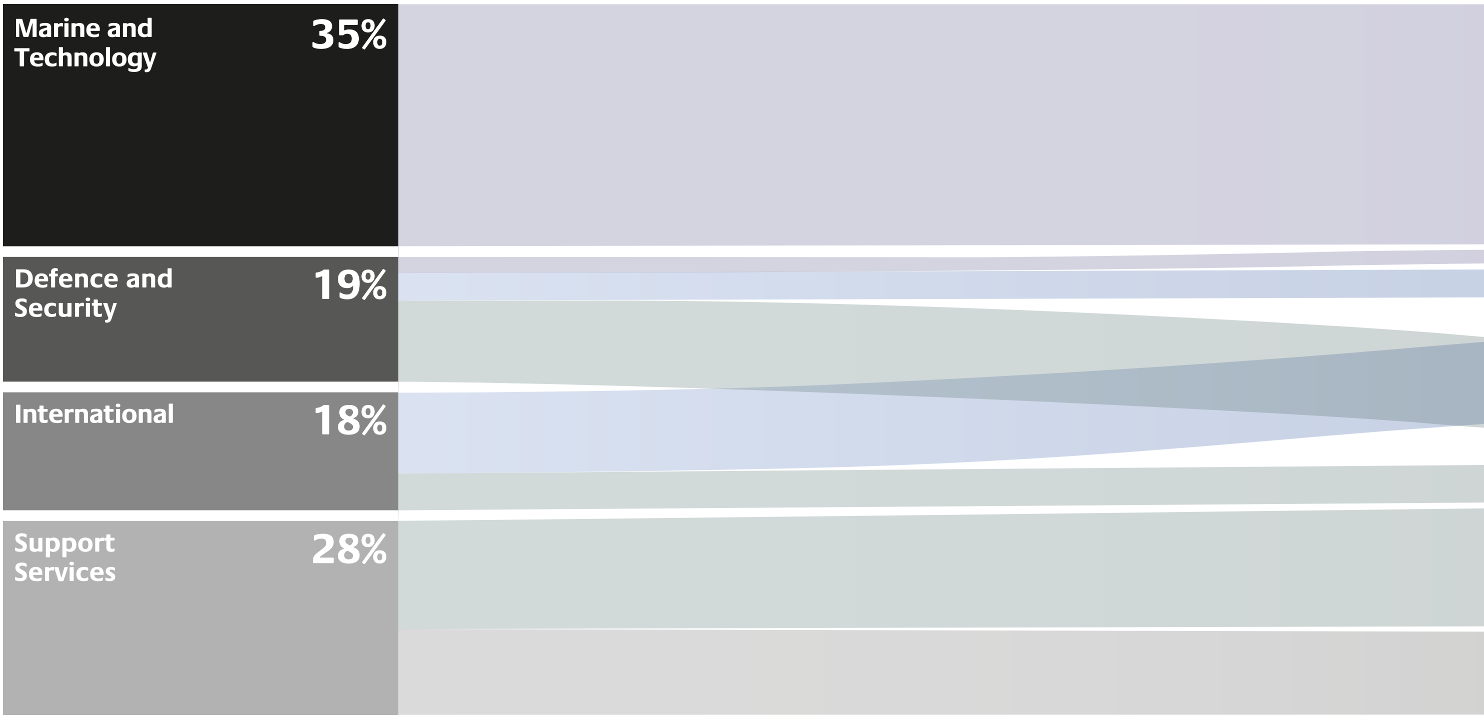
A fundamental driver of Babcock's realignment is the aim to grow our international business. This focus will allow us to recognise international opportunities and support all four sector teams to sell and deliver innovative services and transformation models to targeted markets and customers. We will:

- drive local country business development to identify and build a pipeline of opportunities
- invest in skills and frameworks needed to capture international opportunities
- bring together local and UK sector teams to support both bidding and delivery
- provide skilled people to drive, facilitate and establish new business across the Group.

Structured to accelerate global growth

From 1 April 2017 we formally report the Group in four sectors to reflect how we manage the business. Moving to a sector-based reporting structure that is more closely aligned with our markets serves to provide clarity and focus. As the chart below demonstrates we are still the same Company, doing the same things, but the realignment will help us do it better.

% of Group revenue



The tables below present three years of underlying data for the new reporting sectors. Providing a consistent measure of business performance year to year enables comparison and accurate understanding of each sector's financial performance.

Sector revenue	FY17 £m	FY16 £m	FY15 £m
Group revenue			
Marine	1,873.8	1,778.4	1,647.8
Land	1,685.4	1,511.8	1,489.7
Aviation	793.1	659.9	636.6
Cavendish Nuclear	194.8	208.3	222.5
Total Group revenue	4,547.1	4,158.4	3,996.6
JV and associate Revenue			
Marine	27.8	21.5	19.0
Land	126.3	91.9	62.2
Aviation	80.9	78.5	89.4
Cavendish Nuclear	434.5	491.8	336.1
Total JV revenue	669.5	683.7	506.7
Total Revenue			
Marine	1,901.6	1,799.9	1,666.8
Land	1,811.7	1,603.7	1,551.9
Aviation	874.0	738.4	726.0
Cavendish Nuclear	629.3	700.1	558.6
Total revenue	5,216.6	4,842.1	4,503.3

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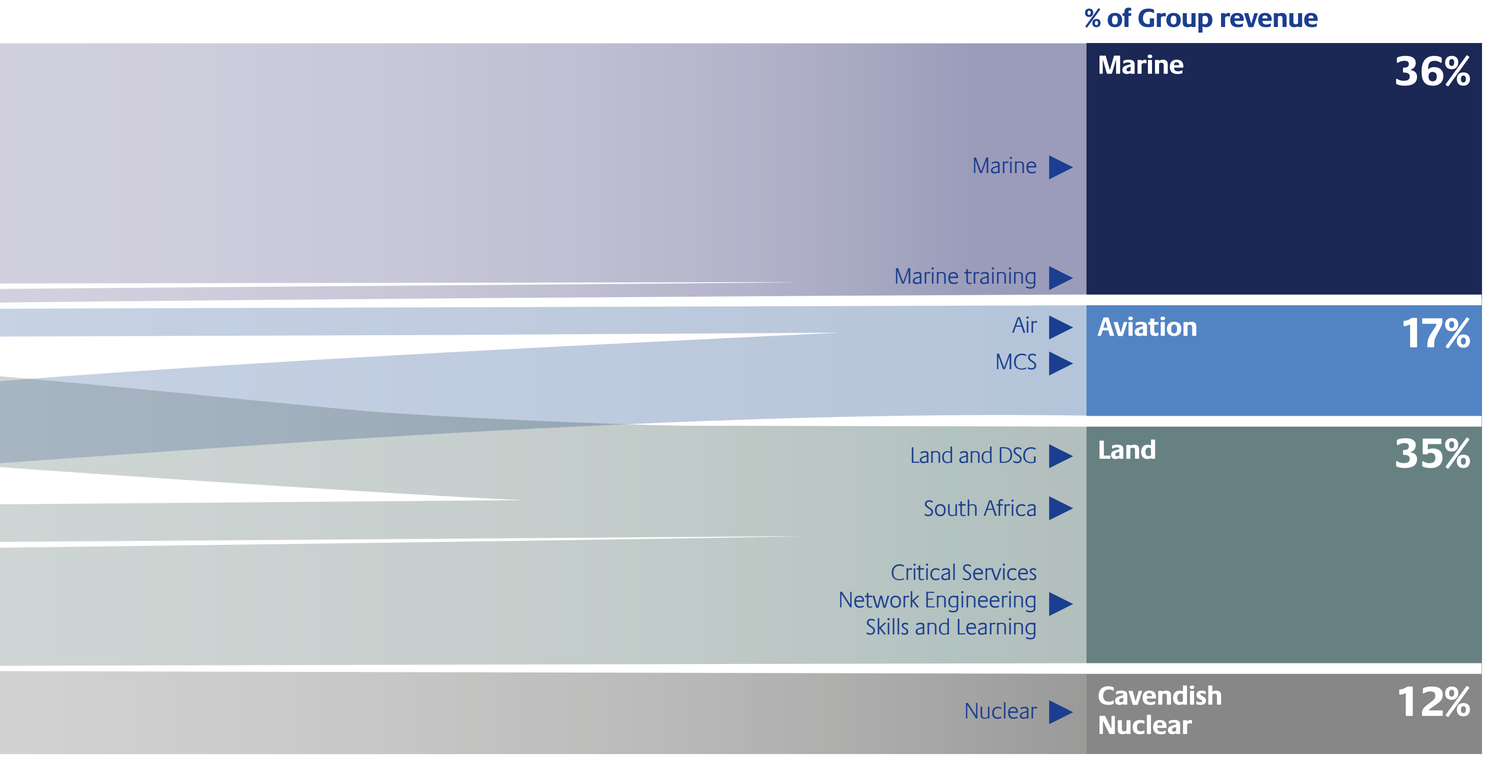


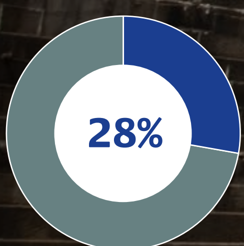
Sector operating profit	FY17 £m	FY16 £m	FY15 £m	Return on revenue FY17 %	FY16 %	FY15 %
Group operating profit						
Marine	227.0	210.6	188.3	12.1%	11.8%	11.4%
Land	113.0	133.8	150.9	6.7%	8.9%	10.1%
Aviation	106.9	102.4	93.0	13.5%	15.5%	14.6%
Cavendish Nuclear	32.3	28.3	16.7	16.6%	13.6%	7.5%
Unallocated	(5.7)	(5.7)	(1.6)			
Total Group operating profit	473.5	469.4	447.3	10.4%	11.3%	11.2%
JV and associate operating profit						
Marine	6.9	3.0	2.0	24.8%	14.0%	10.5%
Land	26.7	10.9	19.8	21.1%	11.9%	31.8%
Aviation	38.6	36.9	39.2	47.7%	47.0%	43.8%
Cavendish Nuclear	29.1	19.5	10.4	6.7%	4.0%	3.1%
Total JV operating profit	101.3	70.3	71.4	15.1%	10.3%	14.1%
Total operating profit						
Marine	233.9	213.6	190.3	12.3%	11.9%	11.4%
Land	139.7	144.7	170.7	7.7%	9.0%	11.0%
Aviation	145.5	139.3	132.2	16.6%	18.9%	18.2%
Cavendish Nuclear	61.4	47.8	27.1	9.8%	6.8%	4.9%
Unallocated	(5.7)	(5.7)	(1.6)			
Total profit	574.8	539.7	518.7	11.0%	11.1%	11.5%

Marine

Delivering through-life marine engineering services to global defence and civil customers

We provide a wide array of complex through-life marine and naval engineering services ranging from supporting UK and international naval fleets, commercial marine, engineering consultancy, weapons handling, equipment support, intelligence and cyber-security and technical training. All delivered through unique owned and managed infrastructure to defence and civil customers across the globe.

Order book



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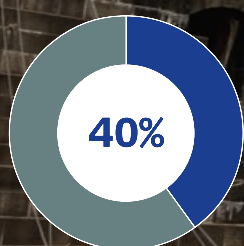
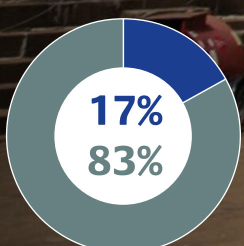


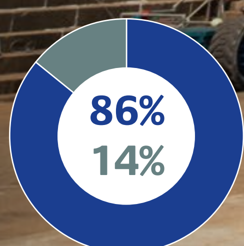
Customer type:

Civil vs defence



Civil Defence

Public vs private



Public Private

Technology

Marine employs the latest technology across the sector alongside deep through-life support expertise, technical engineering such as intellectual property in weapons handling, gas and emissions control, equipment management and inventory systems. This technology is complemented by advanced skills in information security, communications networks, data analytics and practical applications.

Training

We provide technical training for UK and international navies specialising in surface and submersible ships, ranging from fleet officer training to emergency services, such as firefighting – critical on board any vessel in port or at sea. Increasingly, we're using technology to drive our training offering with simulation and data analytics-based training solutions.

Infrastructure

Babcock has unique owned and managed complex engineering infrastructure at Devonport, Appledore and Rosyth dockyards, capable of refitting the entire Royal Navy submarine fleet and 75% of the UK surface fleet, including the new QEC aircraft carriers. We also manage the Faslane, Devonport and New Zealand naval bases providing critical in-service fleet support, with scope for international infrastructure capability with Duqm dry dock jv.

Global Growth

The sector has established positions in several countries as a key support partner: in Canada, refitting 100% of the Royal Canadian Navy's submarine fleet; in Australia, providing the ANZAC class frigate support; and in New Zealand. We have a growing presence in Oman with Duqm and the National Training Institute, and currently export defence and liquid gas systems globally.

23%

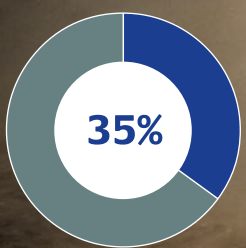
International

Land

Providing critical fleet management, engineering services and technical training worldwide

We provide large-scale critical fleet management and training for customer-owned defence, emergency services, global airport and commercial vehicle fleets – comprising around 80,000 vehicles – while also providing engineering services and technical training for customers worldwide.

Order book



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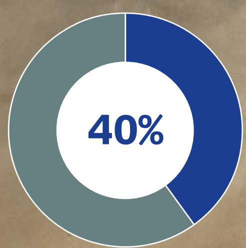
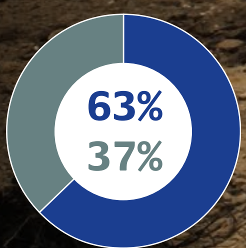


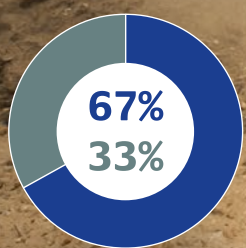
Customer type:

Civil vs defence

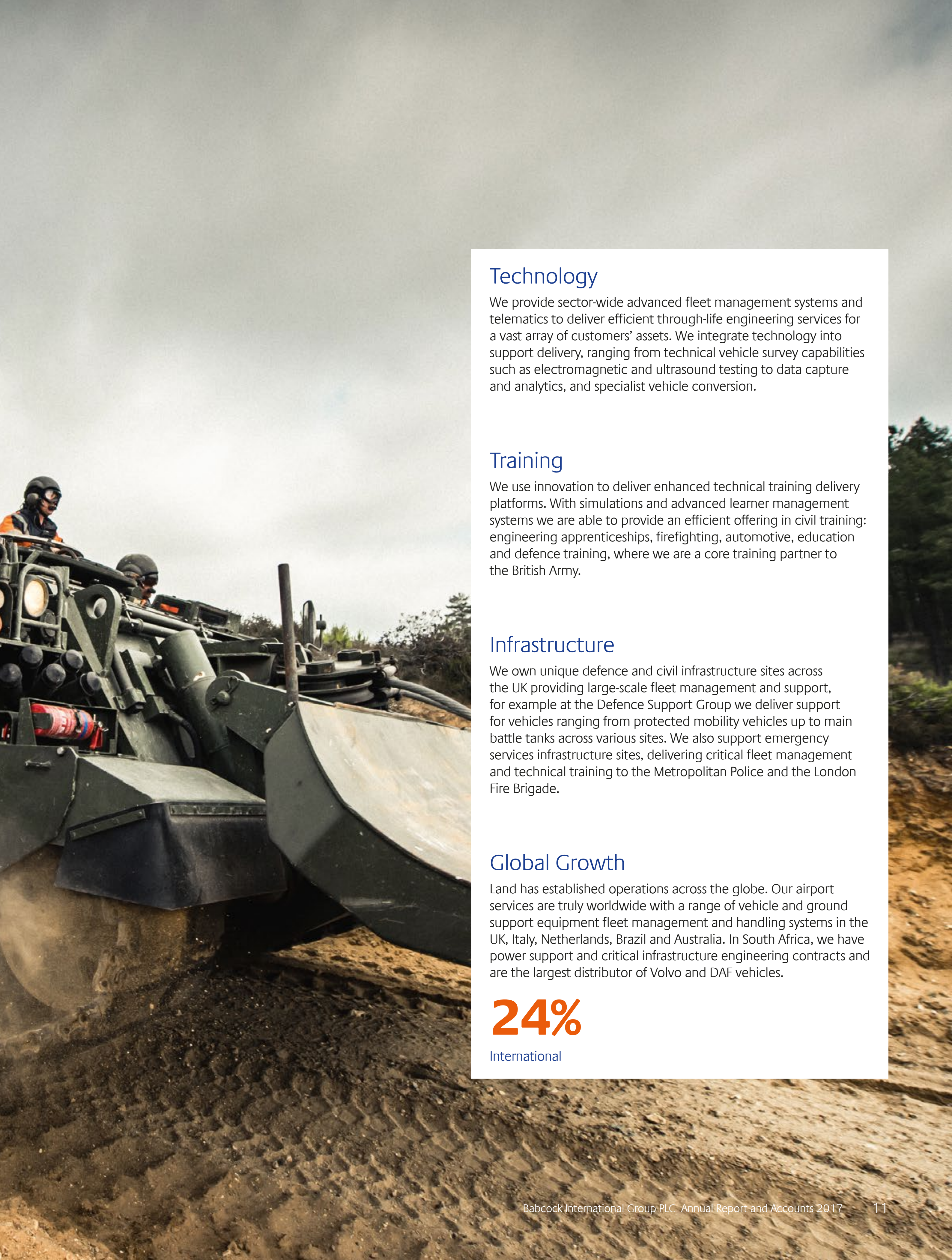


■ Civil ■ Defence

Public vs private



■ Public ■ Private



Technology

We provide sector-wide advanced fleet management systems and telematics to deliver efficient through-life engineering services for a vast array of customers' assets. We integrate technology into support delivery, ranging from technical vehicle survey capabilities such as electromagnetic and ultrasound testing to data capture and analytics, and specialist vehicle conversion.

Training

We use innovation to deliver enhanced technical training delivery platforms. With simulations and advanced learner management systems we are able to provide an efficient offering in civil training: engineering apprenticeships, firefighting, automotive, education and defence training, where we are a core training partner to the British Army.

Infrastructure

We own unique defence and civil infrastructure sites across the UK providing large-scale fleet management and support, for example at the Defence Support Group we deliver support for vehicles ranging from protected mobility vehicles up to main battle tanks across various sites. We also support emergency services infrastructure sites, delivering critical fleet management and technical training to the Metropolitan Police and the London Fire Brigade.

Global Growth

Land has established operations across the globe. Our airport services are truly worldwide with a range of vehicle and ground support equipment fleet management and handling systems in the UK, Italy, Netherlands, Brazil and Australia. In South Africa, we have power support and critical infrastructure engineering contracts and are the largest distributor of Volvo and DAF vehicles.

24%

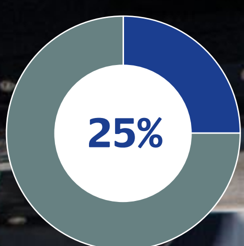
International

Aviation

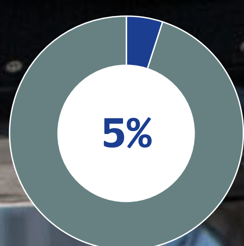
Delivering worldwide technical flying training, support and airbase and fleet operation

Aviation delivers a wide array of critical engineering services to defence and civil customers, ranging from technical training of advanced fixed and rotary wing pilots, engineering and equipment support and maintenance, airbase management and logistics, to the operation of owned and customer-owned aviation fleets for emergency services and offshore customers across the globe.

Order book

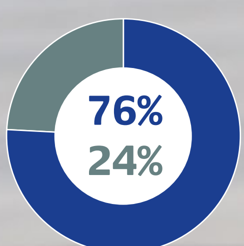


Pipeline



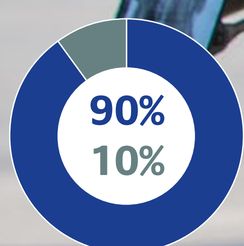
Customer type:

Civil vs defence



☐ Civil ☐ Defence

Public vs private



☐ Public ☐ Private

Technology

Innovative technology is an integral part of Aviation. Our offering includes unmanned air system technologies, bespoke aircraft configuration engineering such as advanced infrared and night vision capabilities, proprietary real-time flight tracking systems, pilot eye tracking and new-generation firefighting technology. Technology is critical in the highly regulated environments we operate in.

Training

We provide technical training for rotary and fixed wing pilots, from civil and defence helicopter pilots and engineers to advanced fast jet pilots, using innovative simulation-based training. We are now a key technical training and critical support provider for all three UK Armed Forces and the French Army and Air Force.

Infrastructure

In providing technical training and critical engineering services we also operate, manage and build unique airbase infrastructure across the globe, operating around 530 leased, owned and customer-owned aircraft from over 300 bases, these include 15 aviation maintenance centres providing critical skilled engineering maintenance, repair, overhaul and equipment and logistics support.

Global Growth

With more revenue coming from outside the UK than within it and aviation operations in 13 countries across Europe, including Scandinavia, Australasia, South America and southern Africa, Aviation is truly a globally-focused sector and a world leader in aviation emergency services.

53%

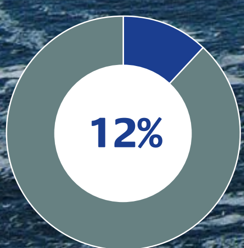
International

Cavendish Nuclear

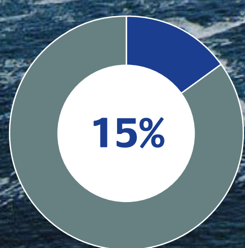
Delivering major nuclear decommissioning programmes

We deliver complex nuclear engineering on major nuclear decommissioning programmes and projects across the UK, as well as nuclear engineering services in training and operation support, newbuild programme management, design and installation and critical safety training to both public and private customers in the UK and, increasingly, internationally.

Order book

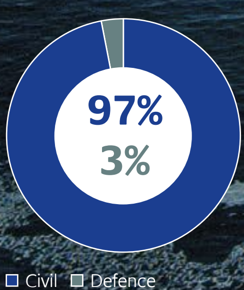


Pipeline

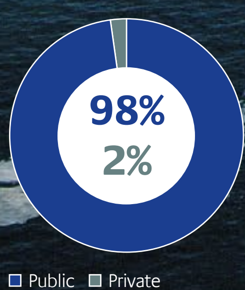


Customer type:

Civil vs defence



Public vs private



Technology

The sector has proven nuclear expertise across the nuclear life cycle including decommissioning. It has extensive experience in managing complex multi-asset decommissioning programmes in highly regulated environments – providing an opportunity to leverage in oil and gas decommissioning market and design know-how in nuclear systems and thermal/structural analysis.

Training

As the UK's number one nuclear engineer, an integral part of our nuclear expertise is delivered through technical training. We provide advanced technical training for Babcock employees and all EDF apprentices. We also specialise in safety training across the nuclear estate including the Hinkley Point C site.

Infrastructure

In delivering large-scale major nuclear decommissioning programmes and generation support expertise, we operate from 20 sites across the UK, with additional critical manufacturing, test and assembly facilities at Irlam, Chester and Whetstone and technical environmental analysis laboratories and radiometric instrument workshops at Sellafield.

Global Growth

We currently operate in the UK and Japan, where we undertake technical consultancy and physical decommissioning work. We recognise that the worldwide decommissioning market is expanding as more reactors come offline. As Dounreay aims to be the pre-eminent reference site for major nuclear decommissioning programmes in Europe, we believe we are well positioned for future opportunities.

1%

International

Delivering through a consistent strategy

Babcock is the UK's leading engineering services company. Our objective is to grow from our position both in the UK and overseas, delivering sustainable value for our stakeholders. We seek to achieve this by creating and growing our businesses based on our strategy.

Key differentiators

Underpinning everything we do is our breadth and depth of knowledge, the experience of our people, our successful long-term partnerships and the unique infrastructure we own and operate.

Technical skills

Decades of sector-specific expertise provide us with a sound understanding of risk and resilience and enable us to forecast demand to effectively deliver availability. We are equipment-agnostic and have technology agreements with all the main equipment manufacturers. We seek to drive innovation for our customers, using our expertise to identify and integrate technology.

Unique infrastructure

We have a deep understanding of how to manage both ours and our customers' highly regulated critical infrastructure assets, including naval, aviation and vehicle fleets, unique dockyards, nuclear licensed sites, naval, aviation and army bases, customer-owned aircraft fleets and technical training centres.

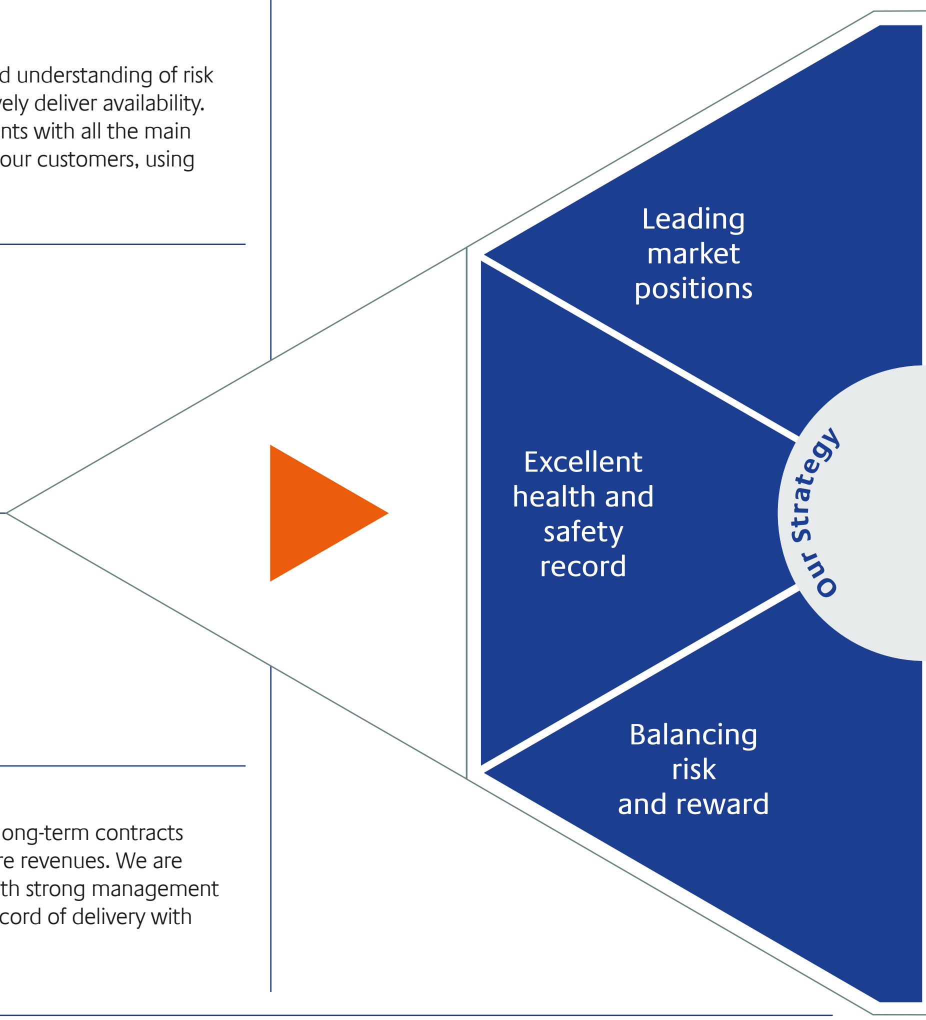
Long-term relationships

Babcock is used to working in long-term partnerships with governments and blue chip companies, often embedded with our customers. We align our interests with theirs so that we share risks and rewards through pain/gain share agreements. Our strong track record includes unique reference cases which prove our ability to deliver.

Long-term contracts

Our £19.0 billion order book and £10.5 billion pipeline of long-term contracts and framework agreements gives excellent visibility of future revenues. We are aligned with our customers and incentivised to perform, with strong management of balancing risk and reward. We have an excellent track record of delivery with a rebid win rate of over 90%.

A growing portfolio delivered through a consistent strategy



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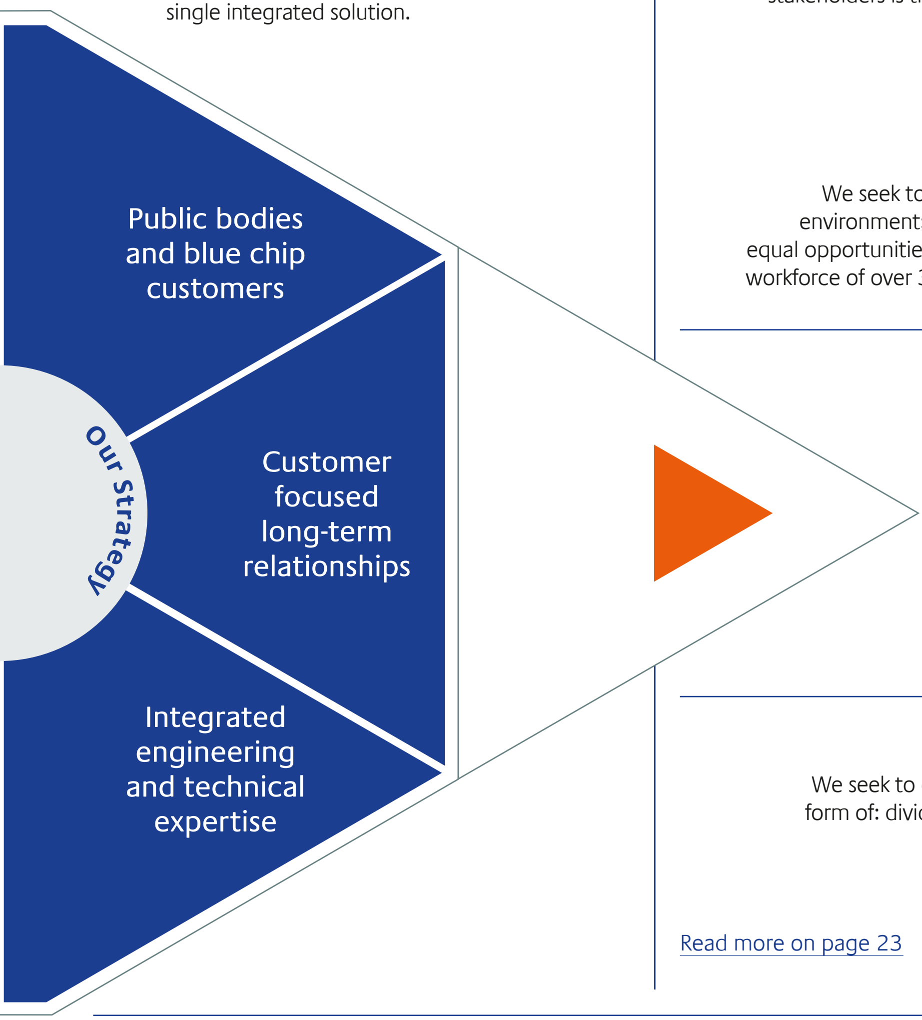
'Trusted to deliver'

We believe our business model and strategy, built around our reputation for being 'trusted to deliver', set us apart. They have provided a strong foundation for our success and are vital to ensuring we continue to deliver value.

Babcock thrives in complex environments which require specialist engineering expertise. We continue to deliver value on targeted contracts, selected to fit our strategy and match our capabilities. We look to combine technical and engineering capabilities to provide a single integrated solution.



Creating value for all stakeholders

We aim to serve the interests and meet the needs of all our stakeholders – employees, customers and shareholders – by conducting business responsibly. A strong Babcock culture integrates our values and beliefs into every aspect of our business, ensuring value creation. The foundation on which we build value for our stakeholders is the six pillars of our consistent strategy, detailed on page 23.

Employees

We seek to create value for our employees by creating: a safe working environment; providing continuous professional development; providing equal opportunities for all; and creating a rewarding place to work. Our skilled workforce of over 35,000 enables us to meet the operational requirements of our customers.

Customers

We seek to create value for our customers by: working through long-term collaborative relationships; reducing the cost of delivering key services; increasing asset availability or providing life-extensions; and providing technical knowledge and skills to manage complex transformation programmes. Long-term successful relationships with our customers help create strong cash flows that can be used to generate growth and shareholder value.

Shareholders

We seek to create value for our shareholders by returning money in the form of: dividends; investing in, and growing, our business; and growing the value of their investment over time.

Read more on page 23

Aligning our business and supporting our people

Mike Turner CBE, Chairman

This year the Group has continued to deliver, demonstrating the quality of our operations and the resilience of our business.

We remain confident in the long-term future of our business and the Board is therefore pleased to recommend a 9.6% increase in the final dividend for 2017 to 21.65 pence per share (2016: 19.75 pence per share). This will give a total dividend for the year of 28.15 pence per share (2016: 25.8 pence per share), an increase of 9.1%.

Governance and the Board

This has been a year of smooth but important transition for Babcock. In September, Archie Bethel took over as Chief Executive, following Peter Rogers' highly successful tenure in the post. Archie's early priority has been to ensure the business is set up for continued growth, and to this end he has already begun making improvements to the business. The realignment of our divisional structure into four industry sectors enables us to focus on our core capabilities – those areas in which we have deep and rare expertise and which have the greatest scalability. It also allows us to more clearly communicate our business to both internal and external stakeholders and provides a clear roadmap of growth for our leadership team.

The realignment also means some new members of the Executive Committee. The elevation of Cavendish Nuclear as a separate reporting sector means that Simon Bowen, CEO Cavendish Nuclear, joins the Committee, as does Jon Hall, Managing Director, Technology, reflecting our commitment to drive technology across the Group. Also, Kate Hill joined the Committee in April as Group Director of Investor Relations and Communications. I am pleased to have their expertise on the Committee and look forward to their contributions.

Our people

In the coming year, we will continue to strengthen our succession planning activities, placing emphasis on promoting diversity within our leadership teams. These efforts will become more important as we continue to build our international presence, which is a focus for us over the next several years. To achieve the level of international growth we are aspiring to, we will need leadership which reflects our businesses and the environments in which they operate. This means a continued focus on recruiting, developing and retaining top local talent from all demographics and across all genders and ethnicities.

We will also continue to focus on supporting young people studying STEM subjects and, through our graduate development programmes, apprenticeship training and CPD, we aim to ensure that those already working in our businesses feel supported, appreciated, encouraged and keen to help us achieve our goals. Once again, diversity is a key component of our success, and we will make a concentrated effort to be inclusive and open in our approach to recruitment and development. As ever, I am grateful to the entire team at Babcock, at every level, and am as keen to support them as they have been to support the business. I am very sad to say that one of our colleagues in South Africa lost his life after falling from a power transmission line and, in January 2017, an emergency rescue helicopter crashed in Italy resulting in the loss of six people on board. Our thoughts are with their families and friends; we are committed to learning any lessons which come from the investigations into the tragedies.

Looking forward

The strength of our order book continues to provide clear visibility of future revenues and, together with the bidding pipeline, offers further prospects for growth. The Board therefore remains confident in the underlying performance of the Group and expects to achieve good progress this year and beyond.

Mike Turner CBE
Chairman

being babcock

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In an engineering services business such as Babcock International, it's the people who really make a difference to how the company is perceived, both internally and externally. As individuals, we all make a difference to our colleagues, our customers and others who we interact with on a daily basis. If we're to remain a leading engineering services company that people are proud to work for and customers choose to work with, then each of us must embody the eight principles set out below, day in, day out.

The eight principles that make up being babcock aren't new. In fact, they may seem rather obvious. That's because they already live and breathe within our business. They're what we do when we're working at our best and they've been a key contributor to our successful growth over recent years. They've been gathered from the views of employees across the businesses, who were asked to consider the essence, or DNA, of Babcock at its best.

being babcock pulls together these views into a set of principles which explain what our Company stands for and what it expects from each of us. Whilst what we deliver for our customers is very diverse, we're all united by a common purpose which spans the range of services we provide. The services we deliver help to keep nations at the top of their game.

Whether we're delivering critical through-life support for armed forces, operating aviation emergency services worldwide, training the next generation of engineers, pilots and firefighters or keeping critical fleets on the move, together we ensure the smooth running of many of the critical engineering services on which nations depend.

Those who have been in the Company for many years, or plan on joining today, can use the being babcock principles as a guide to determine what's appropriate behaviour within our Company. If we all adopt these principles each day in our interactions with colleagues, customers and others then more people will experience Babcock at its best, more often.

In this way we can ensure that everyone who comes into contact with Babcock International has a consistent and positive experience, helping to grow our business and reinforcing the reputation that we are 'trusted to deliver'.

being babcock

8 simple principles that define our behaviours and actions

Respect people and value their diversity

This means we will:

- Treat everyone with courtesy and thoughtfulness
- Be fair with people at all times
- Listen to others' points of view

Challenge ourselves and each other

This means we will:

- Inspire colleagues to do their best
- Always look for better ways of doing things
- Embrace opportunities to learn

Build great relationships based on trust

This means we will:

- Be easy to do business with
- Support each other as we work towards a common goal
- Tell it as it is

Trust our people to deliver

This means we will:

- Give people the authority to do the job
- Respect colleagues' expertise
- Create an environment where everyone can excel

Safeguard customers' reputations

This means we will:

- Pull out all the stops
- Achieve positive outcomes for each other
- Take ownership and responsibility

Never compromise on health and safety

This means we will:

- Ensure everyone goes home safe every day
- Challenge unsafe behaviour
- Update and improve our practices, constantly

Thrive on complexity

This means we will:

- Be a problem-solver
- Strive to make the complex simple
- Keep a cool head in a crisis

Always strive to deliver

This means we will:

- Be flexible when it counts
- Be agile and responsive to changing needs
- Deliver to the highest standards, whenever and wherever

Aligned for growth

Archie Bethel CBE, Chief Executive

Babcock continues to deliver, with sustained underlying growth in revenue, operating profit and earnings per share demonstrating the quality of our operations and the resilience of the Group's business.

Our proven model of providing our customers with better capability, reliability and availability of their critical assets whilst delivering cost savings continues to prove successful and we continue to experience demand across our markets, both in the UK and internationally. With clear barriers to entry across many of our businesses, we believe we are well positioned to continue to grow the business, supported by a strong underpin of already secured future revenue.

We believe the market dynamics remain positive in the sectors in which we have deep expertise, both in the UK and internationally. There continues to be an appetite for increased operational and cost efficiencies in the delivery of non-discretionary critical services, and for working with a partner who can demonstrate a track record of delivery. This fundamental requirement of regional and national governments and of blue chip international customers, appears unaffected by the changing environment. This is exemplified by our success in winning an 11-year contract from the French Ministry of Defence and our success in becoming the first non-US company to be selected to provide a critical component for a US nuclear submarine as part of the £1 billion joint US-UK missile tube programme.

In the UK, we have seen the work programmes identified in the 2015 Strategic Defence and Security Review (SDSR) begin to come to market, ensuring a healthy pipeline of outsourcing opportunities in the provision of equipment, through-life equipment support and training over the medium term. In May the UK Ministry of Defence (MOD) awarded us all four elements of a £360 million technical authority and equipment support package for both the Queen Elizabeth Class (QEC) aircraft carriers and Type 45 Destroyers.

In our nuclear business, the volume of the additional work now required has led to an ending of the existing Magnox contract in 2019. The Nuclear Decommissioning Authority (NDA) will establish a replacement structure to be put in place when the current contract ends and we believe that Cavendish Nuclear is well positioned to win further elements of decommissioning work, both on the Magnox estate and in the decommissioning of Sellafield, which the NDA now estimates will cost a total of around £88 billion.

After starting the year as Chief Operating Officer, working alongside Peter Rogers as part of our managed handover, I formally became Chief Executive on 1 September 2016. Last autumn I oversaw our annual five-year strategy review and update for the first time since becoming Chief Executive. It was an important moment for me; I was looking across the Group to understand where we had come from and where we could be in five years' time.

Over the last 15 years, we have pursued a highly successful strategy, moving away from our origins in manufacturing and the power industry to become one of the UK's leading engineering support services companies. Our customers see us as a trusted partner that helps them to manage their complex assets.

We have deep skills and experience in the areas of technology, technical training and infrastructure. At the same time we are familiar with a broad range of platforms and assets, and have technical agreements in place with all the major original equipment manufacturers (OEMs). This combination of depth and breadth is what makes Babcock's offering so powerful. Wherever there are complex assets – whether it's an airbase, a submarine, a vehicle fleet or a nuclear plant – we can generate the right engineering solutions to support our customers.

Today, we use this combination of depth and breadth to manage key assets for many high-profile customers in both the public and private sectors. For all of them, our goal is to provide them with better availability and capability from their critical assets. Clearly, this meets a need – in the last 10 years our revenue has grown from £500 million to £5 billion today.

We've come a long way, but I believe we can go even further. One of my key roles is to test the robustness of our strategy and to be sure that the organisation has the capacity and capability to exploit the growth opportunities before us. When I look at the size and shape the business could be in five years' time I believe the strategy is robust and deliverable but we need to make a fairly simple realignment of our internal divisional structure to give us a solid base to enable us to grow as we believe we can over the next five years.

Where are we going?

By 2022 we aim to be by far the biggest, and most successful, engineering services business in the UK, and one of the best in the world. I want to see us deliver top-level returns for our shareholders, whilst having grown our revenues significantly. We plan to grow internationally even faster than we will in the UK, and in five years' time I expect around 30% of our revenue will come from outside the UK.

Expanding our international business is a priority. To achieve our target we will double the size of our global business in the next five years. As well as continuing to grow in our established markets in Australia and South Africa, we'll be building up our business in Italy, France, Canada and Spain, so that they too can become standalone countries. In all these six core countries we will be seeking opportunities in both the defence and civil sectors.

This, combined with continued growth in the UK, will mean expanding our workforce. There will be new career opportunities opening up in the UK and internationally as we grow. At the same time we'll also be investing in employee development and training.

In Technology there will be exciting developments too. I want Babcock to be seen as the benchmark for technical innovation within engineering services. In a world where the speed of technological change is rapidly advancing, we need to stay abreast of developments and utilise new capability to add new dimensions to how we support customers. We need to ask ourselves questions such as 'How could we service a new generation of iFrigates?' We have already started up this curve. The challenge of the next five years is to be ahead of the curve and develop technology solutions that really help our customers.

So, to sum up, we have a strategy where in five years I want to see us have a significant presence in six core countries, expand our technology capability, continue to grow our revenues, provide good returns and employ substantially more people. So I need to make sure we have the structures, systems, processes and people to support that level of complex growth, both in the UK and internationally.

How will we get there?

We have a winning formula of depth and breadth, and that's not going to change.

We understand complicated infrastructure and operations and the regulations involved, and how we can make critical assets work better for customers. We have strong capabilities in design, procurement, logistics, quality assurance and inspection, construction and implementation. And we have a solid base of customers who confirm that when we say we are trusted to deliver, we mean it.

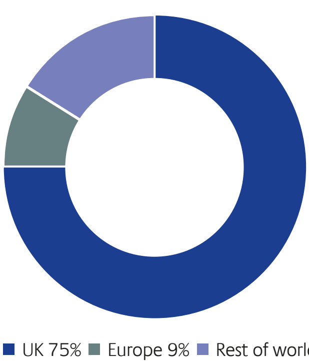
But the depth and breadth of our offering brings its own problems when we are trying to win new business. How can we bring focus and clarity to the discussion when the problems and solutions are inherently complex? We've made a lot of progress internationally in the last two years, but I believe that our structure was holding us back.

We need to have an organisational structure that supports our ambitious growth efforts – that makes it easy for us to put together powerful, targeted solutions to overcome the problems faced by potential customers. That is why from 1 April 2017 we simplified our organisational structure: realigning our divisions into four sectors supported by four cross-cutting capabilities including a new Global Growth and Operations organisation.

Let me start with the realignment. Overseas we sell our capabilities, not our

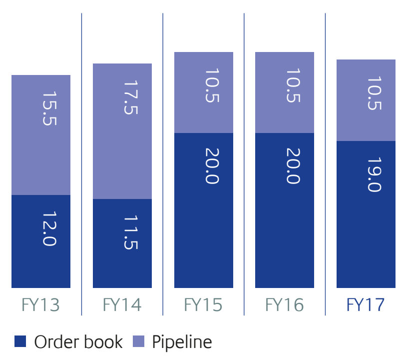
International revenue

25%



Order book and pipeline

c £30bn



internal organisational structure. We need to remove unnecessary complexity and move to a customer-facing structure so that people can easily understand what we are offering. Therefore I decided to realign our organisation around four sectors: Marine, Land, Aviation and Cavendish Nuclear.

Bringing our services together under these four sectors has many advantages.

First, it will enable us to tell a much simpler and clearer story to potential customers about the capabilities we are offering.

Secondly, it will bring commercial and military operations together in each sector, so that like-minded people can more easily collaborate, share knowledge, cross-sell and cross-fertilise ideas.

And thirdly, each of these sectors will take its rightful place as a leading player in its marketplace. Land at £1.8 billion and Marine at £1.9 billion will be some of the biggest players in the UK. Aviation at just under £0.9 billion will be the biggest aviation engineering business in the UK outside the OEMs and airlines, and Cavendish Nuclear at over £0.6 billion will be the largest nuclear engineering services player in the UK. This realignment will give us valuable brand recognition and credibility.

As well as the four sectors, the new platform will be strengthened by four cross-cutting capabilities that will work across all the sectors: Technology, Training, Infrastructure and Global Growth.

In Technology, innovation will be an area of continuing focus, as we work to stay abreast of opportunities that emerge through new technological developments. I have asked Jon Hall, Managing Director, Technology, to form a team that will work across all sectors to produce a technology growth strategy that will meet the needs of all the sectors as they grow, as well as identifying new opportunities for technology-driven growth.

Training will remain fundamental to supporting our offering and will be an important element in all our sectors. Here I have asked John Davies to come up with a strategy that will link best practices and tie in with Technology to identify new technological ways to deliver training, such as simulation and virtual reality.

Infrastructure, including our dockyards at Devonport and Rosyth, will continue to be a main driver for all four sectors.

The fourth cross-cutting capability, Global Growth, will play a vital role in enabling our ambitious international growth strategy. Building on the successful work of Bill Tame and the International Board over the last two years, we are strengthening this capability by creating a new Global Growth and Operations organisation.

The Global Growth organisation will have two main roles: driving business development, and linking the in-country teams with the UK sectors to ensure that the sectors provide the support required to win and implement contracts. It will function as a bridge to connect our international teams with the four sectors in the UK.

Driving business development will mean ensuring in-country teams understand Babcock's strengths in each of the sectors, guiding them to find customers and opportunities, feeding in reference data from satisfied customers, and building a pipeline of opportunities that are of interest to the Company.

Linking the countries and the UK sectors will enable our overseas operations to draw expertise and domain knowledge from the sectors based in the UK and from each other, supporting both the bid and its implementation. For example, the Global Growth organisation will assess the resources required for the project, identify which resources will need to be brought in from the sectors, and manage the technicalities of moving people around the world and deploying them in other countries.

To carry out these two tasks effectively, we are embedding business development people from each sector in the new Global Growth organisation. This will create a formal, reliable link between the countries and the sectors, so that they can work effectively together to win and implement new international contracts and ultimately build autonomous country teams in all six core countries.

With this new platform – the four sectors, the cross-cutting capabilities and the Global Growth organisation – I am confident that we will be in a strong position to support our five-year growth plan.

Outlook

We believe that the revenue visibility provided by our order book and near term bid pipeline, together with the strong pipeline of future opportunities in the longer term tracking pipeline, offers continued prospects for growth. We have identified opportunities across all of our core markets, and believe that the realignment of the business, which brings us closer to our customers, both in the UK and internationally, will enable us to continue to identify opportunities to further develop our business. The Board therefore remains confident that the Group will continue to generate sustainable growth over the coming years.

Following the realignment of the business, reporting for 2016/17 reflects the divisional structure in place through the financial year, but future outlooks reflect the new sectors, and can be seen on pages 24 and 25 of this document.

Archie Bethel CBE
Chief Executive

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Consistent strategy, coherent business

More information: Read our KPIs, p28 and risks and controls starting on p68

Leading market positions

We expect our businesses to be, or have plans to be, one of the top three in their market sectors, with the aim of ensuring we achieve economies of scale and create strong competitive positions.

No. 1

UK engineering support services

UK maritime support business

UK civil nuclear engineer (Cavendish Nuclear)

Support partner to Royal Navy

World provider of aviation emergency services

Public bodies and blue chip customers

Our customers tend to be government departments, public bodies, highly regulated industries or blue chip companies that own large, strategically important assets or infrastructure. We encourage our customers to partner with us and to build long-term relationships.

Customer split

82/18

Public/private

Customer focused long-term relationships

We place great emphasis on doing the right thing for our customers. We listen and seek to be flexible and responsive to their needs. We work collaboratively, often through long-term partnerships or alliances, to ensure we understand their priorities and align our objectives.

Sample contract duration

25+ years

ToBA, LFB, MFTS, SASEMAR, RSME

Integrated engineering and technical expertise

We are able to integrate a broad range of engineering and technical expertise to provide services that are complex, critical and bespoke. We manage the interface between all these activities to provide full operational outcomes and help to take risk from our customers.

Years' experience

125+

Founded in 1891

Balancing risk and reward

We mainly operate through long-term, integrated output-based contracts. We believe this approach creates a commercial framework which fairly balances risk and reward between us and our customers. Target cost contracts incentivise us to remove cost via a pain-share/gain-share mechanism.

Tightly-controlled bid process

Contracts require Group approval, ensuring risks are mitigated and rewards are at an acceptable level prior to targeted bidding activity.

Excellent health and safety record

We never compromise on health and safety and expect all our sectors to deliver a market-leading safety performance. We believe all our employees and others working on or visiting our operations should be able to return home safe and well at the end of the working day.

Reduction in total injuries

18%

Per 100,000 hrs worked (2016: 14%)

In a strong position

Marine

Outlook

The Marine sector consists of the previous Babcock Marine and Technology division, but also includes marine training previously in the Defence and Security division.

We continue to have excellent visibility of our future naval support programme though our ToBA and our relationship with the MOD and Royal Navy. We continue to see further outsourcing opportunities to increase the scope of our complex and critical engineering support to the MOD as we focus on maximising platform availability and providing increased value for money.

As well as our core defence business, our innovative expertise in complex and critical engineering services positions us well to continue to exploit opportunities in adjacent commercial marine and energy markets, both in the UK and internationally.

We continue to monitor the market and develop our capacity and capabilities in these areas of growth. Additionally the markets for engineering consultancy and cyber security continue to grow, and we see further opportunities to win business in these areas.

We expect the sector to continue to make good progress during the next financial year, despite the maturing of QEC aircraft carrier work which will reduce revenues by around £260 million over the next three years, with a £100 million step down expected in 2017/18. As we look further ahead, we believe the outlook for the Marine sector remains positive, with a strong pipeline of growth opportunities across our businesses both in the UK and established international markets.

Market overview

Market segment	Size*
UK naval marine	£4.4bn
Canadian naval marine	£1.0bn
Australia/New Zealand naval marine	£1.9bn
Energy and marine	£2.0bn
UK cyber, intelligence and security	£2.6bn
Engineering consulting	£2.0bn

Aviation

Outlook

The Aviation sector comprises MCS, previously in the International division, and the military Air business previously within the Defence and Security division.

Aviation has brought together all of Babcock's aviation-related businesses, both civilian and military, and rotary and fixed wing. Whilst in the oil and gas business the market remains challenging, with continued pressure on margins and ongoing cost recovery issues relating to flight restrictions on EC225 helicopters, the Emergency Services business is pursuing a number of opportunities in the UK and internationally, particularly in HEMS.

The UK military Air business is undertaking a number of bidding opportunities which have come to market following the SDSR15, deepening our relationship with the customer and providing innovative solutions. Our French Air Force contract FOMEDEC is at the earliest stages of transition and delivery and hence will initially declare lower margins, but provides an operational reference for our military Air business in continental Europe.

Market overview

Market segment	Size*
Defence aviation support (equipment and infrastructure)	£1.6bn
Defence flying training	£1.6bn
Emergency services	£3.2bn
Oil and gas helicopter services	£2.4bn

* Annual addressable revenue

Land

Outlook

The Land sector is a combination of Critical Services, Network Engineering, Skills & Learning, previously within the Support Services division, the military Land business, previously within the Defence and Security division, and South Africa, previously within the International division.

We see significant opportunities to expand our equipment support and technical training capabilities across our military and civil customer base. Our deep understanding of customers' operational and financial objectives, underpinned by our market-leading capabilities, enables us to drive greater efficiency across their operations.

We are experiencing greater demand for equipment support, in the UK and internationally, as customers seek a flexible partner to deliver greater availability and efficiency at a reduced cost.

In UK defence, we anticipate further equipment support outsourcing opportunities as customers acquire and upgrade equipment to improve force readiness as a result of this Whole Force Approach.

In the civil technical training market, demand for the outsourced management and delivery of technical training is increasing as the technology and skills required for delivery become more complex. Our current military training footprint also means we are well placed to respond to our defence customers' increasing focus on training efficiency and improved collective training solutions. The programmes identified within the SDSR15 are progressing, with significant activity expected to commence in 2018/19.

Market overview

Market segment	Size*
UK defence fleet, equipment and training support solutions	£1.3bn
Blue light vehicle conversion, fleet management and maintenance	£1.0bn
Global airport GSE and baggage handling equipment support	£1.0bn
UK defence and civil training	Defence £1.2bn Civil £1.3bn
South Africa equipment sales	£0.7bn
UK rail network	£2.0bn

Cavendish Nuclear

Outlook

Cavendish Nuclear comprises the nuclear business previously within the Support Services division. As a newly created sector in the Babcock Group, Cavendish Nuclear's growth will be focused on three main markets:

- nuclear decommissioning in the UK and internationally;
- the design and safety justification, construction, commissioning, operational support and maintenance of nuclear facilities in the UK and internationally; and
- new sectors where current capabilities can be applied and developed, such as offshore oil and gas decommissioning.

In the UK, the civil nuclear market remains resilient, with opportunities for both decommissioning and new build services providing scope for growth. In particular, the recent Government decision to proceed with the Hinkley Point C project has given renewed momentum to new build activity in the UK.

Market overview

Market segment	Size*
UK nuclear decommissioning	£2.4bn
International nuclear decommissioning	£1.0bn
Decommissioning oil and gas	£1.5bn
Nuclear services	£1.4bn
New build	£1.5bn

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Achieving further profitable growth in the UK

"I joined the International Maritime College Oman in 2011, progressing in Marine Engineering. This included 10 months of sea time on several large vessels completing my cadet ship training before going back to college for my Bachelor degree in Marine Engineering. My society is not used to the idea of women working in this field, but I haven't let that stop me. Being the only woman in my classes made it more challenging, but these challenges motivate me to keep going and I hope other women continue to break these barriers too.

Working with Babcock gives me a great opportunity to learn more about the marine industry and the technologies being developed. Babcock's joint venture with Oman Dry Dock is a great chance to gain further involvement and insight into how technical projects are carried out with ships in the dock."

Al Najood Al Busaidi
Marine Engineer, Oman

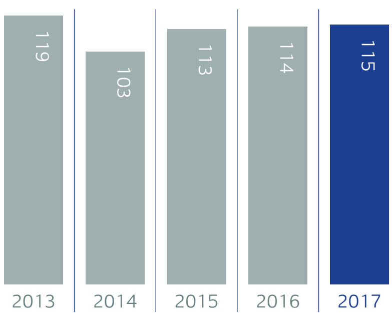
Delivering on our strategy

The areas we focus on

We have identified a number of Group and divisional level financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy. These will enable investors and other stakeholders to measure our progress.

Operating cash flows (%)

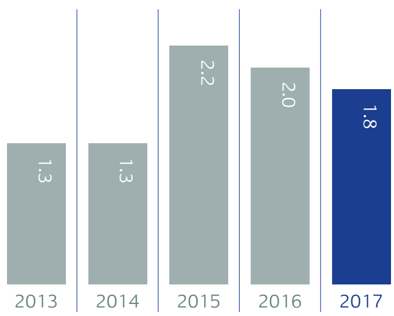
115%



Operating cash flow (OCF) conversion rate is defined as cash generated by operations after adding back retirement benefit cash flows in excess of cost as a percentage of operating profit (pre-exceptionals and amortisation of acquired intangibles).

Net debt/EBITDA (times)

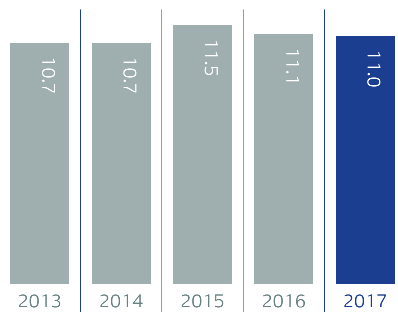
1.8x



Net debt/EBITDA is calculated as net debt divided by earnings before interest, tax, depreciation and amortisation.

Operating return on revenue (%)

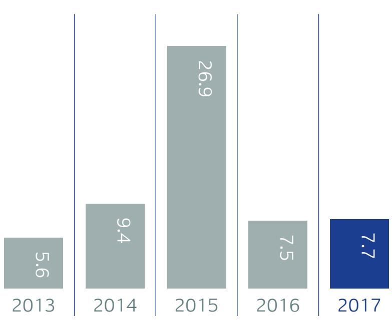
11.0%



Operating return on revenue (ORR) is defined as underlying operating profit expressed as a percentage of revenue.

Revenue growth (%)

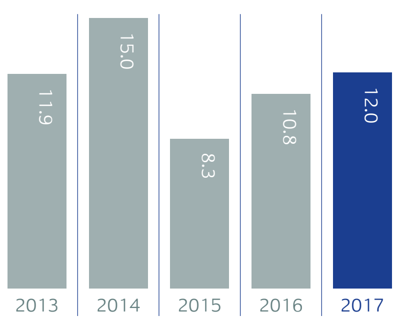
7.7%



Revenue growth is defined as the increase in the Group's revenue (including jvs) when compared to that of the previous year.

EBITDA/interest cover (times)

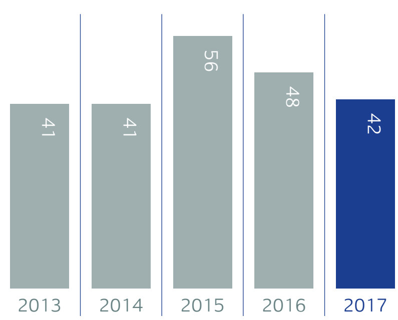
12.0x



Interest cover is profit before interest, tax, depreciation, amortisation, joint ventures and exceptionals divided by net Group interest payable.

Gearing ratio (%)

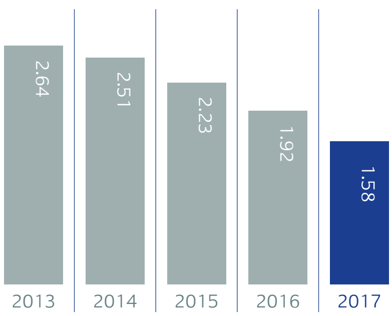
42%



Gearing ratio measures the extent to which a company is funded by debt. Calculated as net debt divided by shareholder funds excluding retirement benefit deficits or surpluses.

Total injuries rate per 100,000 hours worked

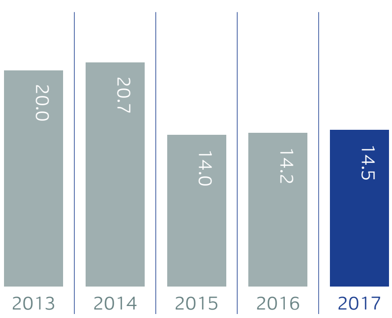
1.58



Health and safety is a core value for Babcock. The data includes all injuries reported each year across the entire Group.

Return on invested capital (ROIC) (%)

14.5%



Return on invested capital is defined as underlying profit before financing and tax divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt).

Non-financial statistics and measures

In addition to our KPIs we have a number of non-financial statistics and measures.

597

Number of graduates

Number of graduates currently on a graduate programme across the Group. (2016: 599)

717

Number of apprentices

Number of apprentices currently on apprenticeships across the Group. (2016: 714)

More information: Read our report on sustainable development and people starting on page 58

Operational performance measures

In the Operating review we used the following KPIs to measure each division's performance.

Operating return on revenue (ORR)

Operating profit before amortisation of acquired intangibles and exceptional items expressed as a percentage of revenue.

Revenue growth

The percentage increase in the division's continuing revenue when compared to that of previous years.

More information: Read the operating review starting on page 38

Continuing to deliver

Franco Martinelli, Group Finance Director

Overview

Babcock continued to deliver in 2016/17, with sustained growth of 6.5% in underlying operating profit (5.3% organic growth at constant exchange rates) and 7.7% growth in underlying revenue (4.9% organic growth at constant exchange rates). This growth demonstrates the quality of our operations and the resilience of the Group's business, and has resulted in an 8.0% increase in underlying basic earnings per share.

We continue to focus on cash generation and on maintaining a secure financial base to support our future growth. We have reduced our net debt to £1,173.5 million (2016: £1,228.5 million) during the year, reducing the ratio of net debt to EBITDA to 1.8x, and expect to continue to reduce that ratio over the coming years.

Order book, bid pipeline and contract performance

Our order book is currently £19.0 billion, which reflects £4.7 billion of contracts awarded during 2016/17 and a reduction of £800 million from the early termination of the Magnox contract which will now end in 2019. This provides clear visibility of future revenues in the short and medium term, with 76% of revenue already secured for 2017/18 and 52% for 2018/19.

During the year, we maintained our win rate, achieving success in over 40% of our bids for new contracts, and over 90% for renewals. In addition to the c €500 million French military flight training contract, FOMEDEC, we were delighted to win a contract to support Qantas' ground fleet at around 60 locations across Australia, as well as a number of naval equipment support packages and a contract to design and build a fourth Offshore Patrol Vessel (OPV) for the Irish Naval Service at our yard in Appledore, Devon. We saw a strong performance in our Emergency Services business, including winning new contracts in France and Northern Ireland and the successful mobilisation in Victoria, Australia. In May, we were awarded all four elements of a £360 million technical authority and equipment support package for both the QEC aircraft carriers and Type 45 destroyers.

We continue to make good progress on the contracts already in our order book, including the ongoing progress under the £2.6 billion Maritime Support Delivery Framework (MSDF) and the ramp up of the Type 23 frigate life extension programme. Growth in the Air business in the Defence and Security division has continued with the successful start to the fixed and rotary wing UK Military Flying Training System (UKMFTS) contracts awarded to Ascent, our joint venture with Lockheed Martin. The final AirTanker was delivered on schedule in September, and the joint venture will therefore be providing partners with dividends from 2017/18.

Trading in the Defence Support Group (DSG) contract for the British Army continues in line with expectations following a busy year. We are currently working on a demonstration project for the Warrior Capability Sustainment Programme and are engaged in discussions regarding the full programme of 380 armoured vehicles. We successfully completed the overhaul and reset of 670 vehicles returning from military operations ahead of schedule.

In 2016, following a final investment decision by EDF Energy, the UK Government confirmed the decision to go ahead with the construction of a new nuclear facility at Hinkley Point C. Our Cavendish Boccard Nuclear joint venture, which has been selected as preferred bidder to deliver the Balance of Nuclear Island (BNI) mechanical installation package, is currently about to transition from Early Contractor Involvement studies to an Early Works Contract for the BNI.

We are currently in the process of completing the disposal of our Civil Infrastructure business, which in the year ending 31 March 2017 had revenues of around £30 million.

Our bid pipeline of near-term opportunities has also remained broadly stable at around £10.5 billion (2016: £10.5 billion), despite the

Statutory to underlying reconciliation

	Statutory £m	Joint ventures and associates: Revenue and operating profit £m	Joint ventures and associates: Finance costs £m	Joint ventures and associates: Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	Underlying £m
31 March 2017								
Revenue	4,547.1	669.5						5,216.6
Operating profit	359.6	72.8			29.7	112.7		574.8
Share of profit from jv	56.7	(72.8)	24.6	14.2	(28.5)	5.8		–
Investment income	1.2				(1.2)			–
Net finance costs	(55.4)		(24.6)					(80.0)
Profit before tax	362.1	–	–	14.2	–	118.5	–	494.8
Tax	(46.5)			(14.2)		(26.4)	0.5	(86.6)
Profit after tax	315.6	–	–	–	–	92.1	0.5	408.2
31 March 2016								
Revenue	4,158.4	683.7						4,842.1
Operating profit	352.5	40.8			30.6	115.8		539.7
Share of profit from jv	34.6	(40.8)	21.9	8.0	(29.5)	5.8		–
Investment income	1.1				(1.1)			–
Net finance costs	(58.1)		(21.9)					(80.0)
Profit before tax	330.1	–	–	8.0	–	121.6		459.7
Tax	(39.0)			(8.0)		(26.8)	(8.1)	(81.9)
Profit after tax	291.1	–	–	–	–	94.8	(8.1)	377.8

There were no exceptional items in 2016/17 (2015/16: nil)

removal of around £1 billion relating to the consolidation phase of the Magnox decommissioning project. Successful contract awards which have moved into the order book have been replaced with £6.6 billion of new opportunities which are currently being processed. The majority of bids in the pipeline continue to be new business, with rebids representing only 30%. Around half represent contracts with a total value of over £100 million, reflecting the scale and complexity of the contracts for which we compete.

The bid pipeline continues to be supported by a buoyant tracking pipeline. The tracking pipeline comprises prospects that have yet to formally come to market and includes a number of opportunities where we are in active dialogue with our customer to help formulate appropriate long-term support solutions. We expect these opportunities to deliver growth in the medium to long-term.

Income statement

Statutory revenue for the year was £4,547.1 million (2016: £4,158.4 million), an increase of 9.3%. Statutory operating profit increased by 2.0% to £359.6 million (2016: £352.5 million). Statutory profit before tax increased by 9.7% to £362.1 million (2016: £330.1 million), reflecting the growth from joint ventures and associates. Basic earnings per share as defined by IAS 33 was 61.8 pence (2016: 57.0 pence) per share, an increase of 8.4%.

Underlying revenue for the year was £5,216.6 million (2016: £4,842.1 million), an increase of 7.7%. The Babcock businesses, excluding acquisitions, delivered revenue growth at constant exchange rates of 4.9% (2016: 7.6%). The largest contributor to this growth was the Defence and Security division which reported organic revenue growth at constant exchange rates of 15.1%, primarily due to the start of the UKMFTS fixed wing, rotary wing and rear crew contracts and the first year of the Aviation and Engineering Support and Aircraft Services (AESAS) contract. In addition there was increased procurement work in the DSG business. The Marine and Technology division achieved organic revenue growth of 4.9% at constant exchange rates, primarily driven by the ramp-up of the Type 23 life extension programme in our Warship Support business and increased submarine maintenance activity, as well as significant new business wins in our complex equipment and renewables businesses.

The Support Services division's revenue declined by 2.3% in the year. There were some additional works in Dounreay and the rail sector was buoyant. This partly offset the expected step-down in volumes in the Magnox decommissioning project, together with Apprenticeship Levy uncertainty, some weakness in our Training business and the impact of a reduction in volumes in our North American fleet support contracts.

In the International division, a strong second half performance in our South African equipment business, growth in the Mission Critical Services (MCS) Emergency Services business, two second half oil and gas wins and new business wins in Italy, Australia and

France resulted in organic revenue growth at constant exchange rates of 9.5%.

Total operating profit across the Group increased by 6.5% to £574.8 million (2016: £539.7 million). At constant exchange rates, Babcock achieved organic growth in operating profit of 5.3%, with the Group's operating margin broadly unchanged at 11.0% (2016: 11.1%), primarily reflecting margin improvements in Support Services and, to a lesser extent, Marine and Technology, offset by reductions in Defence and Security due to the low margin associated with additional DSG procurement work, as expected, and in International.

In the Marine and Technology division, operating profit increased by 9.7%, with margin improvement driven by contract performance, including in our Australian joint venture, and an increase in Research and Development tax credits. The Defence and Security division achieved an 11.7% increase in operating profit, with increased volumes helped by a step up in the Royal School of Mechanical Engineering (RSME) joint venture which is now in the ninth year of the 30-year contract.

For the Support Services division, operating profit grew by 2.7% following an increase in profit recognition in the Magnox decommissioning contract and improved performance in the Rail business, whereas the previous year included £7.5 million profit on the disposal of Lewisham Building Schools for the Future. The International division's organic operating profit declined by 12.9% at constant exchange rates, reflecting the headwinds from the unrecovered costs due to the industry-wide grounding of Airbus EC225 helicopters, continued margin pressure in the oil and gas sector on contract renewals, and competitive pressures in the South African equipment business. On a reported basis, the division saw a 2.1% reduction in profit, benefiting from movements in exchange rates.

The total Group impact of the change in average foreign currency rates was an increase in revenue of £133 million with a corresponding £15 million effect on operating profit.

The impact of movements in exchange rates has the following effect on the Group's results: a 10% movement in the Euro equates to a £5.9 million change in operating profit and a £3.4 million change in profit before tax. A 10% movement in the South African Rand equates to a £2.4 million change in operating profit and a £2.3 million change in profit before tax. The average rates used for translation of 2016/17 revenue and profit were £/€1.19, £/ZAR18.5. During the year, a net £2.5 million of provisions were charged to the income statement. Over the last seven financial years, the cumulative net provision charge averaged less than 1% of operating profit excluding joint ventures. Provisions cash outflow in the period was £28.4 million, relating to contracts (primarily pain share/gain share and warranties), onerous leases, personnel (taxation and reorganisation) and property.

Total net finance costs remained stable at £80.0 million (2016: £80.0 million) reflecting the decrease in total Group debt over the year but offset by increases in both IAS 19 and joint venture interest. The Group net finance costs reduced to £49.0 million (2016: £53.0 million) and we expect these to reduce further in future, in line with the decrease in the average amount drawn on the Group's revolving credit facilities at a marginal rate of around 1%. The Group's share of joint venture net interest expense increased to £24.6 million (2016: £21.9 million), largely reflecting the new Ascent fixed wing programme and adverse swap valuations. The IAS 19 pension finance charge was £6.4 million (2016: £5.1 million) as expected.

Underlying profit before tax increased by 7.6% to £494.8 million (2016: £459.7 million). The associated tax charge, including the Group's share of joint venture tax of £14.2 million (2016: £8.0 million), totalled £86.6 million (2016: £81.9 million), representing an effective underlying rate of tax of 17.5% (2016: 17.8%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles. We expect the effective underlying rate of tax to be around 18% in 2017/18 and then to remain stable for the following two years as increasing international profits combined with currency movements have increased weighting.

The Group's net pension deficit reduced to £104.5 million (2016: £203.1 million), essentially because the liabilities were 75% hedged for discount rates and inflation by matching assets, and growth assets performed well along with continuing annual deficit contributions. The projected pension charge within operating profit for 2017/18 is £47.6 million (2017: £38.8 million), a £8.8 million cost increase which will be partially offset by a £4.1 million reduction in retirement benefit interest.

Amortisation of acquired intangibles was £118.5 million (2016: £121.6 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Earnings per share

Basic underlying earnings per share for the year was 80.1 pence (2016: 74.2 pence), an increase of 8.0%. Basic earnings per share as defined by IAS 33 was 61.8 pence (2016: 57.0 pence) per share, an increase of 8.4%.

The Group has once again achieved its target of delivering pre capital expenditure cash conversion of over 100% and around 80% post capital expenditure. The cash flow has delivered a net debt to EBITDA reduction to 1.8 times at the year end and we expect to continue to reduce the net debt to EBITDA ratio to around 1.6 times by the end of 2017/18.

Dividend

This year, underlying basic earnings per share increased by 8.0% and the Group again more than achieved its target of delivering pre capital expenditure cash conversion of over 100%. Additionally, the combined order book and pipeline of c £30 billion provides clear visibility of future revenue streams.

The Board therefore remains confident in the long-term future of our business and it is recommending a 9.6% increase in the final dividend per share for 2017 of 21.65 pence (2016: 19.75 pence). If approved by shareholders at the AGM on 13 July 2017, this will give a total dividend for the year of 28.15 pence per share (2016: 25.8 pence per share), an increase of 9.1%. The final dividend will be paid on 11 August 2017 to shareholders on the register at 30 June 2017.

Acquisitions and disposals

In April 2016 the Group acquired 100% of Heli Aviation GmbH for a total cash cost of £10.9 million. Heli Aviation GmbH provides helicopter services in mission critical operations.

Cash paid in respect of acquisitions and disposals during the year totalled £30.5 million (2016: £1.0 million received), reflecting the deferred consideration paid in respect of the acquisition of DSG, Scandinavian Air Ambulance, and other businesses combined with the acquisition of Heli Aviation.

Cash flow and net debt

Working capital cash outflows during the period, excluding excess retirement benefits, were £36.1 million (2016: £36.6 million), with modest working capital cash outflows over the last two years driven by milestones and customer requirements. The cash outflow includes £28.4 million of provision movements. Cash generated from operations was £504.0 million (2016: £490.3 million), from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was up 1.8% to £542.2 million (2016: £532.7 million) and represents a conversion rate of operating profit to cash of 115% (2016: 114%).

Net capital expenditure, including new finance leases, during the year was £134.9 million (2016: £145.1million). The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to operating profit of 86% (2016: 83%). Capital expenditure for the year was 1.5 times the Group's depreciation and amortisation charge of £90.0 million. For the 2017/18 financial year, capital expenditure will be around 1.3 times depreciation. In the FOMEDEC contract, the majority of the finance leases with the French Ministry of Defence for the provision of training platforms, are likely to be timed after the March 2018 year end, however the exact profile of deliveries, and therefore cash, is yet to be agreed.

Cash flow and net debt

	2017 £m	2016 £m
Operating profit before amortisation of acquired intangibles	472.3	468.3
Amortisation, depreciation and impairments	92.3	86.0
Other non-cash items	13.7	15.0
Working capital (excluding excess retirement benefits and provisions)	(7.7)	(11.5)
Provisions	(28.4)	(25.1)
Operating cash flow	542.2	532.7
Cash conversion %	*115%*	*114%*
Capital expenditure (net)	(134.9)	(145.1)
Operating cash flow after capital expenditure	407.3	387.6
Cash conversion after capital expenditure %	*86%*	*83%*
Interest paid (net)	(51.6)	(53.4)
Taxation	(61.5)	(46.6)
Dividends from jvs	26.7	23.0
Free cash flow before pension contribution in excess of income statement	320.9	310.6
Pensions contributions in excess of income statement	(38.2)	(34.9)
Free cash flow after pension contribution in excess of income statement	282.7	275.7
Acquisitions and disposals net of cash/debt acquired	(30.5)	1.0
Issue of shares	0.9	1.2
Investments in joint ventures	2.1	(4.8)
Movement in own shares	(7.8)	(0.7)
Dividends paid	(133.8)	(125.6)
Exchange difference/other	(58.6)	(49.7)
Net cash inflow	55.0	97.1
Opening net debt	(1,228.5)	(1,325.6)
Closing net debt	(1,173.5)	(1,228.5)

The table below provides the reconciliation between the statutory cash flow (page 153) and trading cash flow table above.

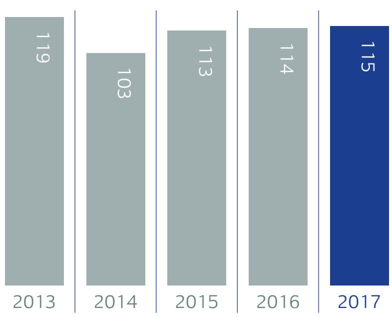
	2017 £m	2016 £m
Cash generated from operations	504.0	490.3
Retirement benefit contributions in excess of income statement	38.2	34.9
Profit on disposals of jv/exceptional loss	–	7.5
Operating cash flow	542.2	532.7

Net Group cash interest paid, excluding that paid by joint ventures, was £51.6 million (2016: £53.4 million), which reflects the continuing reduction in the Group's debt and some refinancing of credit facilities.

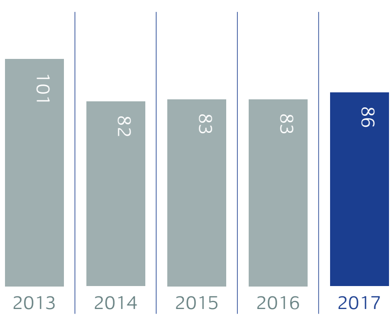
Cash taxation payments of £61.5 million (2016: £46.6 million) increased due to prior year utilisation of overseas tax losses but still benefited from pension payments in the UK. Free cash flow pre-excess pension payments improved to £320.9 million (2016: £310.6 million), up 3.3%, representing a free cash flow yield at 31 March 2017 of 7.2% (2016: 6.5%). Free cash flow post excess pension payments increased to £282.7 million (2016: £275.7 million), up 2.5%.

During the year the Group received £26.7 million in dividends from its joint ventures (2016: £23.0 million). Cash dividends (including to minorities of £1.3 million) paid out in the year totalled £133.8 million (2016: £125.6 million).

Cash conversion pre-capex (%)



Cash conversion post-capex (%)



The Group expects dividends from its joint ventures to increase to around £35 million in 2017/18.

Group net cash inflow was £55.0 million (2016: £97.1 million inflow) decreasing total net debt at 31 March 2017 to £1,173.5 million (31 March 2016: £1,228.5 million). At constant exchange rates the net cash inflow would have been around £56 million higher. This gives a net debt to EBITDA ratio of 1.8 times (31 March 2016: 2.0 times).

Return on invested capital (ROIC)

We define ROIC as underlying earnings before financing costs, divided by the average of opening and closing equity plus net debt, excluding retirement benefit deficits. ROIC, pre tax, was 14.5% (2016: 14.2%). Post tax ROIC was 11.9% (2016: 11.7%). This compares to the Group's current weighted average cost of capital of c 7.5%. The Group continues to focus on capital employed and on improving returns, and management compensation includes this as a performance measure.

Available financial capital

The Company defines available financial capital (AFC) as shareholder equity, net debt plus undrawn committed borrowing facilities.

Objective

To ensure an appropriate level of AFC to:

i maintain operational flexibility and meet financial obligations

ii fund the Group's organic and acquisitive growth

iii maintain necessary headroom to cover the peaks and troughs in the Group's working capital cycle

iv provide sufficient liquidity to see the Group through any periods of tightened liquidity in the market.

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of carry whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate.

The Group, in considering its capital structure and financial capital, views net debt to EBITDA at 2.5 times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above 2.5 times, as illustrated by previous acquisitions, but only if the Group can see a clear path to reducing net debt to EBITDA back to 2.5 times or below within a reasonable time frame.

Performance

The Group's gearing and debt cover ratios, used by the Group to evaluate capital, saw an improvement to 1.8 times net debt to EBITDA in 2016/17 (2016: 2.0 times), demonstrating further progress in bringing gearing down, both in the paydown of debt and through increasing profits attributable to shareholders.

Debt ratios are below covenanted levels and gearing has continued to reduce, leaving sufficient headroom for bolt-on acquisitions and the funding of organic growth. The Company believes that capital markets remain accessible if or when required.

Treasury

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group

Available financial capital performance

		Covenant	2017	2016
Debt service cover	EBITDA/net interest	>4	12.0x	10.8x
Debt cover	Net debt/EBITDA	<3.5	1.8x	2.0x
Gearing	Net debt/shareholders' funds	n/a	42%	48%

to ensure adherence to the principal treasury policies and guidelines.

The Group's treasury policies in respect of the management of debt, interest rates, liquidity and currency are outlined below. The Group's treasury policies are kept under close review, given the continuing volatility and uncertainty in financial markets.

Debt

Objective

With debt as a key component of available financial capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Policy

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the financial year, a loan note of £60 million was repaid at maturity, the Group obtained a further one-year extension to its £750 million Revolving Credit Facility (RCF), with the facility now expiring in December 2021, and in October 2016 a £250 million Sterling bond was issued.

The revised Group capital structure of committed facilities and headroom are thought to be sufficient to meet the Group's ongoing commitments. In addition to the aforementioned RCF and Sterling bond, the other main Group debt facilities comprise of: £40 million loan note issued in January 2010, US$650 million US private placement notes issued in March 2011, and a €550 million Eurobond issued in October 2014. Taken together, these debt facilities provide the Group with a total of £1.91 billion of available committed banking facilities and loan notes.

For further information see note 2 to the Group financial statements.

Interest rates

Objective

To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of the Group's commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.

Policy

Interest hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department and is subject to the policy and guidelines set by the Board.

Performance

As at 31 March 2017, the Group had 74% fixed rate debt (31 March 2016: 61%) and 26% floating rate debt (31 March 2016: 39%) based on gross debt of £1,424.8 million (31 March 2016: £1,461.2 million).

For further information see note 2 to the Group financial statements.

Liquidity

Objective

i to maintain adequate undrawn committed borrowing facilities

ii to monitor and manage bank credit risk, and credit capacity utilisation

iii to diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Policy

i all the Group's material borrowings are arranged by the treasury department and funds raised are lent onward to operating subsidiaries as required

ii to ensure that the Group has sufficient cash on hand and that its committed RCF is appropriately sized and has sufficient term to meet the Group's general corporate funding requirements. Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a key performance indicator iii the Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counterparty credit risk is monitored closely on a systematic and ongoing basis.

A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance

i the Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. During the year, the Group obtained a further one-year extension to its £750 million RCF, with the facility now expiring in December 2021, and in October 2016 issued a £250 million 10-year Sterling bond.

ii the Group had cash and cash equivalents as at 31 March 2017 of £191.4 million (2016: £185.9 million).

For further information see note 2 to the Group financial statements.

Foreign exchange

Objective

To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar, South African Rand and increasingly the Australian and Canadian Dollar.

Policy – Transaction risk

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IAS 39 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.

Policy – Translation risk

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge through the use of derivatives, the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider some matching of those aforementioned assets with foreign currency denominated debt.

Performance

There was a net foreign exchange loss of £9.3 million in the income statement for the year ending 31 March 2017 (2016: £4.6 million gain).

For further information see note 2 to the Group financial statements.

Pensions

The Group provides a number of defined benefit and defined contribution pension schemes for its employees. The largest schemes are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme whose combined assets are £4.1 billion representing 87% of the total assets of the Group's defined benefit schemes. It also has employees in two industry-wide schemes, the Railways Pension Scheme and the Cavendish Nuclear section of the Magnox Group of the Electricity Supply Pension Scheme, as well as employees in other smaller occupational defined benefit schemes and local and central government schemes. All the occupational defined benefit schemes have been closed to new members for some years.

The Group continues to review all options to reduce the risks inherent in such schemes. In this financial year, it will be consulting with employees of two of the largest schemes on changes to better share costs of the scheme to help ensure the schemes remain sustainable. It is also introducing alternative options for those employees who may wish to leave the schemes whilst remaining employed. Additionally, it is making a significant investment in the education of current and former members coming up to retirement to help them understand all their options under the so-called 'pension freedom changes' introduced by the UK Government. The Group anticipates that some members will take advantage of these freedoms and will transfer their funds out of the scheme.

The Group also provides an occupational defined contribution scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit scheme. There are a small number of other much smaller defined contribution schemes. Almost 70% of employees are now members of a defined contribution scheme. The Group pays contributions to these schemes based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk is borne by the employees.

Investment strategy

The Group has agreed a long-term investment strategy with trustees across the three largest schemes designed to generate sufficient assets by April 2037 to be fully self-sufficient. It also operates within an agreed risk budget to ensure the level of risk taken is appropriate.

An investment committee operating across the three schemes, which includes Group representation, has been established for a number of years to maximise effectiveness and to ensure consistency.

To implement the strategy, the committee has divided the schemes' assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category varying by scheme reflecting the schemes' different maturities.

The growth assets are systematically de-risked over time by comparing and equating the expected and required returns each month. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self-sufficiency measure increases, and this approach has protected the schemes against the falls in interest rates over the last few years.

Funding valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. Work has commenced on the valuation of the Devonport scheme as at 31 March 2017.

Cash contributions

Cash contributions made by the Group into the defined benefit pension schemes during the year are set out in the table below.

	2017 £m	2016 £m
Future service contributions	34.6	45.3
Deficit recovery	36.4	30.5
Longevity swap	6.0	5.0
Total cash contributions – employer	77.0	80.8

In the 2017/18 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £92.7 million. £8.0 million of this is for salary sacrifice contributions, £31.8 million is in respect of the cost of future service accrual, £42.2 million is to recover deficits over periods of time agreed with the Trustee and £10.7 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity. This total cash cost is expected to be around £45.0 million in excess of the charge within the income statement per annum over the medium term.

The current level of bond yields and inflation expectations has increased cash service costs for pension schemes. A consultation with the members of the schemes has begun in order to mitigate this position.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,676.2million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,780.7 million. The total net accounting deficit, pre deferred tax, at 31 March 2017, was £104.5 million (2016: £203.1 million), representing a 98% funding level.

A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the risk of increasing allowances for longevity.

Governance

The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. It has appointed an independent chairman across the three largest schemes as well as an independent professional trustee in each scheme and has appointed professional trustees with specialist investment expertise. The Group established a governance committee across the schemes to improve the effectiveness of the trustee boards as well as enhancing trustees' knowledge and decision-making.

Accounting valuations

	Devonport		Babcock		Rosyth	
	2017	2016	2017	2016	2017	2016
Discount rate %	2.6	3.5	2.6	3.5	2.6	3.5
Rate of increase in pensionable salaries %	2.3	2.2	2.3	2.2	2.3	2.2
Rate of increase in pensions in payment %	2.2	2.1	3.0	2.8	3.3	3.0
Life expectancy of male currently aged 65 years	21.2	21.4	22.6	22.9	20.3	19.2

Marine and Technology

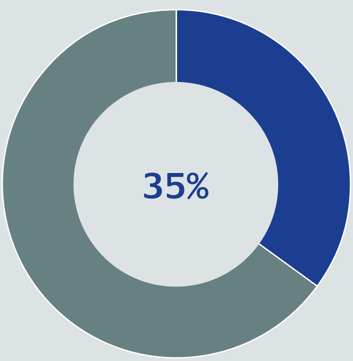
How to read this report

From 1 April 2017 we formally report the Group in four new sectors to reflect how we manage the business. The 2017 Strategic report aims to communicate the Group today, while the operation reviews report the financial and operational progress in the previous divisional format during the last financial year. A reconciliation of the divisions to sectors, and more information can be found on pages 6-15, outlooks for the sectors can be found on pages 24-25.

2017 Performance highlights

		2017 £m	2016 £m
Revenue	Total (including jvs)	1,805.6	1,695.9
	Joint ventures	27.8	21.6
Operating profit	Total (including jvs)	218.1	198.9
	Joint ventures	6.9	3.0
Operating margin	Total (including jvs)	12.1%	11.7%
	Joint ventures	24.8%	13.9%

Revenue % of Group



Operating margin

KPI **12.1%**

Revenue growth

KPI **+6.5%**

Key highlights

- Completed the first of 13 T23 LIFEX packages. Three further T23s have now entered their LIFEX programmes
- Secured an order for 22 assemblies for the US-UK missile launch tube programme
- Submarine Dismantling Project began dismantling the first nuclear submarine in Rosyth
- HMS Vanguard completed all initial major milestones
- Won eight further Maritime Equipment Management contracts
- Secured a contract to provide 3D production design of a US Coastguard OPV
- Won a Siemens contract for two wind farm modules
- Formed JV with Oman Drydock Company to support international navies in Duqm, Oman
- Completed the third OPV for the Irish Naval Service, began work on a fourth
- Entered agreement to provide long-term through-life support services for ANZAC Class ships

Market overview

The Marine and Technology division's core UK naval market has remained positive over the past year following the 2015 SDSR.

The UK MOD Equipment Plan 2016 confirmed the Government's intention to spend £178 billion on equipment and support over the decade, £67.2 billion of which will be spent on the support of existing in-service equipment. This represents a 2% increase on the previous year's plan. The MOD continues to seek opportunities to outsource support capabilities in order to meet efficiency targets, reduce support costs and improve operational capability. £19 billion is programmed for surface ship procurement and support to 2026, which includes the completion of the QEC aircraft carriers, the design and development of the Type 26 Frigate which will ultimately replace the Type 23 class and the possible development of a general purpose Light Frigate (Type 31).

The MOD continues to drive efficiency, performance and sustainability improvements through the Submarine Enterprise Performance Programme where we continue to play a leading role alongside our Tier 1 partners BAE Systems and Rolls-Royce. Over the next decade £44 billion is programmed for procurement and support of the UK's submarine capability, including the design and build of the Dreadnought Class which will begin to replace the Vanguard Class submarines by the late 2020s.

We continue to engage with the UK Single Source Regulations Office as its thinking matures. The vast majority of our sole source activities are contracted until 2020 under the MSDF, and 2025 under the Terms of Business Agreement, and we anticipate that the complexity and value inherent in the majority of services we provide would continue to generate commensurate returns within the sole source environment.

2016/17 continued to be a challenging period for the offshore energy markets but the North Sea decommissioning market is expected to grow in future years. In Liquid Petroleum Gas (LPG), our market returned to baseline levels in 2016/17 following rapid fleet build in the previous four years. However the Liquid Natural Gas (LNG) carrier market demand is strong and forecast to increase as the market for cleaner fuel grows.

In Canada, the Government remains supportive of defence, and we expect no material impact on our business from the Defence Review currently underway. In 2016, the Australian Government issued a Defence White Paper which outlined plans for A$195 billion of capital investment over the next 20 years, a quarter of which is earmarked for maritime and anti-submarine warfare. The Government also committed to a continuous build programme in naval warships and selected an international partner for the platform design of its A$50 billion Future Submarine programme.

The New Zealand MOD also published a White Paper which identified a NZ$20 billion investment programme over the next 15 years and outlined the integration of military services, while increasing private sector participation.

The market trend towards the adoption of Industry 4.0 thinking for the Internet of Things and digital aspects of asset management is driving the demand for our more advanced analytic and data exploitation capabilities across the energy, transport and defence sectors. High-profile cyber security incidents over the past year, together with the increasing threat of cyber-attacks, has continued to drive the demand for services in our chosen niche areas of the global cyber security market.

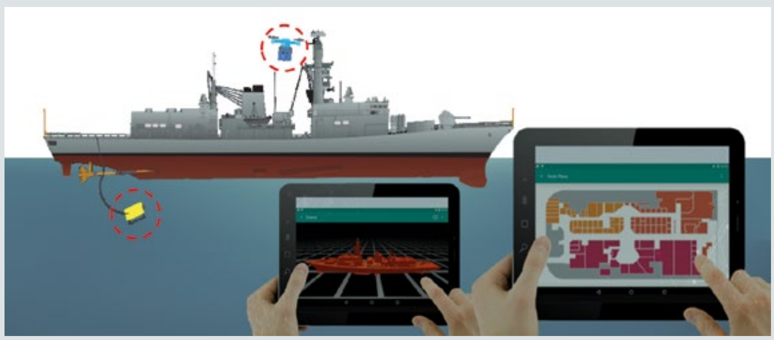
Strategy

Maximising our engineering experience and capability, we will focus on developing innovative solutions to improve our engineering support capability. We will use data analytics and new technologies to enhance the capabilities and availability of our customers' existing and future platforms.

iFrigates – Using innovation to enhance through-life support delivery

Babcock Analytical Services is developing the concept of iFrigates through Project Athena. The project uses data from ship and shore systems to translate into precise support decisions and provide a bespoke understanding of through-life support. The project utilises innovative support technology (air and underwater drones, data from ship systems). The complex real-time data capture is then analysed and shared with crew and shore support. Data is visualised in a configurable suite of mobile apps which then supports risk prediction (availability), live demand and supply-chain management, engineering solution support, dynamic surveys and increased safety.

Benefits include improved delivery and reliability of physical assets, financial savings and fostering of innovation. Furthermore, the systems and processes are applicable to ships, submarines, vehicle fleets, aviation fleets, critical assets and infrastructure. Babcock is proactively working to optimise support chains and develop improved engineering decisions (live feedback to advance preparations for base support), improving operational effectiveness of the owner, operator and support organisation.



We remain the leading naval support provider to the Royal Navy under our 15-year Terms of Business Agreement (ToBA) which runs until 2025. The Maritime Support Delivery Framework (MSDF) contract secures our position as the MOD's strategic support partner at HMNBs Devonport and Clyde and we continue to work with the MOD to deliver savings and efficiencies. We are working with the MOD to ensure that the required infrastructure is in place at Devonport and HMNB Clyde in support of the future submarine programme and the creation of a submarine centre of specialisation at Clyde from 2021.

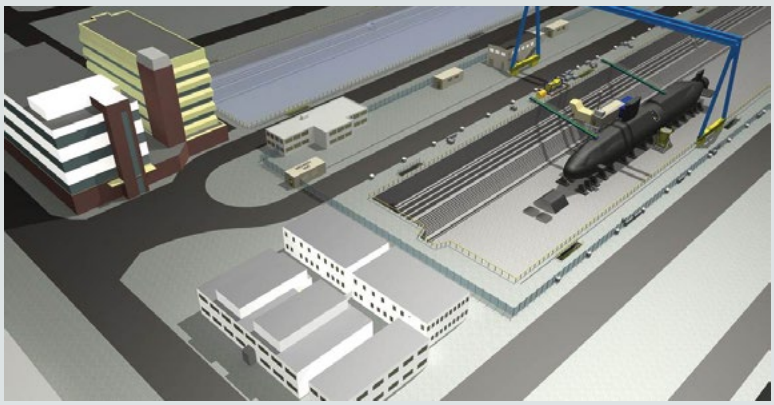
Our integral role within the surface ship and submarine alliances continues to position us well alongside our industry partners when progressing plans to support existing and new UK naval platforms under long-term integrated output contracts. Internationally, a number of submarine programmes are in their early concept phases and we are actively engaged in developing our capabilities to support the design and build elements of these programmes.

Increasingly we are looking to build on our international footprint to provide the Royal Navy and international customers a truly global support offering. In November 2016 we finalised a joint venture with Oman Drydock Company (ODC) to develop the naval support capabilities at Duqm Port in Oman, providing local and international navies with world-class engineering services. We also continue to build on our current marine operations in Canada, New Zealand and Australia.

In the energy sector, our market leading position in LPG/LNG handling systems continues to present significant international growth opportunities. We continue to develop our reputation in the offshore wind sector and are well positioned to exploit the growing offshore wind market in Northern Europe.

Submarine Dismantling Programme

The Submarine Dismantling Programme (SDP) got under way on dismantling the first of 27 vessels, a Swiftsure Class submarine, at our Rosyth site in December 2016. This strategic and critical programme for the MOD and Babcock follows three years of planning, regulatory approvals and implementation of infrastructure developments. Our involvement includes developing the capability to safely remove the radioactive waste and dispose of it within the existing disposal routes in the UK. Removal of the radioactive waste is known as the Initial Dismantling (ID) project and will be undertaken in two stages. Seven defuelled submarines will be dismantled at Rosyth and a further 20 will be dismantled at Devonport during the project. Throughout, Babcock is committed to ensuring that the SDP is undertaken in a safe, secure and environmentally responsible manner.



Financial review

The Marine and Technology division had another successful year and experienced growth in most sectors, reporting an increase in total revenue of 6.5%, to £1,805.6 million (2016: £1,695.9 million). Organic growth at constant exchange rates was 4.9% (2016: 9.4%). The main drivers of growth this year have been the ramp up of the Type 23 life extension programme within our Warships Support business and increased submarine maintenance activities on the legacy Trafalgar and Vanguard Class boats and the new Astute Class boats at both Devonport and Clyde. Our complex equipment business has grown due to significant contract wins in equipment support and delivery of new weapons handling systems for submarine projects in Spain, Korea and the UK.

Our business in New Zealand grew following the first full year of the new Dockyard Management contract. Work on the QEC aircraft carrier programme has stabilised as we push to get the first vessel ready for sea trials, and will accordingly step down by around £100 million in 2017/18.

Our Energy and Marine business has grown due to three contract wins in the renewables sector for offshore substations for Siemens, DONG Energy and E.ON. Additionally, joint venture revenue growth was 28.7%, driven by an uplift in our Naval Ship Management joint venture in Australia following the conclusion of the ANZAC frigates maintenance contract, which has led to the follow-on contract being enlarged under the Warship Asset Management Agreement which started in July 2016. Disappointingly this growth was partially offset by a slow-down in our Liquefied Gas Handling business.

Operating profit increased by 9.7% to £218.1 million (2016: £198.9 million). Organic operating profit growth at constant exchange rates was 8.8%. The division's total operating margin increased by 0.4% to 12.1% (2015: 11.7%), driven by improved contract performance including within our Australian joint venture, and increased Research and Development tax credits.

Operational review

Over the past year, we have maintained our position as lead support partner for the Royal Navy, successfully providing deep maintenance and in-service support for warship and submarine platforms.

We are now two years into our five-and-a-half year MSDF contract to deliver a range of engineering support services across HMNB Devonport and HMNB Clyde and delivery of key milestones is on track. We continue to deliver submarine and warship refits in support of our customer's programme, while building additional capability and capacity to support increasing operational demands and progressing opportunities with the MOD to upgrade the critical nuclear infrastructure needed to support both current and future submarine classes.

As the lead submarine support partner, we remain focused on underpinning the UK's Continuous At Sea Deterrence through support to the Vanguard Class. HMS Vanguard's life extension is now well under way at Devonport and initial project milestones have been successfully completed. We continue to invest in developing our engineering capability and capacity in order to maximise submarine availability as the UK transitions from the Trafalgar Class to the Astute Class.

At HMNB Clyde, we continue to focus on driving efficiency improvements and developing our capacity and engineering capabilities to deliver the required outputs. In October 2016, we were awarded a contract to deliver submarine escape, rescue and abandonment and survival training, which will contribute to the UK submarine centre of specialisation being consolidated at HMNB Clyde from 2021. The Astute Class Training Service continues to deliver world-class training with crews regularly achieving pass rates of over 99%.

The dismantling of the first nuclear submarine under the Submarine Dismantling Project has now begun with the removal of low-level waste from the demonstrator submarine in our Rosyth Dockyard.

The QEC aircraft carrier programme continues at pace within our Rosyth facility. HMS Queen Elizabeth has completed the commissioning of major systems phase and will begin contractor sea trials in 2017. HMS Prince of Wales is now structurally complete and work is underway on the outfitting phase. We continue to progress an in-service support solution for QEC with our Surface Ship Support Alliance partners and the MOD.

Over the past year, we have made significant progress on the Type 23 life extension programme. HMS Argyll has now begun sea trials having been the first of its class to complete a life extension package, which also included the installation of the Sea Ceptor weapons system. We currently have a further three Type 23 vessels docked in Devonport and planning continues for future upkeep programmes. The contract to reactivate HMS Albion has achieved a major project milestone after 1.3 million man-hours; work on the ship is on target to complete in September 2017.

We continue to develop and improve our warship support capability and have a number of initiatives underway to exploit emerging innovative technologies and data analytics. These will enable us to develop a more efficient maintenance methodology, and reduce time and cost for our customer. We also continue to develop a global support offering for our customers, and last year supported Royal Navy vessels in Bahrain, Oman, Gibraltar and South Africa.

The third OPV, LÉ William Butler Yeats, was successfully completed, handed over and commissioned into service with the Irish Naval Service in July 2016. As a result of our performance, we were contracted to design and build a fourth OPV in November 2016. Work has already started at our Appledore facility with the keel laying ceremony taking place on 28 February 2017.

Our market-leading weapons handling and launch systems (WHLS) products continue to be developed for the UK Dreadnought Class submarine programme. In October 2016, we were awarded a contract for the manufacture of 22 missile launch tube assemblies for the joint US-UK Trident nuclear submarine replacement programme. This is the first production batch of a competed 300 missile launch tube assembly programme. We also delivered WHLS for the South Korean Jangbogo III submarine programme and continue to deliver equipment for the Spanish S80 submarine programme.

In November 2016, we were awarded a £20 million contract to deliver detailed production engineering design support for the US Coastguard Offshore Patrol Cutter programme, which is a significant milestone in our strategy to export our naval design engineering knowledge and expertise.

Our continued investment in the development of our Equipment Management Operations Centre (EMOC) has enabled us to win several equipment management contracts in support of the MOD's strategy to outsource the management of maritime systems and equipment. In March, we were awarded preferred bidder status for all four elements of a £360 million technical authority and equipment support package, Maritime Systems Support

Rampion

Babcock successfully loaded out a 400MW sub-station topside and jacket for the Rampion offshore wind farm, off the Sussex coast, as part of a two-year contract with E.ON, the UK Green Investment Bank plc and Enbridge. The programme, the first wind farm project delivered at Babcock's Rosyth facility on the River Forth, relied heavily on the expertise of a skilled workforce and the unique facilities and capabilities available at our Rosyth site to deliver the customer's complex asset. Following the announcement of the Rampion offshore wind farm contract, Babcock's Rosyth operation won a further two renewable energy projects.

Partner (MSSP), for both the QEC aircraft carriers and Type 45 Destroyers, a month after being awarded all six Maritime Equipment Consumables (MEC) packages. Our position on MSSP and MEC has been made possible by a dedicated EMOC in Bristol. We also won an availability contract for the support of the Royal Navy's Phalanx weapons system.

In Australia, our Naval Ship Management joint venture between Babcock and UGL Limited entered into the Warship Asset Management Agreement (WAMA) with the Commonwealth of Australia, BAE Systems and SAAB Australia. WAMA will provide maintenance support services until the end of life of the ANZAC Class Frigates.

We continue to deliver through-life support for submarine equipment and engineering services for the Australian Collins Class submarines, with negotiations now underway to secure a further five-year contract. We continue to pursue multiple opportunities relating to the A$50 billion Future Submarine programme and expect initial contracts for material systems and sub-systems to come to market in 2017.

In New Zealand, our dockyard maintenance contract continues to perform to plan and in Canada work on HMCS Corner Brook under our long-term Victoria Class In-Service Support contract is progressing well, with a planned return to service in late 2018. We continue to track several major future naval support opportunities including refit and in-service support opportunities on the Halifax Class frigates.

In line with our strategic aim to develop a global support offering, Babcock and Oman Drydock Company signed a joint venture agreement to develop a naval operation in Duqm, Oman. The business is ideally located to support ships and submarines operating in the Middle East region. A number of international navies have expressed interest in utilising the facility at Duqm in addition to both the Royal Navy of Oman and the UK Royal Navy.

We are seeing strong growth potential in LNG and Volatile Organic Compounds capture. In February 2017, we agreed a joint venture with Bernhard Schulte Ship Management to design and operate a ground-breaking Gas Supply Vessel. The 7,500m³ vessel, which will be used for the LNG fuelling of ships and other shore-based gas consumers in the Baltic Sea, is the first vessel of its kind to use our gas handling technology and we are exploring other opportunities in this area.

Our Energy and Marine Services business has successfully executed the first offshore renewables substation for E.ON's Rampion wind farm. We are currently working to deliver an offshore reactive compensation platform for DONG Energy and have also won a contract to deliver two offshore transformer modules for the SSE Beatrice wind farm. Given this recent experience and our world-class facility at Rosyth, we remain well positioned to take advantage of the next round of UK Government offshore wind funding and approvals in 2017.

Over the past year we have seen sustained growth in our independent technology consultancy businesses. Our cyber security business ContextIS has trebled in size since acquisition in 2013. We continue to develop and enhance our cyber capabilities through our Babcock Managed Security Services business which provides our clients with a managed cyber defence capability through our Advanced Security Operations Centre. Our Frazer-Nash engineering consultancy continues to grow and demand for our engineering consultancy services looks set to remain strong in the medium to long-term, with significant opportunities being tracked in the defence, power, energy and nuclear markets.

Sustainability

Maintaining some of the UK's most critical assets and infrastructure, we work within highly regulated market sectors and insist on the highest levels of safety and security compliance across all our operations, along with a fair and respectful working environment. During the period we reduced our 'total accident' and 'over-three-day injury' frequency rates by 13% and 30% respectively from an already low level.

International opportunities with Duqm dry dock joint venture

During the year, Babcock finalised a joint venture with the Oman Drydock Company to enhance the naval capabilities at the Duqm port in Oman. This new venture will initially support vessels from the Royal Navy of Oman, the UK's Royal Navy and the Royal Fleet Auxiliary, with longer-term plans to support a range of international navy vessels operating in the region, including the provision of a servicing and maintenance location for the Queen Elizabeth Class (QEC) aircraft carriers. The development offers a permanent presence in the Middle East that will enable the UK to shape the development of naval facilities to support the QEC and wider British maritime needs in the area.

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Life-extensions progressing

Following an extensive upkeep period at Babcock's Frigate Support Centre in Devonport, Type 23 Frigate (T23), HMS Argyll, sailed from the dockyard to start sea trials. This engineering milestone represents the culmination of over 600,000 man hours of work and the completion of Babcock's first 'Life-Extension' project for the Navy's T23s. Part of a wide-reaching programme that will see each of the Royal Navy's T23 Frigates call into Devonport for upkeep, the work has been designed to extend the platforms' operational life from 18 to 35 years: maintaining, updating and upgrading capability for the 21st century. HMS Argyll returned to sea in a significantly improved material state and with enhanced capability. The work package represents the most complex T23 upkeep ever undertaken in Devonport – and the first UK warship class to have its missile system changed mid-life since the 1970s.

Our award-winning health, safety and environmental initiatives remain critical to our success. We continue to progress towards the introduction of a 'Common Operating Model' which will see the deployment of a new management system encompassing best practice, common standards and working arrangements. This will enable us to continue to improve consistently across all our businesses: for example, we are currently working on divisional standards for 'working at height' and 'workforce mental health and wellbeing'.

At Devonport, our joint commitment with the Royal Navy to improve health, safety and environmental (HSE) performance was marked by the introduction of a charter. Rosyth's Health and Safety team won the British Safety Council's prestigious Sword of Honour Award for the 10th year running. And our Visible Leadership Programme to drive sustained improvement in our HSE performance has included around 1,700 joint reviews and conversations.

We have achieved a 'Zero Waste to Landfill' target across all sites by diverting all suitable landfill waste to alternative legitimate routes as a result of our improved waste management and segregation strategies, which have been supported by a mandatory awareness training programme in partnership with our waste services supplier.

In Devonport, our Environmental Charter has been signed by the trade unions, MOD and the contractor managing accommodation for the Royal Navy on site. We were awarded the Environmental Achievement Award for improving our environmental performance and enhancing sustainability at Rosyth at the 2016 EEF Manufacturing Awards. Last year, we also won an award for environmental efficiency at the 2016 Future Manufacturing Awards.

We continue to invest in skills and capability as the business grows. Given the need to sustain future engineering skills, we place great value in our apprentice and graduate programmes. Our HMNB Clyde Apprenticeship Programme won the prestigious Princess Royal Training Award, which honours UK employers who have created a lasting impact. A record number of 161 apprentices started their career within the Marine and Technology division during the period, including 14 higher apprentices, 12 business administration apprentices and five higher level business apprentices. This, along with our graduate scheme, helps to secure our resource base for the future.

We have an active STEM outreach programme, with over 400 active STEM Ambassadors reaching thousands of students from primary schools through to higher education establishments to promote STEM careers. As proud sponsors of the Women in Science and Engineering (WISE) Awards and the Telegraph STEM Awards, we are well placed to track emerging talent and showcase best practice across the wider engineering community.

In addition, we support community groups and worthwhile causes in the areas in which we operate through sponsorship and donations covering a wide range of civic events and charities. In June Babcock was the title sponsor for Plymouth Armed Forces Weekend, which won the Tourism Event and Festival of the Year Gold Award at the South West Tourism Awards.

We have made good progress in support of the Group's Diversity and Inclusion strategy, with the launch of our divisional Babcock Women's Network (BWN), which now has in excess of 200 members in Bristol, Clyde, Devonport and Rosyth. This year we also launched our Pride in Babcock LGBT+ network at Devonport and Bristol, with a third network at Rosyth to be established in the coming months.

Defence and Security

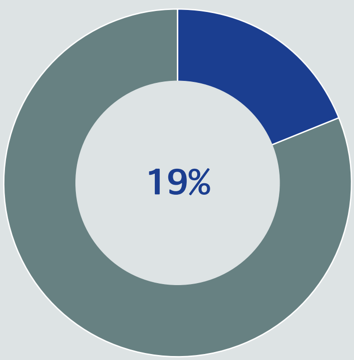
How to read this report

From 1 April 2017 we formally report the Group in four new sectors to reflect how we manage the business. The 2017 Strategic report aims to communicate the Group today, while the operation reviews report the financial and operational progress in the previous divisional format during the last financial year. A reconciliation of the divisions to sectors, and more information can be found on pages 6-15, outlooks for the sectors can be found on pages 24-25.

2017 Performance highlights

		2017 £m	2016 £m
Revenue	Total (including jvs)	976.5	843.1
	Joint ventures	90.8	88.5
Operating profit	Total (including jvs)	146.6	131.3
	Joint ventures	58.7	45.2
Operating margin	Total (including jvs)	15.0%	15.6%
	Joint ventures	64.6%	51.1%

Revenue % of Group



Operating margin

KPI **15.0%**

Revenue growth

KPI **+15.8%**

Key highlights

- UK Military Flying Training System (UKMFTS) rotary wing contract awarded to Ascent, our 50:50 jv with Lockheed Martin
- UKMFTS fixed wing contract started strongly and is performing well
- Hawk T1 integrated operational support rebid awarded
- Successfully moved to the next phase of DSG pricing (Schedule of Rates), currently working on 12 demonstration vehicles for the Warrior Capability Sustainment Programme
- Final AirTanker aircraft delivered on schedule
- Leconfield Defence School of Transport contract win
- Renewed Army training and maintenance contracts
- 100% success on contract rebids and extensions, including airbase multi-activity support and UKMFTS rear crew training contracts

Market overview

In addition to its commitment to increase the defence budget by 0.5% above inflation for the remainder of this Parliament, the UK Government has also committed to increase its equipment budget at 1% above inflation. This should enable our principal customer to plan for the future with some confidence, including its intention to spend £178 billion on equipment and support over the decade to 2025/26. These investments include £7.4 billion for land equipment and a total of £27.2 billion for military air equipment.

This is an increase of more than £11 billion against last year's Equipment Plan. Importantly for Babcock, there is a change in financial arrangements where savings made by the front line commands can be used to fund new investments. This gives the armed forces a better incentive to seek efficiencies in the support arena and this should give rise to new opportunities for Babcock. The MOD will need to realise a total of £9.8 billion of savings over the next 10 years, primarily through transformation efficiencies. For the Defence and Security division, the net result of the additional equipment commitments in the 2015 SDSR is a 28% increase in planned spend on support for new equipment over the next 10 years, up from £18.3 billion to £23.4 billion for 2016-2025, and a 2% increase on last year's expected spend for in-service equipment over the next decade.

Western European defence markets show many of the same financial and engineering skills based challenges associated with the UK Armed Forces. Our deep skills, gained from decades of experience serving the mature defence sector in the UK, have contributed to our ability to develop a presence in France, which has a similar size defence budget but a less mature outsourcing defence support services sector.

Strategy

The stated UK policy to protect and grow the defence budget and its determination that new equipment capabilities will only be secured by delivering significant efficiencies provide significant opportunities for Babcock.

Our core strategy is to drive revenue growth by moving up the supply chain across all our activities, offering better differentiated services and seeking added value and therefore higher margin work. We will continue to monitor and manage our international target markets with complimentary approaches to drive growth.

Our position as a leading support partner to the British Army is beginning to present wider opportunities to embed Babcock as the Army's strategic supplier for equipment support and individual training. We aim to accelerate our engineering services and data analysis delivered to date through new technologies including commercial off-the-shelf products to determine potential improvements and increase our offering to our customers.

Our aviation business is an important provider of military aircraft and base support services within both the UK military training environment and, through our FOMEDEC contract award, the French military training environment. Our recent success to secure the Royal Navy aviation and engineering support and aircraft services contract brings our aviation capabilities to front-line operational customers and we aim to expand our services in the operational environment through a range of strategies that will enable us to partner with air forces as well as specific OEMs through smart collaborative partnerships to deliver maintenance, support and training.

We are making investments across our business to develop our capabilities in high-end engineering, programme and project management and systems integration, and we are applying technology to drive differentiation, profit margins and new market positions. These activities are underpinned by productivity improvement initiatives and a greater engineering and technical focus in our operations.

Employing technical innovation at Babcock DSG

Across the Group Babcock is driving technology to deliver results. At DSG, we maintain, repair, overhaul and upgrade military vehicles and equipment, and assemble and test new vehicles for the British Army, and technology plays a key role. Previously, we identified defects in vehicles' hulls through the use of dye penetration testing, which could only detect surface-breaking flaws. Recently, we partnered with selected companies to jointly develop techniques for specific vehicles and gained the technical capability to perform phased array ultrasound testing of these vehicle hulls. The method involves ultrasonically scanning the platforms and allows the detection of sub-surface defects. This is combined with technical weld repair on these complex vehicles to provide a greater level of structural integrity assurance on completed vehicles when handing back to the MOD.

Financial review

Revenue for the Defence and Security division, including the Group's share of joint venture revenue, increased by 15.8% to £976.5 million (2016: £843.1 million). Organic revenue at constant exchange rates grew by 15.1%. This strong growth was primarily due to the start of the UKMFTS fixed wing, rotary wing and rear crew contracts and the first year of the AESAS contract. In addition, there was increased procurement work in the DSG business.

Total operating profit increased by 11.7% to £146.6 million (2016: £131.3 million). Operating profit growth was driven by the revenue increase but also by profit recognition within the Holdfast Training Services joint venture (Holdfast), which is now in the ninth year of a 30-year contract. Organic operating profit at constant exchange rates grew by 11.3%. The division's operating margins reduced slightly to 15.0% (2016: 15.6%) reflecting a mix of lower margins on procurement revenue offset by additional profit recognition on Holdfast.

Operational review

Within our Land business, the DSG contract with the MOD for the British

Army is trading in line with expectations following a busy year. The first generation 10-year contract is delivered from seven main sites across the UK. The contract includes maintenance, repair, overhaul and provision of stores and spares procurement services for land equipment, ranging from small arms to main battle tanks. We successfully completed the overhaul and reset of 670 vehicles returning from military operations ahead of schedule and met the demanding timelines to issue vehicles for operations in central Europe from the stored fleet. The transformation is on track with all contractual milestones achieved.

During the year, we secured a contract amendment for eight years to provide equipment on a turnkey availability basis to the Defence School of Transport at Leconfield and a year's extension to provide maintenance on the fleet of Protected Mobility Vehicles, totalling in excess of £30 million. We are engaged with Lockheed Martin to offer the production of the Warrior Capability Sustainment Programme of 380 armoured vehicles and we anticipate these discussions will progress through the coming year. We also anticipate further opportunities as the Army 2020 Refine programme crystallises to defined projects, with revenues expected in 2018/19.

The six-year contract to manage the MOD's white fleet, entitled Phoenix II, started in the UK in September 2016. This service manages the MOD's fleet of 16,000 administrative vehicles and the rental vehicle requirements. We continue to perform well in delivery of the MOD's worldwide construction fleet of 2,000 vehicles through our ALC joint venture. As well as supporting a continued number of operational requirements, we have also developed more advanced fleet management systems to support the reduction of costs through the term of the contract.

Within our training operations, we continue to successfully deliver to our customer with no service failures across all main contracts, delivering over 20,000 training days to the British Army. Under the Electro-Mechanical Training contract we continue to deliver transformation in training delivery and support. Recent successes include the development of a new Protected Mobility Vehicle fleet course, reducing the course duration from eight to five weeks, utilising modern learning methods and media. Performance at the RSME continues to remain at the highest level and the contract was showcased in the autumn during the visit of Her Majesty The Queen as part of the 300th anniversary of the Royal Engineers. We expect services to be expanded to include training support to the Defence Explosive Ordnance Disposal, Munitions and Search Training Regiment in Bicester and Kineton. In addition, our contract with Defence Infrastructure Organisation to provide support services to the British Forces in Germany, which commenced in 2011, was extended for a two-year period in 2016.

Our Air business began the year with a £500 million contract award to deliver rotary wing flying training services. This is the Babcock share of the contract, delivered through Ascent, our joint venture with Lockheed Martin to deliver UKMFTS. As this contract, and the previously awarded fixed wing contract, ramp up over the next three years, we shall continue to focus on current military flying training through our Hawk, Tucano and Tutor contracts. We are well placed to ensure that the customer transitions from the current services to the new services in a seamless fashion.

The five-year contract to deliver AESAS to the Royal Navy at Yeovilton and Culdrose, which we announced last year, is now fully operational and, as expected, there are clear benefits from the rotary wing aspects that we are able to leverage from the MCS helicopter business. On a similar basis, expertise, support and deep engineering knowledge from our Air business was provided for the FOMEDEC bid team in France and was a significant factor in our being awarded the contract in January. Further support is being provided to assist the implementation phase of the contract with both businesses operating in the new Aviation sector.

The Sea Training business has continued to deliver strong operational and safety performance. Our transformation of Royal Navy engineering training is progressing, providing innovative learning with stimulating interactive online content and media supported by simplified instruction. Feedback from the operational user community indicates that trainees who have benefited from this approach are more effective, being able to work independently and with higher confidence in completing practical tasks. Although the successful Fleet Outsourced Activities Project has entered its final year in providing wide-ranging training delivery and training support services to the Royal Navy, we expect to continue as the supplier of these services beyond December 2017. We also continue to support the Royal Navy through the provision of sophisticated and realistic high-end warfare training and the design of imaginative immersive training in support of the new QEC aircraft carrier.

Sustainability

In support of the business growth agenda, the focus for 2016 has been on strengthening our talent pipeline. This has been achieved by extending the scope of our high potential identification, pushing deeper into talent pools, stretching and challenging people earlier in their careers.

First line leaders are key enablers of business performance. During 2016 we completed the roll-out of the first line leadership development programme across Babcock DSG, with 522 staff now having completed the programme over the last four years. The programme has a major behavioural dimension with a focus on practical application leadership style, managing self, managing performance, communication, motivation and delegation. We have implemented a stress resilience programme, targeted at staff delivering high challenge projects.

Babcock is a committed member of the 5% Club and apprentices continue to be a key element of our staffing strategy. Targeting critical technical skills, we currently have 118 apprentices on programme and 2016 saw the first cohort complete our two-year advanced air engineering apprentice scheme. The quality of our apprenticeship development continues to be recognised; for example, this year one of our graduated female apprentices was elected to the Young Women In Science and Engineering (WISE) Board. We continue to develop our graduate population. This year, we increased our graduate STEM intake and 52% of our current programme population is female (2015/16: 37%).

Maintaining a focus on diversity and inclusion, we have delivered a programme of 'No Innocent Bystander' workshops to over 1,000 employees. We have introduced an eLearning module to ensure employee-wide awareness of diversity, inclusion and respect and have actively participated in the Group's Pride in Babcock and Women's Network events.

Our refresh of the 'Home Safe Everyday' safety programmes continues to reduce both our accident numbers and accident severity rate. Overall, there has been a 40% reduction in both minor injuries and significant accidents (>3 days) across Defence and Security this year. The Sea, Land, International and Security business units have respectively recorded over 2.7 million, 2.6 million, 1.8 million and 400,000 hours worked without a significant accident. The Land business, including Babcock DSG, has reduced accident numbers in both frequency and severity by over 50% within the year. For the sixth year running, our joint venture company ALC has received an Occupational Health and Safety Gold Medal Award from the Royal Society for the Prevention of Accidents.

Working in partnership with the Defence Infrastructure Organisation, Babcock is delivering an innovative energy reduction scheme throughout the MOD estate in Germany. Having identified and invested in energy saving opportunities, we have delivered a range of improvements, resulting in reduced total carbon dioxide emissions of 2,773 tonnes and savings in excess of €980,000.

For the Engineering Education Scheme Wales, we worked in partnership with the RAF and BAE Systems to host female students from Ysgol David Hughes secondary school in Anglesey at RAF Valley. The students gained an insight into the range of technical vocations available in the aerospace sector and wider careers in STEM. We also invest in the communities in which we are based through a range of projects and by providing support for local charities.

Advanced pilot training across the UK

Babcock is the most experienced provider of high-quality training, engineering and equipment support to the UK's military flying training. We have been delivering flying training, aircraft engineering and airfield services for more than 70 years and we support over 25% of all MOD rotary and fixed wing aircraft.

Our key activities include the delivery of pilot training, flight simulator maintenance, asset management, multi-activity support services and equipment support to ensure aircraft, and their pilots, are always mission ready.

We employ around 1,700 highly trained and uniquely skilled people to deliver those specialist services from more than 30 sites across the UK. We are extremely proud of our long association with the UK's military flying elite. Our commitment to excellence in all we do is guaranteed.

Support Services

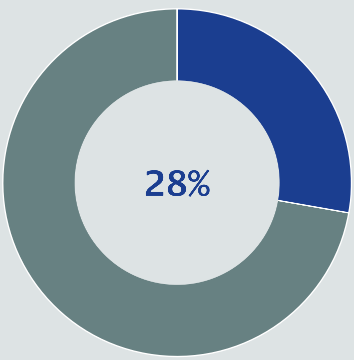
How to read this report

From 1 April 2017 we formally report the Group in four new sectors to reflect how we manage the business. The 2017 Strategic report aims to communicate the Group today, while the operation reviews report the financial and operational progress in the previous divisional format during the last financial year. A reconciliation of the divisions to sectors, and more information can be found on pages 6-15, outlooks for the sectors can be found on pages 24-25.

2017 Performance highlights

		2017 £m	2016 £m
Revenue	Total (including jvs)	1,478.8	1,513.0
	Joint ventures	542.3	566.4
Operating profit	Total (including jvs)	110.5	107.6
	Joint ventures	32.4	19.9
Operating margin	Total (including jvs)	7.5%	7.1%
	Joint ventures	6.0%	3.5%

Revenue % of Group



Operating margin

KPI **7.5%**

Revenue growth

KPI **-2.3%**

Key highlights

- Nuclear decommissioning milestones achieved on programmes across all decommissioning sites
- Additional work at Dounreay successfully completed
- Cavendish Nuclear delivered a major hazard reduction project at Sellafield
- Increased revenues at our ABC rail joint venture
- Next generation of fire engines delivered for London Fire Brigade
- Award winning 'app' launched to connect key stakeholders at Heathrow
- Network Rail's new 'trailblazer' apprenticeship programme designed and mobilised
- Digital learning business secures new contracts
- Severn Tunnel rail track lowering project successfully delivered

Market overview

Our markets remain attractive, with existing and potential customers opting to procure outsourced solutions to further reduce their cost base, deliver greater efficiency and improve service delivery. Customers continue to market test services and our breadth and depth of expertise, coupled with our investment in innovative solutions and people development, mean that we are well placed to respond to this challenge.

In the UK's civil nuclear market, there are opportunities for both decommissioning and new build services which provide scope for growth. In particular, the recent Government decision to proceed with the Hinkley Point C project has given new momentum to new build activity in the UK.

We expect that the demand for fleet management and equipment support services in the UK and overseas will remain strong, particularly for customers with critical and complex fleets, such as Ground Support Equipment (GSE), Heavy Mobile Equipment and 'blue-light' emergency services. Investment in strategic fleet management capabilities, such as fleet optimisation, asset replacement programmes and conversions, and decision support and data analytics, to span multiple industry sectors, will position Babcock well for further outsourcing opportunities and expansion of existing operations.

Demand for our technical training services remains positive. We see an increasing requirement for technology and systems in the delivery of such training, which increases the barriers to entry for competitors and incentivises large organisations to outsource these services.

The introduction of the Apprenticeship Levy represents a potential opportunity to grow our existing apprentice business in the engineering and workplace skills sectors. However, while we expect large organisations to look to maximise the value of their levy account, our customer base also includes small employers who may be disincentivised from training apprentices under the new regime.

Our strong domestic market position has enabled us to expand our international footprint by leveraging the capabilities successfully developed and delivered for our UK customers. This breadth of expertise has provided a firm foundation upon which we will build an expanding pipeline of international opportunities. We expect that our recent contract wins in Europe and Australia will provide impetus for additional growth in these markets.

Strategy

Our strategy continues to focus on our core markets where we have established a successful track record of delivery and developed strong long-term relationships with customers.

Growth in these markets will be driven though enhancing our capabilities to provide innovative and financially attractive solutions to customers in the civil nuclear, vehicle fleet management and support and technical training services sectors. Our order book and pipeline of new business opportunities support the potential for continued success across these core markets. They also provide an opportunity to align our business more closely to our core strengths and to critically review which sectors offer the greatest potential for shareholder value.

Development of our capabilities, through internal and external collaboration and greater application of technology in our services, will underpin our growth.

In the Group's vehicle support businesses we will broaden our offering in the airports and 'blue-light' sectors with strategic fleet management solutions based on decision support and data analytics tools that improve fleet availability and reduce through-life asset costs for our customers.

Our training business will also leverage technology to provide more integrated training solutions for larger customers and to respond to changes in the apprenticeship sector during 2017.

The strategy in our civil nuclear business is focused on continuing to successfully deliver on the major UK decommissioning programmes and expanding our presence in the new build sector. In our Rail business, we expect Network Rail's more regional structure to create opportunities to deliver capacity and operational efficiency improvement.

Across our business we continue to develop our routes to expansion in international markets and these efforts have been rewarded with contract wins in Australia and Europe. We expect to grow our operational capabilities overseas through an increasing pipeline of opportunities and potential acquisitions.

Financial review

Revenue in the Support Services division reduced slightly: 2.3% down to £1,478.8 million

Dungeness dives in

In a significant step forward for nuclear decommissioning in the UK, divers are being used to clean up the former cooling ponds at Dungeness A Site.

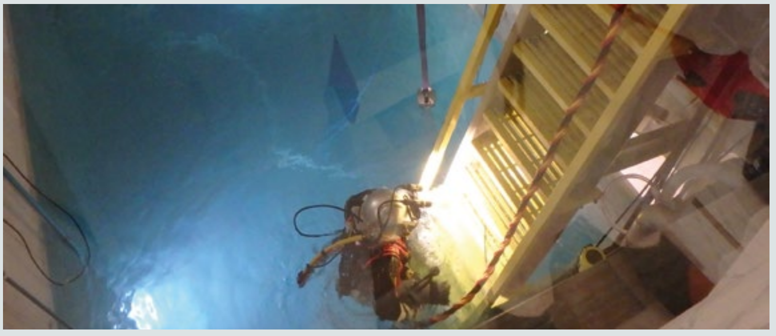
Bringing with it a host of safety and environmental benefits, the work will see the pond skips that were once used to store used nuclear fuel cut up and packaged for disposal, with the water that remains in the ponds acting as additional radiation protection for the divers.

The technique also has additional environmental benefits, as the alternative of cutting skips after they have been removed from the ponds would require additional measures to prevent potential airborne contamination.

During the work, an additional 20 tonnes of pond furniture, including framework and machinery, classed as low-level waste will be removed and cut up before being disposed of at the Low Level Waste Repository.

The learning from the work at Dungeness A Site will be shared with other Magnox sites where similar work will be carried out, with Sizewell A Site being the next destination.

John Clarke, NDA's Chief Executive, said: "We always encourage our contractors to adopt the highest standards of safety, security and environmental responsibility. This work by Magnox Ltd shows that they are making real progress in clearing the ponds at Dungeness, in a way that is not only safe for the environment, but is also saving time and money."



Sellafield's magnificent six

The last of six mighty doors which will unlock the contents of one of Sellafield's most hazardous buildings, has been installed on to the oldest plant at the nuclear site.

One of the 'big four' legacy facilities at the Sellafield site – the Pile Fuel Cladding Silo – is a step closer to being cleaned up thanks to the installation of the 12.4 tonne stainless steel doors which will be key to opening the building's 'locked vaults'.

The doors – equivalent to the weight of around 150 grown men and over 7m tall and 4m wide – will be the access point for waste retrieval machinery to safely begin lifting out the silo's contents for the first time.

Following years of design, planning, manufacture and testing up at the Rosyth site of supply chain partners Bechtel Cavendish Nuclear Solutions and BMT, the first door safely arrived at the site in early August.

One by one, the doors have been successfully lifted into a massive 40 tonne, 9m wide steel door frame on the side of the building.

The doors will play a key role in reducing hazard at the site, enabling waste retrieval to start in 2020.

(2016: £1,513.0 million) following the significant growth in the prior year from the Cavendish Fluor Partnership's (CFP) full implementation of the Magnox decommissioning joint venture. Organic revenue at constant exchange rates decreased by 3.3%. Activity on the Magnox project has now reduced in line with the NDA annual site funding limits in the original programme. However, this decrease was partially offset by growth in our rail electrification joint venture with Alstom and Costain.

In addition, Cavendish Nuclear's Dounreay joint venture had higher than expected activity levels following some acceleration to the programme of works.

Despite the reduction in revenue, growth in operating profit increased by 2.7% to £110.5 million (2016: £107.6 million), an increase of 9.6% on an organic basis at constant exchange rates. This was been largely driven by the expected increase in margin recognition in the Magnox contract, reflecting strong operational performance and the retirement of very early stage risk in the contract. Across other businesses within the division, the negative impact of lower activity levels in our North American fleet support contracts was mitigated by profit growth in our rail and UK fleet support operations.

Operational review

In the year, Cavendish Nuclear, a wholly-owned Babcock subsidiary, continued to strengthen its position as the UK's leading supplier to the civil nuclear industry, remaining focused on site operations, maintenance, decommissioning and nuclear new build.

The CFP – in which the Group has a 65% stake – has come to a mutual agreement with the UK's NDA to bring to an end the Magnox decommissioning contract at the end of August 2019, when we will have operated the contract for a full five years.

Following the detailed contract Consolidation phase, it has become apparent that the work that needs to be done at the 12 Magnox sites is now materially different in volume from that specified in the NDA's tender, and this puts the contract at risk of a legal challenge. Last year, a High Court judge ruled against the NDA in respect of its award of the Magnox contract. The NDA has been explicit that its decision was in no way a reflection on the operational performance of CFP, which has remained strong.

CFP is now over two years into the Magnox decommissioning contract, and making good progress in the delivery of the through-life programme across the12 licensed sites. Through innovative approaches to dealing with the legacy waste, the contract team is now targeting an earlier than expected completion of the Bradwell site. This will represent a significant milestone for the nuclear industry in the UK. Using new plant systems, the team has started the retrieval of waste from three highly active legacy waste facilities. In addition, the programme is benefiting from utilising specialist divers to decontaminate the former fuel cooling ponds at Dungeness.

At Dounreay, the Cavendish Dounreay Partnership continues to deliver the nationally important nuclear materials consolidation programme. The team has also achieved a significant reduction in two of the site's highest hazards associated with the Dounreay Fast

Reactor – the safe immobilisation and storage of intermediate level liquid raffinate and the safe removal and processing of liquid metal coolant. As part of its existing Lifetime Support Agreement with EDF, Cavendish Nuclear successfully supported EDF in generating 65TWh in 2016, the highest annual outturn since 2003. Cavendish Nuclear's safety, quality and operational performance underpinned this achievement and has been formally recognised by the EDF Executive.

Major design and construction projects to aid decommissioning at both Sellafield and Magnox sites continue to be delivered to agreed programmes and budget. Of particular note was the delivery of six 12 tonne stainless steel doors to the Sellafield site to support decommissioning of the Pile Fuel Cladding Silo, one of the highest hazard legacy nuclear facilities in Europe. At the Atomic Weapons Establishment, Cavendish Nuclear has continued to build on its existing relationship with the customer, supporting both new build and decommissioning projects.

Following the Government's decision to go ahead with Hinkley Point C, the Cavendish Boccard Nuclear joint venture is about to transition from Early Contractor Involvement studies to an Early Works Contract for the Balance of Nuclear Island mechanical installation package. Work to date has focused on constructability studies and schedule integration with other installation contractors. Over the next 12 months, the focus will move to supply chain engagement for long-lead item procurement. Cavendish Nuclear is also pursuing additional opportunities in the UK new build programme, including Small Modular Reactors.

Internationally, Cavendish Nuclear continues to seek to develop long-term relationships in Japan with HGNE and Shimizu, with both of whom we have Memoranda of Understanding in place for potential decommissioning projects. In support of Cavendish Nuclear's work in Japan, the NDA and Cavendish Nuclear have recently entered into a Cooperation Memorandum of Understanding that will provide unlimited access to NDA intellectual property, access to Magnox operating experience and site staff and access to Magnox sites for visits of potential customers and partners of Cavendish Nuclear.

In Critical Services, our Airports business performed well, helping Heathrow to achieve its best ever recorded performance in baggage operations. Performance enhancements and sustained performance improvements are increasingly being underpinned by investment in innovative technology, such as a Babcock-developed app that provides a single source of real-time information for over 100 key customer stakeholders. This app won the 'Best Innovator' category at the Airport Operators Association's annual awards. Contract wins for baggage upgrade

Dounreay gets the NaK

The destruction of one of the highest hazards remaining in the Nuclear Decommissioning Authority (NDA) estate has been completed at Dounreay.

Around 68 tonnes of highly radioactive liquid metal coolant was removed from the Dounreay Fast Reactor (DFR) and safely destroyed over a 10-year period. The liquid metal, a blend of sodium and potassium called NaK, was used to remove heat from the reactor's nuclear fuel.

Dounreay used a specially built plant and removal system to safely convert the NaK to hydrogen gas and salt water. Handling the material is a particularly complex technical challenge as it reacts vigorously when exposed to air or water, eventually catching fire. This meant that it had to be kept under a nitrogen gas blanket to prevent reactions.

Reactors Director, Ken Heider, said: "The Dounreay team, in partnership with our supply chain, worked extremely hard over a long time to remove and convert the highly radioactive NaK into safe products. Most importantly, our highly skilled team delivered the work safely and in compliance with our environmental authorisations."

Delivering on our long-term partnership with the London Fire Brigade

Babcock, as part of a 21-year contract, has been leading the refresh and redesign of the London Fire Brigade (LFB) fleet and in January the LFB took delivery of the latest generation of state-of-the-art fire engines for the first time in over a decade. The new engine includes a high pressure hose that can deliver significantly increased volumes of water, a more ergonomic crew cab and a EURO VI engine which further reduces emission levels compared to the previous model. Babcock worked in partnership with the LFB and had direct design and development input from front line firefighters resulting in a model that is both technically advanced and better equipped to meet the needs of today's firefighters.

We also manage its complex fleet of 430 vehicles and over 46,000 pieces of specialist equipment, including two fireboats, and train firefighters from two purpose-built technical training centres across London. This ground-breaking partnership, combining fleet management and a 25-year technical training contract, means we're guaranteeing availability and providing whole-life value for the LFB.

projects across Heathrow and other airports, including Glasgow and Gatwick, provide further opportunities for Babcock to enhance its customers' operations.

A strong performance was also delivered by our Fleet Management business supporting GSE operations at Heathrow, where flight delays were significantly reduced despite an increased flying schedule by our customer. Improving the operational performance of airports and airlines through enhanced management of GSE fleets is expected to generate further international opportunities for the Fleet Management business.

Our Fleet Management business also started an extensive rollout of new fire engines for the London Fire Brigade (LFB) in 2016. Babcock worked closely with the LFB and end users in the design of the new fleet, the first since 2007. In April, the first appliance was unveiled at a special event attended by HRH Prince Charles and the LFB Commissioner. Our fleet management contract, which supports the Metropolitan Police Service (MPS), also continued to perform well and we are working with the MPS to extend our support activities beyond the current contract life and scope. Our specialist vehicle conversion business, MacNeillie, is now being more widely leveraged across our Fleet Management businesses and in the DSG business in the Defence and Security division.

Following a challenging period of trading driven by reducing customer demand and escalating supply chain costs, with returns falling below expectations, we are reviewing our Heavy Mobile Equipment fleet management contracts in the Aggregates and Cement market in North America. The Skills & Learning business has developed programmes and technologies to respond to the UK Government's changes to apprenticeship qualifications and funding. The Apprenticeship Levy represents an opportunity to grow our existing apprentice business in the engineering and workplace skills sectors although, whilst there may be more demand from larger employers, smaller employers may train less under the new regime. We have successfully mobilised our new Network Rail apprenticeship contract and the programme is now being delivered from a new site under the new Rail Apprenticeship standard. Delivering this 'trailblazer' standard from a modern facility using a range of innovative teaching technologies underpins the continuing success of this major contract.

Our emergency services training contracts continue to perform strongly. We played a key part in supporting the LFB's celebrations of 150 years in operation, and see good opportunities through the introduction of the Police and Crime Act 2017 for Babcock to support the blue-light sector in its drive for increased inter-service collaborations.

We are participating in the MPS market testing to secure a partner to support its training provision, and are pursuing opportunities in Babcock's other key markets, including the nuclear training industry. Skills2Learn, our digital learning business, secured new orders to develop eLearning for the Royal Navy and the United Arab Emirates Navy, in support of wider programmes managed by the Marine and Technology division.

In Network Engineering, our Rail business has delivered Network Rail's plain line track renewals throughout the third year of the customer's five-year control period. Working with this key customer, our track renewals team successfully completed a track lowering project as part of the Severn Tunnel closure programme to introduce faster, greener electric trains for passengers in South Wales.

Working as part of the Edinburgh Glasgow Improvement Programme alliance, a project to electrify the main line between two of Scotland's largest cities, our track team successfully completed major engineering work at Queen Street Tunnel following a 20-week closure. This is the largest piece of engineering undertaken on this line since it was built.

Following the successful completion of Translink's multi-million pound signalling contract to upgrade the 33 mile route between Coleraine and Londonderry, we have been awarded a further signalling and telecommunications framework contract to deliver services across Northern Ireland's rail network.

The Power business within Network Engineering, has seen the successful completion of National Grid's overhead line refurbishment projects on the Padiham and Capenhurst projects, as well as the Indian Queens to Landulph route in Cornwall, and this is being followed by the refurbishment of 100km of overhead line between Plymouth and Exeter. Works for Western Power Distribution continue to progress steadily with projects such as a re-conductoring of a 1km stretch of 33kV overhead lines in North Lincolnshire spanning a tidal river, and the reinforcement of the 132kV power network near Telford, being successfully completed by our Power team.

Our Media Services business continues to exploit the advantages of the combined service offering created by the acquisition of WRN Broadcast in 2015. Our relationship with Perform Group, supporting the roll-out of its live and on-demand sports service 'DAZN', continues to expand into new geographies and has positioned us as an expert in the emerging non-linear broadcast space. We also secured a key role in supporting local TV satellite distribution in the UK, delivering broadcast solutions to six local TV channels. GoMedia is utilising Babcock's multi-platform distribution offering to distribute video on demand direct to passengers' mobile devices on Eurostar trains and National Express coaches.

Sustainability

This year, we have continued to progress our division's people agenda through initiatives focused on developing talent, recognising achievements and increasing diversity across our business.

Our annual Excellence Awards programme received hundreds of nominations across a broad range of categories, including health and safety, innovation and project delivery, enabling us to embed our values and formally recognise employees who live our being babcock principles.

During the Group-wide Dialogue Week, which focuses on diversity and inclusion, we arranged workshops and activities to engage our employees in a discussion about how to further advance performance in this area. We reaffirmed our commitment to flexible working and launched a Women's Network to support, attract, retain and develop women.

We remain focused on attracting, employing and developing future talent. In September, we welcomed 26 new graduates, taking the total number participating in our two to four-year divisional programmes to 83. The quality of this programme was also recognised externally through being named as a finalist in the 'Strategic Alignment' category of the Association of Graduate Recruiters awards.

A further 36 apprentices joined the division this year, across disciplines including engineering, business administration, automotive and radiometric technology, and mechanical and electrical design.

In line with the Group, we continue to focus on promoting STEM activities, working closely with schools to enable young people to better understand the opportunities across science, technology, engineering and maths. Our commitment to STEM Ambassador activity was recently recognised by the National STEM Learning network.

Through our Babcock Prime Education Fund scheme, we have also provided funding to a group of Worcestershire schools to establish innovative projects aimed at improving the lives of children and young learners in the region.

We remain firmly committed to achieving health and safety excellence across all our operations and this year we have made further progress in our quest to ensure everyone goes 'home safe every day'.

Through a focused review of risk assessments, safe systems of work and protective equipment, supported by an increased number of safety tours led by our management team and regular all-employee driving safety bulletins, we have reduced our all accident frequency rate by 20% and the over three day frequency rate by 50% compared to last year.

In addition, we remain committed to reducing our environmental impact by introducing a range of measures to reduce energy usage in our buildings, and by increasing our usage of video/tele-conferencing to avoid unnecessary business car mileage.

International

How to read this report

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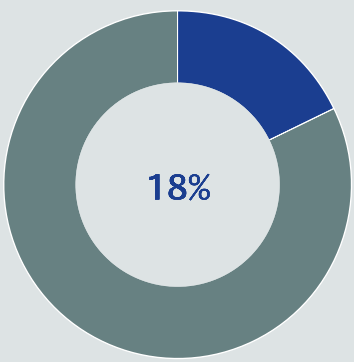
2017 Performance highlights

		2017 £m	2016 £m
Revenue	Total (including jvs)	955.7	790.1
	Joint ventures	8.6	7.2
Operating profit	Total (including jvs)	105.3	107.6
	Joint ventures	3.3	2.2
Operating margin	Total (including jvs)	11.0%	13.6%
	Joint ventures	38.4%	30.6%

Revenue % of Group



Operating margin

KPI **11.0%**

Revenue growth

KPI **+21.0%**

Key highlights

- Babcock France awarded FOMEDEC contract for the provision and maintenance of training platforms and services for the French Air Force
- Secured two Australian long-term oil and gas contracts
- Won 38 new contract and extensions
- Awarded a five-year wind farm support contract for DONG Energy
- Awarded new oil and gas contract with ENI in Italy
- Won high-pressure piping contracts on Kusile new build units 4 and 5
- Secured new contract for mill assembly on Medupi new build
- First new boiler contract for Sasol low emission burners
- Eskom supply contracts for high-pressure piping supply
- South African equipment market: buoyant second half

Market overview

At MCS, we continue to see attractive markets in the emergency services sector, with a number of new opportunities included in our pipeline, together with search and rescue and firefighting outsourcing opportunities in existing and new markets.

The business has also entered new countries in support of existing customers, as well as new markets such as wind farm support and Unmanned Aviation Services. MCS' growth is based on winning organic opportunities and growing its pipeline, creating partnerships with customers and delivering differentiated solutions.

Challenging conditions in the oil and gas sector have continued to impact our business in the North Sea and Australia. Business conditions in the sector remain tough and we are not envisaging any improvement in the medium term. Our exposure to this market (and particularly to the exploration market) is limited, and we continue to be a robust and reliable long-term partner for the industry.

Tough trading conditions in South Africa persisted for the first half of the 2016/17 trading year as commodity volumes and prices remained depressed. Equipment and commodity markets contracted by a further 20% which, combined with a fragile political economy, maintained pressure on pricing and volumes. The second half saw some revival in commodity pricing and a significant strengthening of the Rand versus Sterling. The recovery led to an uptick in the demand for mining construction equipment in the final quarter and our strategy of growing market share during the commodity down cycle has supported significant order intake from the mining sector.

The power generation and distribution sectors remained buoyant through the year, with significant opportunities in maintenance support through the Eskom contract and new work being issued on the new Kusile and Medupi power stations.

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Our mining export markets in Zambia, Namibia and the copper belt in southern Democratic Republic of the Congo have improved on the back of commodity pricing and early indications are that this will continue in 2017/18. Sustained low gas prices and political problems leading to instability in Mozambique have all but shut down economic activity but our oil and gas customers in the region remain optimistic for the future.

Strategy

Babcock is a world leader in providing aviation services for mission-critical operations. Whether we are flying to critically injured people, supporting police operations, fighting fires from the air or transporting men and women to and from offshore oil and gas fields, we know that lives and livelihoods depend on the operations we fly – every day and every night. We are a 24-hour company, and we're trained and equipped to handle emergency situations and to go wherever our customers need us, always putting our absolute commitment to safety at the heart of everything we do.

We will secure our market leading positions in the geographies we serve, becoming a recognised partner to governments and blue chip corporations for complex aviation support.

We are looking to grow and strengthen our core MCS markets, raising the standards to differentiate our emergency services offering and build on our world leader status. We are creating new operating models to meet the needs of a world with a lower oil price and we are pioneering the use of new technologies to drive safety, boost efficiency, enhance performance and grow our revenues.

Our customer-focused culture is marked by a flexible and responsive approach to dynamic situations. We optimise our operations and fleet capabilities to suit specific requirements and we leverage the unparalleled capabilities of the Babcock International Group to provide solutions our competitors simply cannot match.

During the protracted downturn in South Africa, our strategy within the operational division has been to control costs and increase market share and this has been achieved.

In terms of new business, efforts have been focused on our objective of establishing and growing a significant training business in the region. Progress has been made with the establishment of Babcock Training and early wins in power generation technical training. A number of exciting opportunities are being pursued in the mining and automotive sectors, where we are confident of progress using Babcock's international training experience.

Financial review

The International division saw revenue growth but experienced margin pressure in 2016/17. The division's revenue grew by 21.0% compared to the previous period, reflecting the impact of movements in foreign exchange rates. Organic revenue at constant exchange rates increased by 9.5% for the division as a whole, due to a strong second half performance from the South African Equipment business which grew by more than 10% and continued growth in MCS' Emergency Services business, as well as the mobilisation of new contracts in Italy, Australia (Qantas) and France (FOMEDEC). MCS' organic revenue increased by 6.3% at constant exchange rates, driven by continued growth in MCS' Emergency Services business and the start of new oil and gas contracts in Australasia in the second half of the year.

Total operating profit for the division declined by 2.1%, which equates to an organic reduction of 12.9% at constant exchange rates. This reflects continuing competitive pressures in the South African Equipment business, and ongoing difficulties in the oil and gas business affecting MCS' crew change services. Additionally, operating profit has been impacted by ongoing unrecovered costs from the industry-wide grounding of the EC225 fleet of helicopters and by low margin recognition in the new long-term contracts which began in the period, in line with prudent accounting practice. Overall, the division's margin declined to 11.0% (2016: 13.6%).

Operational review

MCS has maintained a high contract win rate across new bids and renewals, securing 38 new contracts and extensions to existing contracts with a total value of around £540 million.

We continue to see a number of opportunities outside the UK, following the award to Babcock France of an 11-year contract to provide and maintain training platforms and related services for the French Air Force (Armée de l'Air), drawing on our expertise in the European aviation industry and our experience of delivering long-term military flight training programmes (FOMEDEC). In addition to FOMEDEC, MCS is also growing its business supporting the defence sector in Europe. We delivered complex projects, such as the life extension programme developed for the Spanish Navy which includes the upgrade of seven Agusta Bell 212 helicopters. This project was successful in obtaining technical certification from INTA, the Spanish National Institute for Aerospace Technology.

The French Department of Defence awarded Babcock France a five-year contract to deliver maintenance operations and logistic needs for the Department's fleet of 20 Airbus EC135 helicopters, 15 of which belong to the Gendarmerie Nationale and five to the Sécurité Civile.

In our Emergency Services business, we have maintained leading positions in all the countries where we operate, and have continued to trade well throughout the year, as demonstrated by a number of recent contract wins, including important rebids and extensions.

During the year, we successfully renewed contracts for the provision of nationwide and regional firefighting and search and rescue services in Spain on behalf of the Spanish Government, and in October

Babcock upgrades technical fleet capability in South Australia

Babcock, in supporting the Government of South Australia, has upgraded its fleet of three aircraft with increased technical capability utilising Electro-Optical Infra-Red System (EOIRS) technology to enhance outcomes for tactical surveillance and search and rescue missions.

The project has been coordinated by the Babcock Mission Critical Services team in Australia with the final solution chosen to provide the latest technology for the customer's requirements.

The upgrade includes turrets that provide superior high definition imaging resolution and were chosen for the low-weight installation and flexibility.

This system is teamed with a mission management system and specifically-designed mounts for screens to view imagery and supported through a dedicated console.

we renewed the main medical services contract in Spain's Castilla-La Mancha region, one of the most significant services in Spain, where we have a 15-year customer relationship and have pioneered emergency night flights.

We also continued to build on our presence in Ireland, with the award of a new three-year contract to support the helicopter operations of the Irish National Police Service. A three-year contract with Air Ambulance Northern Ireland also began in Spring 2017. In Wales, we will create one of the UK's most technologically advanced fleet of charity air ambulances under a seven-year agreement to provide the Wales Air Ambulance charity with new EMS aircraft.

In Italy, we signed two new contracts to continue providing helicopter emergency services (HEMS) operations to the healthcare service of the Italian Alto Adige and Abruzzo regions. Under the contract, Babcock Italy will provide a 24-hour emergency service with new Airbus' and Leonardo Helicopters' technologies. Both contracts have been awarded for a period of nine years. In Australia, we are running operations for the Victorian Government's Ambulance Victoria service and have renewed our emergency medical services contract at Horn Island.

In October, we secured a new long-term emergency medical services contract in the South West region of France, where we will provide and operate five aircraft for the French Ministry of Health.

In Scandinavia, a new five-year contract will see Babcock operate two new HEMS aircraft in Stockholm and a fixed wing operation in Northern Sweden and we will be introducing new AW169 aircraft in Scandinavia.

As previously flagged, challenging conditions in the oil and gas sector have continued to impact our business in the North Sea and Australia, especially following the grounding of the Super Puma helicopters following an accident involving one of our competitors' aircraft, with some delays and cancellations of bids. Despite this, we secured a long-term extension to an existing contract in the UK, renewed two oil and gas contracts and won two new additional contracts with an existing customer in Italy, becoming the sole provider of these services in the country. We have once again increased our market position in Australia with the award of two new long-term contracts by Chevron and Conoco Phillips. Margins and volumes remain challenging and are expected to continue to be so over the medium term.

In October, Babcock was awarded a five-year contract by the consortium TOTAL-ENI for Offshore Transportation and MEDEVAC operations in Congo, increasing our presence in Africa. And, recently, Babcock Italy has secured a new contract with ENI to provide oil and gas services from two new bases on the Adriatic Sea. MCS has also reinforced its position in the renewable energy market, winning a contract to support DONG Energy's offshore Walney Extension wind farm.

Safety remains the highest priority for MCS. However, whilst MCS' air accident rates are at their lowest recorded levels and well below the worldwide industry average, tragically in January 2017 an EMS helicopter crashed in Italy resulting in the loss of six people.

In other international business, we were delighted to be awarded a contract to support Qantas' GSE fleet at 60 locations across Australia. The five-year contract, with an option for a further five years, streamlines the management of the airline's fleet of over 10,000 ground service equipment assets. Babcock will deliver a programme to improve the equipment's reliability and provide significant long-term capability and cost benefits. The contract to support GSE at

Rome's Fiumicino airport is performing well, however, Alitalia's financial difficulties create uncertainty as to the ongoing viability of this contract.

MCS continues to work with other Babcock divisions to help facilitate growth through existing strong customer relationships, operational credibility and administration in the geographies in which the Group operates.

In South Africa, the Power business continued to grow both in transmission and generation on the back of Eskom power station maintenance and niche engineering and construction contracts on the new power stations at Medupi and Kusile. These contracts include design engineering, mill construction and high pressure piping installations. Further progress was made on our strategy of winning power work outside of Eskom with wins at Sasol and a number of industrial customers.

Our Equipment business continued to grow market share in a depressed market which, after a very slow first half, showed signs of strength on the back of increasing commodity prices. This resulted in a very strong final quarter leading into year end. Aftermarket spares and service performed well throughout the year as customers focused on life-extension programmes through the downturn. The new Terex product line followed the same pattern as Volvo, with significant orders won in the last quarter.

Sustainability

MCS understands that mission critical success depends on people – both our own team members and the communities we serve.

We work with local communities to improve our shared environment and we take the time to help people understand what we do, particularly through working with local schools and youth groups. We believe that giving people the opportunity to see our aircraft up close and to speak with the pilots, engineers, rescuers, doctors and nurses who carry out our missions is a key part of who we are.

For example, a programme of school visits has seen pilots and search and rescue crew members at MCS Offshore share their experiences with hundreds of local school children with the aim of inspiring them and generating interest in STEM subjects.

Our employees continually demonstrate their capabilities, often in the most challenging of circumstances. Three Babcock pilots made up the entire shortlist of the 2016 Association of Air Ambulance 'Pilot of the Year' award. Richard Steele was the worthy recipient of the award for his continued efforts on behalf of his customer, the Midlands Air Ambulance Charity.

Also, the International Maritime Organisation awarded an Honourable Mention to both the Pesca II (Galician Coastguard) and the Helimer 401 (Spanish Rescue and Maritime Safety Agency) for their part in the rescue of the 22 crew members of the Modern Express vessel.

We are aware of our responsibility to the environment and the need to deliver a sustainable business. Our work in this area includes numerous initiatives to reduce the environmental impact of operations – from capturing CO_2 at our Spanish operations to recycling waste oil and installing new energy-efficient lighting in Aberdeen. We also work with groups to help reforest areas that have been affected by fires.

MCS has developed and is implementing an industry leading Fatigue Risk Management System (FRMS) integrated within its Safety Management System to manage fatigue-related risks. This FRMS will apply to all flying operations defined in each company's operations manuals and all flight crew members and associated personnel involved in these operations.

Workplace health and safety, aligned with the direction set by the corporate safety steering group, has enjoyed an overall reduction in workplace injuries and lost time compared to 2015. However, in South Africa we were saddened by the loss of one of our colleagues as a result of a fall from a power transmission line.

During the year, Babcock in Africa has continued with its programme of supporting 25 talented but financially disadvantaged children with bursaries to private highschools. This programme has proved successful and our first students are now entering universities, subsidised by Babcock, and we hope will provide potential candidates for our graduate employment programme. In addition, our diversity activities include 15 disabled employees working full time for Babcock at year end.

Our support continues with an orphanage catering for AIDS orphans, as well as a training programme, to upgrade skills for science and mathematics school teachers. Our apprentice training programme has over 50 apprentices on a four-year automotive training course.

Delivering and maintaining a sustainable business

Archie Bethel CBE, Chief Executive

Our priority is to ensure that Babcock continues to focus on creating long-term value for shareholders through a strong and sustainable business.

With the Group realignment in place, we understand now more than ever that how we deal with our customers, our employees, our suppliers, and the communities in which we operate, and our impact on the environment are all fundamental to rolling out the next phase in Babcock's history, achieving our plans and delivering performance. Core to the Group realignment is how we invest in and support our people to deliver sustainable growth across the sectors. It is our belief that strong success can only be delivered through a sustainable business, which is why at Babcock we uphold the strictest standards of business ethics, deliver a competitive talent development programme and put safety at the forefront of everything we do.

Babcock has deep technical expertise in providing a wide array of complex engineering services across four sectors, with a growing, international footprint. We are trusted to deliver in a range of markets and countries by operating, supporting and managing complex infrastructure, assets and training programmes. We are therefore required to consider a diverse and complex range of stakeholders, interests and concerns. We look to do this by maintaining three overarching, underpinning and interlinking pillars of sustainability as discussed in this report.

Over the next five years, we aim to grow, both in the UK and internationally, and, with the organisational structure now in place to support growth, one of the next key enablers to our success is people and potential. We believe that we can sustain the long-term future of our business through investing in and supporting our talent, through technical apprenticeships, graduate schemes, training and career development with succession opportunities across the Group and also through identifying and training talented people to implement growth.

Our ability to attract, recruit, retain and develop the people we need now and in the future is also fundamental to that long-term success. Recruitment campaigns and initiatives in the apprentice and graduate programmes as well as talent development and management training schemes are intended to underpin the long-term future success of the Company. The support we look to provide will also serve the interests of individuals and local economies.

In implementing our growth plans, we continue to work hard to protect the health and safety of our employees and others and to avoid or keep to a minimum any adverse effect of our operations on the surrounding environment. Our Group-wide Code of Business Conduct, supplemented by appropriate guidance and training, is not only the right approach to doing business in itself but is also intended to support long-term success by minimising financial risk and sustaining our reputation. During the year, we have continued to demonstrate Babcock's commitment to diversity in engineering by stepping up our relationships with universities and schools to encourage students to take up science, technology, engineering and maths (STEM) both in the UK and internationally. In Vancouver, Canada, we set up a new STEM competition in partnership with the regional government. We also continue to foster diversity in the workforce, and hosted a Women In Science and Engineering (WISE) event in Rosyth to recognise the invaluable contribution made by women in the industry. Initiatives such as these form part of our continued commitment to enhance our highly skilled workforce, allowing us to foster the talent needed to achieve and sustain our strategic aims. How we go about delivering our commitment to sustainability is discussed further in this report, and additionally in the sustainability section of each of our divisions' operational reviews.

Archie Bethel CBE
Chief Executive

Babcock and STEM

STEM outreach – inspiring the next generation around the world

In 2016, we significantly increased the impact of our Science, Technology, Engineering and Maths (STEM) outreach programme…

In the UK:

With over 400 volunteer Babcock STEM Ambassadors delivering more than 300 hours of outreach every month in local schools and colleges, our programme now reaches tens of thousands of students across the country. We deliver highly successful after-school clubs and workshops at UK primary schools, providing young children with a fun, hands-on introduction to engineering, and this year we were delighted to support three schools in the national finals of the prestigious Big Bang Awards. Our range of STEM activities spans across the higher education system to university level, where we embed Design, Make and Test weeks into university curricula.

From 7-11 year olds creating and racing 'Goblin Cars' built at after-school clubs with Babcock engineers, to Year 13 students presenting their design and creation of a load transfer device to Babcock managers at Devonport Royal Dockyard, our STEM outreach activities provide young people with unique and exciting opportunities to engage with the world of engineering.

Throughout this document, you will find examples of Babcock's commitment to STEM activity, and some of the faces behind that commitment. We're proud of our growing engagement with STEM, and even more proud of the people who make that engagement possible.

In Canada:

Building on the success of our sponsorship of the Telegraph STEM Awards in the UK, this year we established Babcock Canada as the presenting sponsor of the inaugural STEM Spotlight Awards – a competition designed for STEM enthusiasts from non-traditional education backgrounds, such as technical training programmes and apprenticeships. The competition challenged young people to solve a specific problem in the transportation, infrastructure, energy, sustainability and technology sectors in British Columbia. Additionally, Babcock Canada's recent investment of $800,000 into Camosun College's TRADEMark of Excellence campaign will support next generation specialised equipment in the college's new Interaction Lab, a valuable asset to British Columbia's skilled workforce, and to STEM students throughout Babcock Canada. Finally, at this year's IMarEST European International Submarine Races, Babcock sponsored a team of students from Montreal's École de Technologie Supérieure (É.T.S) allowing them to race and showcase their human-powered submarines, as well as partnering with É.T.S to launch the 'Babcock Excellence Award', with the aim of promoting and recognising innovative engineering students.

In Australia:

Babcock Australia also ran several exciting STEM initiatives this year, with university outreach including a sponsorship of Adelaide University's Ingenuity Exhibition – which showcased Final Year engineering projects, a work placement and mentoring scheme for undergraduates in the CASG Department of Defence industry programme, and the sponsorship of a PHD project researching underwater shock modelling through the Research Training Centre for Naval Design & Manufacture.

We also engage with STEM at a younger age in Australia, partnering with Brighton High School to provide engineering resources as part of the 'SUBS in schools' programme. The programme is designed to engage interest in the technology of submersible vehicles and prepare students to enter the new industries arising as a result of projects such as Australia's Future Submarine Program.

We pride ourselves on our commitment to inspiring the next generation of engineers and scientists by actively breaking down stereotypes about what it means to have a career in STEM. The diversity of the STEM Ambassadors leading our activities is a great example of what the future of engineering looks like, and our schools have reported a huge amount of enthusiasm and an increase in female participation at our events.

Highlights

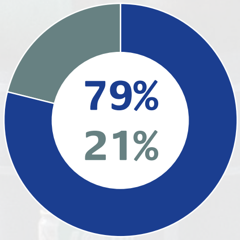
Number of apprentices

717

(2016: 714)

Number of employees currently on apprenticeships across the Group.

Graduate diversity



Number of graduates

597

(2016: 599)

Number of graduates currently on a Group graduate programme.

Our approach to sustainability

Profit and Performance

How our investment in: building long-term relationships; delivering critical through-life support; using high performing and ethical suppliers; and supporting local and diverse economies supports our target of building market leading positions and delivering value to our customers, our colleagues and our investors.

Critical maintenance of Hawk jet turbine

People and Potential

How our focus on: discovering and developing diverse talent and progression routes; inspiring and encouraging the next generation of engineers; and our open dialogue with management delivers measurable benefits to a sustainable business and its communities.

Potential recognised with innovation in LPG design award

Environment and Ethics

How our commitment to the standards set out in our Code of Conduct underpins how we act with our customers, our employees and our suppliers as well as the communities and environments we work in.

Routine safety check on HMS Queen Elizabeth's flight deck

Profit and performance

The efficiencies we deliver through effective contract management, innovation and through-life management enable us to return value to our customers, our colleagues and our investors.

We buy a wide range of goods and services and need reliable, high-performing suppliers across all aspects of our supply chain. Babcock seeks to ensure that our customers' money is spent efficiently and responsibly and that our supply contracts are managed effectively. We expect our supply chain to adhere to our standards of ethical behaviour, and our environmental, health and safety and other working practices.

Profit

Profit is largely delivered through our ability to manage our operations effectively. A significant part of this is driven through our relationships with suppliers. Over 50% of our cost base is via third party suppliers and our approach and ability to manage these relationships impact our ability to deliver performance and margin.

Over the past year, we have looked for supplier efficiencies across the organisation. This has included contract efficiencies through upfront procurement, involvement in the bid process, operational productivity through increased innovation and quality, and streamlined internal processes.

Babcock has implemented a rigorous programme across our procurement and supply chain function. The objective has been to drive best practices across the organisation. As a result of this initiative, procurement is engaging earlier in order to help provide our customers with the best possible solution while improving profitability. Early pre-bid engagement by the procurement function allows our bid teams to understand potential market capabilities, while engagement as part of the team means we can aim to put together a proposal for the customer that meets the needs and requirements of the customer in the most efficient way possible, while establishing supplier relationships that are robust and sustainable in the long term.

The output of successful procurement activities is better value for our customers and shareholders through the delivery of effective and efficient sourcing activities. Savings targets are ambitious, and ongoing efforts to obtain efficiencies and lower our cost base help to increase profitability. Key metrics are reported each month to a divisional and Group Governance Board and approved by each business unit Finance Director.

Performance

Building long-term relationships

We are always looking for better, innovative ways of serving our customers. Our responsibility is to provide them with the best options to ensure success. When we identify a more efficient way of servicing their requirements we discuss these options and work in collaboration with the customer to bring efficiency benefits while delivering a quality service.

The Procurement and Supply Chain team is actively engaged in the bidding process with existing and new customers. This enables us to bring the most effective offer to our customers. We are often able to leverage existing arrangements to offer a cost-effective solution.

Suppliers

We believe that establishing long-term relationships with our suppliers is an important part of building long-term relationships with our customers. As part of a structured programme across business units and Group categories, the procurement and supply chain function is raising commercial capability by engaging in supplier relationship management programmes with strategic suppliers.

We have over 10,000 suppliers; however, we have strategic relationships with around 250 of them. By building an appropriate engagement model with our suppliers, we are able to effectively drive quality and innovation across our supplier base. Strategic suppliers are key partners in our ability to deliver quality service. As a result, we work closely with these suppliers to ensure optimal performance, ongoing improvement and innovation support.

We continue to develop end-to-end procurement tools that enable us to transact efficiently with our suppliers. These tools also provide a common approach, which enables us to share best practice across the organisation. We are able to use consistent business intelligence, which allows us to work collaboratively with our suppliers and focus on innovation and other value-adding initiatives.

The e-procurement tools that we are implementing provide a faster and more effective way of transacting with our supply base, resulting in sustainable relationships that are based on operationally robust processes.

We want to spend time talking to our suppliers about new ideas, operational performance and total cost opportunities – not about payment. We understand the importance of predictable customer payments when running a business. That is why Babcock is a signatory in the UK to the Prompt Payment Code and we would encourage others in our supply chain to make the same commitment.

Delivering business critical support using high-performing, ethical suppliers

Our customers rely on our ability to provide a robust and effective supply chain. We take this responsibility very seriously and work in collaboration with other industry leaders to create a process that optimises risk management while encouraging the use of SMEs. Potential suppliers must demonstrate their financial, commercial and technical capability to meet our contractual requirements. We also look for a clear demonstration of commitment to corporate social responsibility.

Profit and performance continued

We expect high standards of conduct from our suppliers in what they do for us or our customers and will not accept any behaviour contrary to our codes, including bribery, corruption and fraud, threats to health and safety, conflicts of interest or other improper practices.

We pre-qualify suppliers for certain types of supply before admitting them to the supply chain, and this involves satisfying ourselves that they can meet our standards. Certain suppliers will be selected for audit and close monitoring based on risk assessment or supplier performance. Planned reviews of supply chain risk are undertaken by our businesses.

Babcock is a key member of the joint MOD/industry initiative to deliver an effective Defence Cyber Protection Partnership. The Group is tasked with improving the protection of the defence supply chain from cyber threat. Babcock is represented on working groups for each of the three core work strands: information sharing, measurements and standards, and supply chain awareness. A primary objective has been to define a number of risk-based controls to be applied across the relevant supplier base.

We continuously review whether our suppliers comply with the standards set out in our Code of Business Conduct. Last year, we simplified and standardised these procedures in line with the criteria in the anti-corruption and competition compliance policy. Consequently, the self-assessment process for suppliers was updated. In addition to the self-assessment initiative, we now require additional evidence which gives us objective, verifiable supplier ratings.

Babcock is committed to creating a safe working environment that aims to enable all those working on, or visiting, Babcock operations to be able to return ‘Home Safe Everyday’. We seek to work only with suppliers who we believe are able to both meet and promote our standards – those that share our commitment to safe behaviour and performance in delivering services and solutions for our customers. Our teams aim to work with suppliers on safety and share continuous improvement practices to reduce or prevent accidents and injuries.

Protecting the information and physical assets of our customers is an increasingly important part of what we do. We always expect the highest controls of commercial confidentiality. For certain types of supply, we are developing exacting standards of security compliance. For these companies, we need to be certain that information is well managed and protected throughout the supply chain.

Supporting local economies by using diverse, locally procured services

We take our responsibility to support local economies seriously. The varied nature of what we do means that we depend on a wide range of talents and abilities from a wide range of suppliers. As part of our supplier programme, we have been managing compliance through a system of preferred suppliers. This approach is enhancing our supplier relationships and allows us to focus on effective management of our SME supplier base.

Supplier credibility, responsibility, quality and service performance matter. Many of our suppliers are small and medium sized enterprises. We select and manage suppliers to support our own experienced workforce in delivering complex, critical and often bespoke engineering services. Diversification of supply where possible makes our supply chain more robust in helping us to deliver for our customers.

Critical supply partner for through-life support

Joint teams from Babcock and our supply chain engage on a wide range of issues such as maintenance planning, supply support, support and test equipment, training and training devices, and technical data. Targeted supply relationships use data dashboards to monitor performance and progress. Babcock is actively involved with our suppliers in the Aerospace, Defence and Security Supply Chain development programme.

We also lead dialogue with Government, suppliers and skills agencies to help address the skills requirement agenda, with the aim of ensuring that there are enough people with the right skills to fill our own vacancies and those in our supply chain.

Success story in the making

Engineering ace Tom Bennett, who works with Babcock’s Defence Systems Technology team in Bristol, joined an elite group late last year when he received a prestigious Institute of Mechanical Engineers (IMechE) Whitworth Award. He was nominated for the award by the University of the West of England (UWE), following a presentation on his experiences of as part of Babcock’s four-year Technical Apprentice Scheme.

Tom, now a ‘Whitworth Scholar’, finished the Scheme early and was appointed first as an Assistant Engineer and then Engineer at the Bristol site where his grandfather worked in the 1930s. He is now in his second year of a part-time BEng in Mechanical Engineering at the UWE.

Babcock supported Tom’s ambitions from the start of his apprenticeship, giving him well-earned responsibility and the chance to get ‘hands on’ in the workshops. He got on the fast-track to university after being identified as a keen draughtsman and someone who showed a real talent for engineering.

People and potential

As our business expands, the development of our people is a critical part of our business strategy. To underpin and sustain long-term strategic growth, Babcock must ensure that it has the right people to be able and trusted to deliver to customers on technically complex, long-term contracts, both today and in the future. We aim to achieve this by continually improving our talent management arrangements. Our Group Director of Organisation and Development coordinates this activity across the Group.

Our business arrangements require us to deliver services across an array of projects and assets. Our people need to have a range of experience, skills and competencies: engineering, management, technical, commercial, administrative and developmental, to name but a few. We recognise that it is the skills and commitment of our employees that define our uniqueness and our ability to deliver services to our customers.

Planning for growth and succession

Succession planning is a key focus throughout the businesses, from apprentices to Board level. We have plans in place that identify immediate and/or future potential successors to key senior management posts. We also have individual training and development plans for those identified.

Through our annually refreshed future resource planning process, we assess whether we have the right number of staff with the necessary skills and capabilities, both now and for the future. This process is based on data and assumptions such as workforce demographics, attrition and business growth and feeds into our future focused resourcing strategies.

Focus on recruitment, retention and development of talent

We recognise that an employee's relationship with Babcock starts before they even apply to us. A variety of advertising routes are used to ensure vacancies are marketed to the widest possible audience. Our processes are constantly reviewed to ensure that candidates experience a professional, efficient and friendly recruitment and 'onboarding' procedure. A new computer system has recently been implemented to increase the ease of making an application and further streamline the move from candidate to employee.

We deploy a number of techniques to motivate our workforce. To check that we are achieving our objective, we seek feedback from employees via a number of routes such as an international employee forum and employee surveys. We use the feedback to identify any areas for improvement and then develop action plans to address these matters.

In addition to the training and development provided at divisional and business unit level we have Group-wide management development resources:

- Babcock offers an MBA programme to our high-potential employees. We have continued our commitment to this programme and currently have two cohorts progressing through it

Babcock and the Vine Trust around the world

Babcock works closely with the Scottish-based charity, the Vine Trust, which provides life-changing medical, home-building and care support to vulnerable families and children in severe poverty in Tanzania and Peru. The joint projects we embark on enable our employees to utilise the skills and experience they have gained in a very different way, directly supporting people in dire need of assistance. This year will see us bid farewell to the Forth Hope medical ship we have been converting at our Rosyth site as she sets sail to support some of the world's most impoverished communities. In parallel, we have established a partnership that will see Babcock employees join Vine Trust volunteers on 14-day expeditions to the Tanzanian municipality of Moshi. The first such group will leave in October this year. During the mission, 25 Babcock volunteers will work with the Vine Trust in the town on the lower slopes of Mount Kilimanjaro, to build two houses that will help families stay together following the loss of parents or carers.

People and potential continued

- The Babcock Academy, run in conjunction with Strathclyde University since 2005, continues to provide a structured framework for our managers to improve their managerial skills and strategic awareness
- Each division has identified talent pools and reviews their development on a quarterly basis.

We are also considering how development through apprenticeships can support the ongoing development of our existing workforce. We are therefore piloting a Level 4 management apprenticeship with existing staff this year.

Encouraging young people into engineering through leading apprentice and graduate programmes

Our graduate and apprenticeship schemes are intended to support business requirements with the aim of securing the skills and expertise we need now and in the future, and we seek to provide as many opportunities as those requirements justify.

With regard to graduates, we recruited 181 graduates for the 2016/17 intake under our Group graduate programme (2015/16: 195).

At the date of this report, we expect to recruit over 197 graduates for the 2017/18 intake. In addition to our Group graduate scheme, we recruit many graduates directly to management positions.

At 31 March 2017, there were 717 apprentices across the Group (2016: 714) of whom 222 were recruited during the year (2016: 232). The general stability in these numbers over the last few years demonstrates the commitment we have to apprenticeship training. Of those completing their training, over 97.7% (2016: 93.3%) were appointed into substantive roles within the Group.

In addition to our well established intermediate and advanced apprenticeship programmes, this year we have launched higher level apprenticeships in engineering and management with 60 apprentices currently on programme. To support the continued growth of apprenticeships, we plan to launch apprenticeships in digital risk and security (cyber) and project management.

We continue to work towards the target of having 5% of our workforce on structured training schemes, as part of our membership of the '5% Club'. We are closer to our target this year and remain on track to exceed this commitment.

Our Group-wide commitments to STEM subjects

As a Group, we have a number of initiatives to promote activities which motivate and inspire young people to experience and understand the real world application of science, technology, engineering and maths (STEM) subjects. A variety of techniques have been deployed including training STEM Ambassadors who volunteer their time and support to promote STEM subjects to young learners, and providing industry placements. This means teachers from local schools spend a fortnight on one of our sites gaining an insight into Babcock, the type of work we undertake and the opportunities for young people. Furthermore, a number of schools have been identified to pilot the STEM engagement year-long programme. The feedback on this initiative from all parties has been very positive.

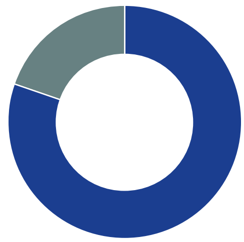
Diversity

At Babcock, we believe diversity is about more than age, race, colour, ethnic origin, gender, marital status, religious or political beliefs, sexual orientation or disability. We believe diversity is also about embracing the advantages different experiences, skills and outlooks can bring.

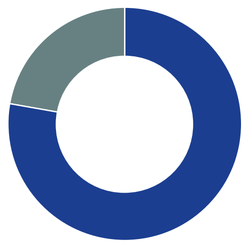
Our diversity initiative, 'All together different', is championed by a Diversity Steering Group, which coordinates the implementation of our equality and diversity policy.

Equal opportunities and awareness of diversity are part of our talent

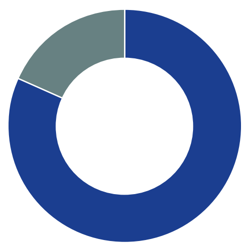
Total workforce diversity



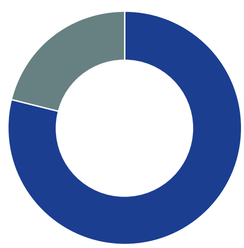
Senior Executive diversity



Board diversity



Graduate diversity



management system. As a business, it is imperative that we ensure access to the widest pool of talent available, selecting the best candidates based on their ability to do the job. Working with these expectations for diversity enables us to deliver our best for our customers and to safeguard the future of Babcock.

Babcock operates principally in sectors that have until recently traditionally been regarded as 'male', such as engineering and working with the Armed Forces. Inevitably, companies with this background will tend to be starting from a level of relatively low female participation, especially in management positions. However, we are working hard to change this: 19.5% (around 6,971) of our total workforce is female (male: 28,779), with 22% (95) female senior executives (male: 336), and two (18.2%) female Directors on our Board (males: nine).

We have continued to work on the challenges of being a woman within our organisation. A series of actions and development programmes are being implemented across the organisation following this. We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2017, 21.0% (2016: 20%) of those employed on our graduate scheme were female.

In 2015, we became a member of OUTstanding, a not-for-profit professional network for LGBT executives and their allies. Like us, OUTstanding understands that it is executives that set the tone and culture of an organisation and their support at this level will support our diversity agenda. We have now also become a founder member of UPstanding, which champions equal opportunities for black, Asian and minority ethnic group (BAME) employees.

Our commitment to the Armed Forces

In January last year, the UK Defence Secretary recognised Babcock as an employer who has made an outstanding commitment to supporting the Armed Forces by presenting us with a Gold Award from the Armed Forces Covenant Employer Recognition Scheme (ERS). We are committed to the Total Support Force and actively recruit service leavers and reservists. To continue the commitment, we will be hosting our annual reserves conference to encourage employees in June. Archie Bethel will also be re-signing the reserves covenant.

People and Potential

In September, we held this year's Dialogue Conference to discuss and support diversity. We continued to focus on gender diversity whilst also looking more widely at issues of ethnicity, disability and sexual orientation, challenging our unconscious bias and how we can make the changes to improve diversity among our workforce. The event proved insightful, progressive and paved the way for a dynamic future for Babcock. It was also a useful opportunity to share best practice across the divisions.

Babcock Spain collaborates with the Ministry of Agriculture in reforestation to combat greenhouse gas emissions

Babcock MCS España is working with the Spanish Ministry of Agriculture (MAGRAMA) to develop a programme where Babcock employees can voluntarily cooperate in reforesting fire-affected areas. This initiative will take place in 'La Granadella', a natural coastal area in Xabia (Alicante) that was heavily affected by a fire in September 2016, which devastated more than 700 hectares. With the aid of flora micro reserves technicians, the volunteers will help in the reforestation of the affected area, doing the follow-up of the planting and irrigation during the first year.

This initiative is a part of the programme 'Babcock MCS España compensates', a new initiative proposed by the environmental department as a measure against global warming, that includes a record of our carbon footprint which guarantees the voluntary commitment we have to reduce greenhouse gas emissions.

Environment and Ethics

Our commitment to strict ethical conduct, together with the importance we place on health and safety and our respect towards the wider society and environment in which we work, are the foundation of a sustainable business.

Ethics and governance

We understand that our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected corrupt or unethical behaviour. To protect the Company and reduce these risks, we have set out a policy on how we should conduct business, which we summarise in the form of the Babcock Code of Business Conduct. Compliance with this policy is compulsory for our employees, business advisers and business partners (or, in the case of business advisers and partners, they must have equivalent standards and procedures in their own businesses). The policy comprises a detailed manual, available on the Group's intranet, that contains guidelines, authorisation and other procedures aimed at identifying and reducing corruption and ethical risks. The controls that we have in place form an integral part of our risk management arrangements and include the training of employees and availability of whistleblowing hotlines. During the year, a Babcock Supplier's Code of Business Conduct was published to further promote these values throughout our supply chain.

More details of these risk management procedures can be found on pages 68 to 70, and the Ethics Policy and Code of Business Conduct and Suppliers' Code of Conduct on our website. Further information about our whistleblowing process can be found on page 70.

Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we deal in our operations across the world. We welcome the opportunity we have to contribute positively to global efforts to ensure that human rights are understood and observed.

We believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do. The Group's Modern Slavery Transparency Statement, which is published annually on our website, details action taken to support the elimination of modern slavery and human trafficking.

Ensuring safety

Safety governance

Our Group-wide goal is that everybody goes home safe every day. To achieve this, we invest in safety, providing suitable resources, training and time with priority given to addressing behavioural and cultural attitudes.

We also expect our managers to personally set a good example, listening to and involving others. We recognise that the work environment is constantly changing so we regularly review how we work to ensure it is the safest it can be. We aim to share our know-how, ideas, experiences, successes and failures so we can continue to learn and improve.

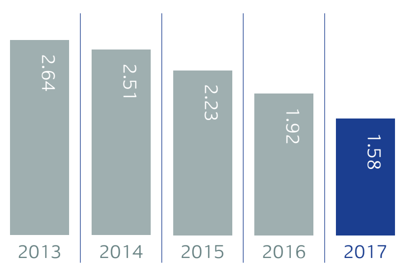
Sector safety leadership teams and the Group Safety Steering Group oversee implementation of policy, strategy and initiatives across all of our businesses.

The Group Executive Committee reviews monthly commentary and performance reports and the Board receives half-yearly commentary and performance reports for discussion.

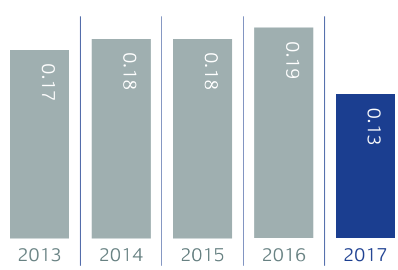
Performance

Tragically, there have been two unrelated incidents that have led to fatalities in the business. In December 2016, one of our colleagues in our South African business lost his life after falling from a power transmission line. The accident has been investigated by the South African authorities and the outcome is awaited. In the meantime, our South African business has conducted its own internal investigation and has rigorously re-emphasised its focus on safety. In January 2017, one of our helicopters, whilst out on an emergency rescue mission, crashed in central Italy. The accident resulted in the death of two colleagues and four passengers. The incident is now being investigated by the Italian authorities. Where there are lessons to be learnt, they will be

Total injury rates per 100,000 hours worked



RIDDOR[1] rate per 100,000 hours worked



	2011/12	2012/13	2013/14	2014/15	2015/16[2]	2016/17
Total number of injuries	1,974	2,010	1,979	2,054	2,084	1,720
Fatalities	0	0	0	0	1	7
Major injuries	30	30	36	41	38	27
Over-three-day injuries	123	102	98	127	164	107
RIDDOR[1] totals	153	132	134	168	202	141

(1) In 2012, the UK Health and Safety Executive changed RIDDOR reporting from time lost through injury from three days to seven days. We have, however, continued to monitor and report on the lower three-day threshold.

(2) Incidents relating to MCS and Babcock DSG are included for the 2015/16 period onwards.

stringently applied. Health and safety is a core value for the Group and we monitor performance through a number of measures. Over the last year, across the Group, we have seen an 18% reduction in the total injuries and a 32% reduction in our RIDDOR accident numbers.

Managing environmental impacts

Our commitment to reducing the harmful environmental impact of what we do continues. We seek to apply our engineering acumen to use resources more efficiently throughout our operations.

We have successfully achieved recertification to the Carbon Trust Standard for all our UK operations, reducing our CO_2 emissions against the metric of tonnes CO_2 per £m turnover. The Company has held the certification continuously since 2010.

Our adoption of a centralised software system for monitoring our environmental impacts has greatly assisted our drive to improve the collection, collation and reporting of energy and environmental data and will continue to help in our commitment to continual improvement.

Following our comprehensive audit of the Group's energy use for the Energy Savings Opportunity Scheme (ESOS), the opportunities for energy savings and efficiencies have been reviewed and action plans to target the most effective measures identified, with energy saving projects implemented across the business. Examples of what has been achieved during the year can be found in the Sustainability sections of the Operational reviews on pages 38 to 57.

Babcock committed to managing energy consumption with customers

Babcock in partnership with Defence Infrastructure Organisation (DIO) is delivering an innovative energy reduction scheme that has reduced emissions across the enduring MOD estate in Germany by 2,773 tCO_2 and saved in excess of €980,000.

Babcock was tasked to undertake the energy procurement on behalf of the DIO for the MOD Germany estate, and it was agreed that some of the savings from this exercise would be invested in the estate to reduce energy consumption.

The project identified the enduring MOD sites (those with more than a five-year life), and the Babcock energy team undertook energy surveys on the sites to identify energy saving opportunities. Babcock undertook investment into the identified schemes and agreed a gain share with DIO to enable the capital to be recovered.

Total Group emissions – UK and overseas

Year ending		March 2017	March 2016
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	103,337.30	105,479.66
Scope 2: Indirect emissions from the use of purchased electricity and steam	tCO_2e	114,514.90	93,558.18
Scope 3: Emissions – business travel	tCO_2e	9,496.18	10,724.80
Absolute footprint	tCO_2e	227,348.38	209,762.64
Revenue	£m	4,547.10	4,158.40
Intensity ratio	tCO_2e/£m	50.00	50.44

Due to the highly diverse nature of the Company's business, the metric of 'tonnes of CO_2e per £m revenue' has been used to provide a more meaningful measure of energy use throughout the business. The total emissions from Scope 1, 2 and 3 sources have been divided by the annual revenue to provide a final benchmark figure, the Intensity ratio. The prior year numbers have been adjusted to include some additional consumption data that was not available at the time of the last report.

Our principal risks and how we manage them

Franco Martinelli, Group Finance Director

Babcock has an established formal process that aims to identify and evaluate risks and how they are to be managed. A range of internal control processes is in place as part of the risk management regime. The Board, principally through the Audit and Risk Committee, keeps under review the risks facing the Group, including the appropriateness of the level of risk the Group may accept in order to achieve its strategic objectives. The Board ensures that it controls the risk appetite of the Group through its delegated authorities, which impose strict controls on the Group – for example, all acquisitions and disposals, all material capital expenditure, all material non-ordinary course tenders (material ordinary course tenders are approved by the Chief Executive and the Group Finance Director) and all financing arrangements (unless delegated to the Board's Finance Committee) must be approved by the Board. The Board considers and reviews the controls and mitigation plans in place; these are intended to manage and reduce the potential impact of the risks the Company takes to ensure, so far as possible, that the assets and reputation of the Group are protected.

The Group's risk management and internal control systems can, however, only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk management framework

The Board is ultimately responsible for the Company's risk management and internal control system. This is overseen on its behalf by the Audit and Risk Committee (which is currently usually attended by all Board members).

The Executive Committee considers a monthly report from the Chief Executive, the Group Finance Director and each of the sector Chief Executives on the operational and financial performance of their respective areas of responsibility.

The Audit and Risk Committee reviews aspects of the risk management and control system at its meetings and at least once a year formally reviews the system's effectiveness as a whole on behalf of the Board (see the effectiveness review statement on pages 139 to 140). It also receives in-depth presentations on individual major risks throughout the year.

Babcock has a Group Security Committee made up of senior functional and operational managers with responsibility for security and information assurance at Group and operational level. They meet regularly to discuss cyber and other security and information assurance issues and threats facing the Group. The Committee oversees the Group's security and information assurance management infrastructure and specific security projects.

The Group Finance Director is Chairman of the Committee, and each meeting is attended by the Group's Chief Information Officer and Chief Information Security Officer. The Board receives regular reports on security and information assurance matters.

The Audit and Risk Committee receives regular reports from Ernst & Young, the internal audit function provider, and management reports relating to internal control and risk issues.

Operationally, internal control systems are monitored by senior Group management with sector Chief Executives having responsibility for risk identification and risk management in their businesses.

Read more on page 70

The Group Risk and Insurance Manager (who reports to the Group Finance Director), working with senior operational management teams, keeps the risk register and risk assessment and evaluation process under review and development. We seek to ensure a coherent and consistent Group best practice approach to risk assessment and risk management. Risk assessments made at business unit level are subject to regular review and challenge by Group senior management.

Employees undertake a selection of compulsory risk management training programmes (for example: security, data protection and anti-bribery and corruption training) appropriate to their roles in order to increase awareness of potential risks.

Our internal controls include

Budget process	Annual budgets and medium-term financial plans are reviewed by Group management before submission to the Board for approval. Updated forecasts for the year are prepared at least quarterly.
Management and financial reporting	The Board receives details of monthly actual financial performance compared against budget, forecast and the prior year, with a written commentary on significant variances from approved plans. The Chief Executive, Group Finance Director and sector Chief Executives report to each Board meeting on operating performance and matters of potential strategic significance. Group senior management receives a monthly narrative operating report from all business units.
Security and information governance structure	There is a formal security and information assurance governance structure in place to oversee and manage security and similar risks.
Clear delegation and limits of authority	The Board regularly reviews and approves a schedule of delegated authorities setting out levels of specific financial decision-making authority delegated by it.
Insurance	The Group has a large and comprehensive insurance programme, preferring to place risk in the insurance market, where available on acceptable terms, rather than to self-insure or make significant use of captive insurance. The Group has a full-time Risk and Insurance Manager who reports annually to the Board on the strategic approach being taken to insurance and on the placing of the programme.
Claims and litigation reporting	The Board and the Group Executive Committee receive monthly summaries of material disputes and actual or potential claims, their progress and potential outcomes. The Group has an internal legal service.
Credit controls, Code of Conduct and ethical, anti-bribery and corruption policies and procedures	All significant credit risks are reviewed by Group Finance and an Executive Director, and, where appropriate and available, risk limitation actions are taken. The Group has a Code of Conduct, summarising ethical and anti-bribery and corruption policies, making clear its commitment to the highest ethical standards and the ethical standards it demands from its employees and those who work for it and with whom it does business. There is an anti-bribery and corruption governance structure in place and detailed policy and procedures (available on the Babcock website), with supporting training programmes, which the Company believes meet the requirements of 'adequate procedures' under the Bribery Act 2010. Due diligence is carried out on actual or potential business partners as appropriate. Those working on our behalf or in consortium with us are required to abide by our Code of Conduct (or an equivalent) and to undertake not to behave corruptly.
Group policies and procedures	The Group has written policies and procedures, which are kept under review, covering a range of matters intended to reduce or mitigate risk, such as health, safety and environmental policies, security and information assurance, export controls, contracting requirements and guidelines, and legal, financial and accounting matters. These policies and procedures are available to employees on the Group intranet and are supplemented at sector level by further business unit specific policies and procedures.
Whistleblowing hotline	All employees have access to a confidential whistleblowing hotline with the opportunity to call, email or write letters detailing any area of concern (whether financial irregularities, non-compliance with laws, or breaches of our Code of Business Conduct, threats to health and safety, conflicts of interest or improper practices) to be brought to the attention of senior management if they feel unable to raise them with line management or if they have raised matters, but are not satisfied with the response. A report on all whistleblowing cases and the resultant investigations and conclusions is submitted to each Audit and Risk Committee meeting – see page 96.
Critical supplier reviews	Sectors regularly review the vulnerability of key supply chain partners whose continued ability to supply the Group is considered critical to its business performance, and also consider fall-back plans when first deciding to appoint such suppliers.
Business continuity and disaster recovery plans	All sectors, business units and Group functions are required to consider the need for, and put in place, appropriate plans to minimise the risk of interruption to business and contract performance in the event of a major disruption to normal functioning arrangements.

Principal risks, risk mitigation and controls

The risks and uncertainties described below through to page 79 are those that the Board currently considers to be of greatest significance to Babcock in that they have the potential to affect materially and adversely Babcock's business, the delivery of its strategy and/or its financial results, condition or prospects. For each risk there is a short description of the Company's view of the possible impact of the risk on the Group should it occur, and the mitigation and control processes in place to manage the risk (which should be read in conjunction with the information above about our risk management approach and general controls).

Babcock is, however, a large and developing group of businesses, and factual circumstances, business and operating environments will change with new risks being identified or the evaluation of the significance of existing risks changing or being better appreciated and understood. This means that the risks identified below are not and cannot be an exhaustive list of all principal risks that could affect the Group.

Risks and uncertainties which might affect businesses in general and that are not specific to the Group are not included, but Babcock, of course, faces such risks as well.

Our customer profile

We rely heavily on winning and retaining large contracts with a relatively limited number of major customers, whether in the UK or overseas. Many of our major customers are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded. Our single biggest customer is currently the UK Ministry of Defence (MOD).

These customers are affected by political and public spending decisions. Commercial customers are also affected by conditions in their market sector which affect their levels of, and priorities for, spending.

Risk description

Policy changes (following a change of political administration or otherwise) and spending constraints on customers are material factors for the Group's business and outlook.

Whilst the Board believes that policy changes, spending reviews and restraints can offer significant opportunities to the Group to assist in the delivery of services to customers more efficiently and at lower cost, these factors inevitably also carry risk.

Large customers, whether public or private sector, have significant bargaining power and the ability (contractual or otherwise) to cancel contracts without, or on short, notice, often without cause, or they can exert pressure to renegotiate them in their favour.

The consequences for the Group's business of the UK vote to leave the European Union are difficult to predict, as there is likely to be a period of uncertainty over the effects on the nature, timing and scope of the policies and procurement plans of both our current and potential customers in the UK and overseas.

Potential impact

Periods of uncertainty as to the course of customer policy and spending can result in the delay, suspension or withdrawal of tendering processes and the award of contracts.

Whilst customer policy changes or spending constraints can potentially offer more outsourcing opportunities for us to pursue, they can also be a risk in that they could lead to changes in customer outsourcing strategy and spend, which could include:

- reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities;
- in the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour;
- favouring the retention or return of in-house service provision, either generally or in the sectors in which we operate;
- favouring of small or medium-sized suppliers or adopting a more transactional rather than cooperative, partnering approach to customer/supplier relationships; and
- imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with or that might involve significant extra costs, thereby impacting the profitability of doing business with them.

Mitigation

We have extensive and regular dialogue with key customers, involving, as appropriate, our Chief Executive, sector Chief Executives and/or other members of the senior management team.

We actively monitor actual and potential political and other developments and spending constraints that might affect our customers' demand for our services.

We aim to be innovative and responsive in helping customers meet their needs and challenges.

The nature of our contracts, bid processes and markets

We seek to win relatively long-term contracts for the provision of complex and integrated services to our customers. Bidding for these contracts typically involves a protracted and detailed tendering process, often under public procurement rules. There are typically only a relatively limited number of customers in each of the market sectors we serve. The contracts we bid for often entail a substantial transfer of risk from the customer to the supplier.

Failure to realise the pipeline of opportunities and to secure rebids can mean missed opportunities for growth and loss of revenue.

Risk description

Bidding requires a substantial investment in terms of manpower resource and is very expensive. Bids can be subject to cancellation, delays or changes in scope.

Contract award decisions made under public procurement rules can be subject to legal challenge by losing bidders.

Given the size and often long-term nature of the contracts we bid for and the relatively limited numbers of customers in the markets we serve, significant contracting opportunities tend not to arise on a regular or frequent basis.

When we are bidding for such contracts we have to price for the long term and for risk transfer, and the scope for later price adjustment may be limited or not exist.

Our contracts typically impose strict performance conditions and use key performance indicators (KPI) that if not complied with trigger compensation for the customer and/or may result in loss of the contract.

Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained.

Potential impact

If we lose a bid or a bid process is aborted by the customer or we withdraw due to scope changes as it progresses, this is a significant waste of limited resource and substantial expenditure that has to be written off.

If we win a public procurement bid and this is challenged, this could lead to delay in contract award, expensive legal proceedings or the competition having to be re-run.

Not winning a new bid can be a significant missed opportunity for growth which may not soon be replaced by another.

Not winning rebids could mean the loss of significant existing revenue and profit streams.

If we underestimate or under-price actual risk exposure or the cost of performance, this could significantly and adversely affect our future profitability, cash generation and growth.

Compensation to the customer for poor KPI performance, could significantly impair profitability under the contract and damages following termination could be substantial.

Unsuccessful bids or rebids may adversely impact the strategic development and growth plans of the Group.

A lack of success in exporting the Group's business model outside the UK and its current core markets could adversely impact the growth prospects and strategic development of the Group.

Mitigation

We have a clear business strategy to target a large bid pipeline, both in the UK and internationally, and will only tender bids for contracts we consider have a clear alignment with the Group strategy and where we believe we stand a realistic chance of success, both in the UK and overseas.

There are formal and rigorous reviews and gating processes. These at key stages of each material bid are intended to reduce the risk of underestimating risks and costs and ensure that limited bid resources are targeted at opportunities where we consider that we have the best prospects of winning or retaining business.

Group policies and procedures set a commercial, financial and legal framework for all bids.

Contractual performance is continuously under review (at a business unit, sector and/or senior Group executive level as appropriate) with a view to highlighting at an early stage risks to delivery and profitability.

Reputation

Given the nature of our customers and the markets in which we operate, our reputation is a fundamental business asset. Our businesses include activities that have a high public profile and/or if they were to involve adverse incidents or accidents, they could attract a high level of publicity.

Risk description

We have a relatively limited number of customers and potential customers in our market sectors and they typically have high public profiles.

We are involved in the direct delivery to the public on behalf of our customers of high-profile and sensitive services. We also provide services which are critical to our customers' ability to discharge their own public responsibilities or delivery critical services to their customers.

Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally. The same would be true of high-profile incidents or accidents.

Attitudes to the outsourcing of services generally or in a particular sector can also be adversely affected by the poor performance or behaviour of other service providers or incidents in which we are not involved.

As well as our reputation for service delivery, our ethical reputation is key.

Potential impact

Given our dependence on individual major customers and the relatively narrow customer base in the markets in which we currently operate, loss of our reputation (whether justified or not) with a major customer or more generally could put at risk substantial existing business streams and the prospect of securing future business from that or other customers in that or other sectors.

Non-compliance with anti-bribery and corruption laws could result in debarment from bidding as well as criminal penalties.

Mitigation

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere on pages 58 to 67. (See also health, safety and environmental risks on page 75.)

Regulatory and compliance burden

Our major businesses are dependent on being able to comply with applicable customer or industry-specific requirements or regulations. Following the UK vote to leave the European Union, the terms of British exit will have implications on the requirements or regulations that are applicable to the business of the Group, including where a licence to operate in the European Union is required.

Risk description

The cost of compliance can be high. Requirements can change.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all. For example:

- Our Mission Critical Services business is subject to a high degree of regulation relating to aircraft airworthiness and certification and also to ownership and control requirements (for example, European air operators must be majority-owned and controlled by European Economic Area nationals – see page 137 for more information).
- Our civil and defence-related nuclear businesses operate in a highly regulated environment. For example, as part of Brexit, the UK may leave the Euratom treaty and it is unclear what agreements will replace the existing arrangements and what the impact of those new agreements will be.

Potential impact

Failure to maintain compliance with applicable requirements could result in the loss of substantial business streams (and possible damages claims) and opportunities for future business.

A change in requirements could entail substantial expenditure which may not be recoverable (either fully or at all) under customer contracts.

Mitigation

We seek to maintain a clear understanding of ongoing regulatory requirements and to maintain good working relationships with regulators.

We have suitably qualified and experienced employees and/or expert external advisers to advise and assist on regulatory compliance.

We have management systems involving competent personnel with clear accountabilities for operational regulatory compliance.

Our Articles of Association empower us to take steps to protect our European air operating licences, if necessary, by controlling the level and/or limiting the rights of non-European Economic Area owners of our shares (see pages 137 to 138 for more information). However we will be taking steps to structure our Mission Critical Services business such that it continues to satisfy the requirements of the relevant regulation.

Health, safety and environmental

Some of our operations entail the potential risk of significant harm to people, property or the environment.

Risk description

Many of our businesses involve working in potentially hazardous operations or environments, which need to be properly managed and controlled to minimise the risk of injury or damage.

Some, for example the mission critical operations of our helicopter services, involve an inherent degree of risk that is compounded by the nature of the services provided (offshore oil and gas crew change services, firefighting, search and rescue, air ambulance and emergency services) or the environments in which they operate (low-altitude flying in adverse weather, terrains or operational conditions).

Potential impact

Serious accidents can have a major impact on the lives of those directly involved and on their families, friends, colleagues and community, as can serious environmental incidents.

To the extent that we have caused or contributed to an incident as a result of failings on our part, or because as a matter of law we would be strictly liable without fault, the Group could be exposed to substantial damages claims, not all of which exposure may be insured against, and also to criminal proceedings which could result in substantial penalties.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously and adversely affect the reputation of the Group or its brand (whether that would be justified or not), which could lead to a significant loss of business or future business opportunities.

Mitigation

Health, safety and environmental performance receives close and continuous attention and oversight from the senior management team.

We have specific health, safety and environmental governance structures in place and extensive and ongoing education and training programmes for staff.

The Board receives half-yearly reviews of health and safety and environmental performance and the management reports tabled at each of its meetings also address health, safety and environmental issues on an ongoing basis.

We believe we have appropriate insurance cover against civil liability exposures.

Nuclear risks: we believe having regard to the statutory regime for nuclear liability in the UK, the terms on which we do nuclear engineering business and the terms of indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD in respect of the nuclear site licensee companies in which we are interested that the Group would have adequate protection against risk of liability for injury or damage caused by nuclear contamination or incidents, but a reputational risk as a result of any serious incident would remain.

People

Our business delivery and future growth depend on our ability adequately and successfully to plan for management succession and for our continuing and future need to recruit, develop and retain experienced senior managers, business development teams and highly skilled employees (such as suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups).

Risk description

Competition for the skilled and experienced personnel we need is intense and they are likely to remain in limited supply for the foreseeable future. This poses risks in both recruiting and retaining such staff.

Potential impact

Losing experienced senior managers for any reason without plans for their replacement could have a material adverse effect on the prospects for, or performance of, the Group and the delivery of our strategy.

If we have insufficient experienced business development or bidding personnel, this could impair our ability to achieve strategic aims and financial targets or to pursue business in new areas.

If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation and the risk of contract claims.

The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions, and this could impact our contract profitability.

Mitigation

We give a high priority and devote significant resources to recruiting skilled professionals, training and development, succession planning and talent management.

The Board, the Nominations Committee and the Group Executive Committee regularly receive reports on and/or discuss these matters.

Apprentice and graduate recruitment programmes are run in all sectors.

Further information about this subject and how we address it is on pages 63 to 65 of this Annual Report.

Pensions

The Group has significant defined benefit pension schemes. These provide for a specified level of pension benefits to scheme members, the cost of which is met from both member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time.

Risk description

The level of our contributions is based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation, etc. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes' assets below the calculated cost of the pension obligations.

When accounting for our defined benefit schemes, we have to use corporate bond-related discount rates to value the pension liabilities. Variations in bond yields and inflationary expectations can materially affect the pensions charge in our income statement from year to year as well as the value of the net difference between the pension assets and liabilities shown on our balance sheet.

Potential impact

Should the assets in the pension schemes be judged insufficient to meet pension liabilities, we may be required to make increased contributions and/or lump sum cash payments into the schemes. This may reduce the cash available to meet the Group's other obligations or business needs, and may restrict the future growth of the business.

Accounting standards for pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macro-economic circumstances beyond the control of the Company.

There is a risk that future accounting, regulatory and legislative changes may also adversely impact pension valuations and costs for the Group.

Mitigation

Continuous strategic monitoring and evaluation is undertaken by Group senior management of the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.

The Company and the scheme trustees have agreed a long-term investment strategy and risk framework intended to reduce the impact of the schemes' exposure to changes in inflation and interest rates.

Longevity swaps have been used to reduce the impact of the schemes' exposure to increasing life expectancy.

IT and security

Our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information is a key factor for our customers.

During the coming year the Group expects to continue rolling out a new Enterprise Resource Planning (ERP) application for our 'back office' operations which also provides some front end functionality.

Risk description

Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent all risk of security breaches or cyber-attacks being successful in their attempts to penetrate our network security and misappropriate confidential information. The risk of loss of information or data by other means is also a risk that cannot be entirely eliminated.

Installing major new IT systems carries the risk of key system failures and disruption.

Potential impact

A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations. This could have an adverse effect on the Group's ability to win future contracts and, consequently, on our results of operations and overall financial condition.

Failure adequately to plan and resource the implementation of the new ERP systems or difficulties experienced in doing so could cause both trading and financial reporting difficulties that could be material.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally.

We have formal security and information assurance governance structures in place to oversee and manage cyber-security and similar risks.

The Board receives reports at least quarterly on security and information assurance matters.

The ERP implementation project is overseen and closely monitored by steering and working groups, is regularly reported on to the Group Executive Committee and will be implemented in a phased approach (with parallel running of old and new systems for a period) to what we believe is a realistic timetable.

Currency exchange rates

As we expand outside the UK, our financial results are increasingly exposed to the impact of currency exchange rates.

Risk description

We prepare our consolidated results in Sterling and translate the value of assets, liabilities and turnover reported or accounted for in non-Sterling currencies.

Exchange rate movements can therefore affect the Sterling financial statements and results of the Group.

Expenses or commitments may be incurred in a currency that is different from the related turnover or income needed to discharge them.

Non-Sterling currencies to which we are currently most exposed are the Euro and South African Rand.

Potential impact

If the currencies in which our non-UK business is conducted are weak or weaken against the value of Sterling, this will adversely affect our reported results and the value of any dividend income received by the Company from non-UK operations. If the cost of an operation or a contractual commitment is denominated or incurred in a currency different from the currency of the income received from that operation or that is being relied on to discharge that commitment, movements in exchange rates can reduce the profitability of the operation and increase the effective cost of discharging the commitment.

Mitigation

We seek to mitigate exposure to movements in exchange rates in respect of material foreign currency denominated transactions (for example, through use of derivative instruments).

Although we do not use these to hedge against the currency effect of translating for our financial statements the net assets and income of non-UK subsidiaries and long-term equity accounted investments, we maintain foreign currency borrowings to limit, in part, the net foreign currency exposure.

Acquisitions

The Group has grown and expects to continue to grow by making acquisitions as well as organically.

Risk description

The financial benefits of acquisitions may not be realised as quickly and as efficiently as expected.

Potential impact

Failure to realise the anticipated benefits of an acquisition, or delay or higher than expected costs in so doing, could adversely affect the strategic development, business, financial condition, results of operations or prospects of the Group.

The diversion of management attention to unexpected difficulties encountered with acquisitions could adversely affect the Group's business.

Post-acquisition performance of the acquired business may not meet the financial performance expected at the time the acquisition terms were agreed and could fail to justify the price paid, which could adversely affect the Group's future results and financial position.

Mitigation

Full financial and other due diligence is conducted as far as may reasonably be achievable in the context of each acquisition and a detailed business case, with forward looking projections, is submitted to the Board in respect of each acquisition. Integration risk is considered at an early stage as part of the review of acquisition opportunities and detailed integration planning takes place before completion of the acquisition.

We believe we have a good track record in, and experience of, integrating acquisitions, both large and small.

Viability statement

The Directors have assessed the Company's viability over the three-year period to March 2020. The Directors elected to make their assessment on a three-year basis as that is the period of the Group's budget and forecasting review process, which the Directors believe gives the appropriate level of visibility for them to make their assessment.

During the year to 31 March 2017, the Directors carried out a robust assessment of the principal strategic, financial and operational risks, including the principal risks listed on pages 71 to 79, to the Group's solvency and liquidity that were identified within the Group's risk management framework in the context of the controls and mitigating matters described on pages 68 to 70.

In their assessment the Directors considered strategic risks faced by the Group under a number of strategic themes together with the probability of occurrence and likely impact of the risks materialising, as well as the adequacy of the control and mitigation measures in place to counter them. Separately, the detailed and bottom up risk management process continued throughout the year and this requires, at business unit and sector level, that business risks are identified and that the probability and impact of the risks materialising are considered together with risk mitigation measures and the extent to which monitoring of the effectiveness of the mitigation measures is in place. Risk registers, located at business unit level, are subject to robust review and challenge with business unit and sector management, by the Group Risk and Insurance Manager and the Group Financial Controller. The results of these reviews were presented to the Audit and Risk Committee during the course of the year to 31 March 2017.

The Directors considered whether in their view there were any scenarios that were plausible, and the potential impact of which, taking account of their assessment of the above controls and mitigating actions, was such as to threaten the ability of the Group to meet its liabilities over the three-year period.

The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to March 2020.

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Expanding our offering into new international markets

"Having loved STEM subjects such as Mathematics and Physics from a young age, transitioning into Engineering was a natural step. My Master's degree in Aerospace Engineering led me to Babcock International and my current placement at RAF Valley. Being based at an operational site is particularly rewarding; it allows me to see the entire scale of the contract as well as working alongside the customer to deliver the best output possible – training the next generation of military pilots.

My enthusiasm for STEM subjects is ever present, and my hope is to get the next generation involved in STEM wherever possible. By organising talks, workshops and other events for young people, our goal is to increase participation in all areas of STEM as we continue to solve the challenges of today."

Joshua Bryce
Aerospace Engineer

Executive

Archie Bethel CBE
Chief Executive

Appointed
Board Director May 2010. Archie became Chief Executive in September 2016.

Skills and experience
Archie was Chief Executive, Marine and Technology division, from June 2007 having joined the Group in January 2004. He acted as Chief Operating Officer from 1 April 2016 until his appointment as Chief Executive on 1 September 2016. Archie is a Chartered Engineer and a Fellow of the Royal Academy of Engineering. He is also President of the Society of Maritime Industries and is a Lay Member of the Court of the University of Strathclyde.

Franco Martinelli
Group Finance Director

Appointed
Board Director August 2014

Skills and experience
Franco is a Chartered Accountant and has a degree in physics. He served 12 years with the Group as Group Financial Controller prior to his appointment as Group Finance Director. Before joining Babcock, Franco was Group Financial Controller at Powell Duffryn plc and before that he held divisional and group roles at Courtaulds, James Capel and BP.

Bill Tame
Chief Executive, Global Growth and Operations

Appointed
Board Director January 2002

Skills and experience
Bill was Group Finance Director from January 2002 to August 2014 when he was appointed Divisional Chief Executive for the Group's enlarged International division. Bill is a former Finance Director of Scapa Group PLC. He was a Non-Executive Director of Carclo plc until 31 March 2015 and was appointed a Non-Executive Director of Southern Water, a private utility company, in January 2015 and became Chairman in March 2017.

John Davies
Chief Executive, Land

Appointed
Board Director January 2013

Skills and experience
John Davies joined Babcock in 2010, following the acquisition of VT Group and was appointed Divisional Chief Executive of the then Defence and Security division. He joined the Group Board on 1 January 2013. He served as Divisional Chief Executive, Defence and Security until 2 November 2015, when he moved to lead the Support Services division. John is a lawyer by background and a graduate of the University of Manchester and Chester Law College. He has worked extensively across the support services and defence sectors within Bombardier, BAE Systems and VT Group.

Roger Hardy
Chief Executive, Aviation

Appointed
Executive Committee November 2015

Skills and experience
Roger joined Babcock in 2007 following Babcock's acquisition of Devonport. Prior to his move to lead the Defence and Security division in place of John Davies on 1 November 2015, he was Managing Director of Cavendish Nuclear, our civil nuclear business within the then Support Services division. Prior to that, he was Managing Director of our submarine business within the Marine division.

John Howie
Chief Executive, Marine

Appointed
Executive Committee April 2016

Skills and experience
Prior to succeeding Archie Bethel as Chief Executive, Marine and Technology division on 1 April 2016, John was Managing Director of Naval Marine with responsibility for the management of Babcock's submarine, warship and naval base operations, having joined Babcock in April 2001.

Simon Bowen
Chief Executive, Cavendish Nuclear

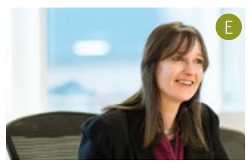
Appointed
Executive Committee April 2017

Skills and experience
Simon was appointed Chief Executive of Cavendish Nuclear in April 2017, having been Managing Director since December 2015. Simon was previously the Managing Director of Urenco UK, which he joined in 2010. Prior to this, Simon worked at BP, undertaking a variety of senior roles, culminating in his appointment as Vice President of Manufacturing and Procurement for Petrochemicals.

Jon Hall
Managing Director, Technology

Appointed
Executive Committee April 2017

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



Kate Hill
Group Director of IR and Communications

Appointed
Executive Committee April 2017

Skills and experience
Kate joined Babcock following its acquisition of Avincis, and became the Group's Head of Investor Relations in 2015. Prior to that, she was a Partner in financial PR consultancy Kreab Gavin Anderson, which she joined from Royal Dutch Shell plc. Originally trained as a journalist, Kate has also held a variety of roles managing communications in the rail industry.

Kevin Goodman
Group Director of Organisation and Development

Appointed
Executive Committee July 2010

Skills and experience
Kevin joined Babcock in 2001. He was a Director of both our Defence and Security and Marine and Technology Divisions prior to his current Group appointment. In his present role, he is responsible for remuneration, talent management, executive development and diversity. He is a trustee of Babcock's pension schemes.

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Chairman

Mike Turner CBE
Chairman

Appointed
June 2008 as a Non-Executive Director and November 2008 as Chairman

Skills and experience
Since May 2012 Mike has also been Chairman of GKN plc, where he was previously Senior Independent Director. He was formerly Chief Executive of BAE Systems plc, Chairman of the UK Defence Industries Council (DIC) and until May 2017 a Non-Executive Director of Lazard Limited. He is a member of the UK Government's Apprenticeship Ambassadors Network.

Non-executive directors

Sir David Omand GCB
Senior Independent Director

Appointed
April 2009 and Senior Independent Director January 2012

Skills and experience
Sir David is a visiting professor in the Department of War Studies, King's College London. He left UK Government service in 2005 having served in various senior roles, including as UK Government Security and Intelligence Coordinator, Permanent Secretary of the Home Office, Director of GCHQ (the UK Signals Intelligence and Information Assurance Agency) and Deputy Under-Secretary of State for Policy in the Ministry of Defence.

Ian Duncan
Independent Non-Executive Director

Appointed
November 2010

Skills and experience
He is a Chartered Accountant and is a former Group Finance Director of Royal Mail Holdings PLC. Ian is currently a Non-Executive Director and Chairman of the Audit Committee of Bodycote plc, and until October 2016, WANdisco plc. Effective 1 January 2017, Ian was appointed a Non-Executive Director and on 31 March Audit Committee Chair of SIG plc. He has also formerly been Corporate Finance Director at British Nuclear Fuels, Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, United States of America, and a Non-Executive Director and the Chairman of the Audit Committee of Fiberweb plc and Mouchel Group.

Anna Stewart
Independent Non-Executive Director

Appointed
November 2012

Skills and experience
Until December 2015 Anna was Chief Executive of Laing O'Rourke, where she was previously Group Finance and Commercial Director. She continues to be employed by the Laing O'Rourke Group in a strategic role. She is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Institute of Civil Engineers.

- B Board member
- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- ● Committee chairperson

Company Secretary

Jack Borrett
Group Company Secretary and General Counsel

Appointed (and to Executive Committee):
April 2016

Skills and experience
Jack joined Babcock in 2004 and from 2010 was Deputy Group General Counsel until his appointment as Group General Counsel and Company Secretary on 1 April 2016. He is Secretary to the Board and to the Remuneration, Audit and Risk and Nominations Committees and a member of the Executive Committee. Prior to joining Babcock, Jack was a solicitor at law firm Clifford Chance.

Jeff Randall
Independent Non-Executive Director

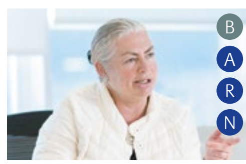
Appointed
April 2014

Skills and experience
Jeff stepped down as a presenter for Sky News in March 2014 and as editor-at-large of the Daily Telegraph in 2013. He was business editor of the BBC, the launch editor of Sunday Business and, for six years, City Editor of the Sunday Times. He is a former director of Times Newspapers. He is also a Visiting Fellow of Oxford University's Saïd Business School and is an honorary professor at Nottingham University's Business School.

Myles Lee
Independent Non-Executive Director

Appointed
April 2015

Skills and experience
Myles is a Non-Executive Director of UDG Healthcare PLC and Ingersoll Rand plc, listed on the New York Stock Exchange. Prior to this he was Chief Executive Officer of CRH plc between 2009 and 2013, and from 2003 its Finance Director, having joined in 1982. He holds a degree in civil engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.



Prof. Victoire de Margerie
Independent Non-Executive Director

Appointed
February 2016

Skills and experience
Victoire is a Non-Executive Director of Eurazeo S.A. (France), Arkema (France), Banque Transatlantique and, until November 2016, Italcementi S.p.A (Italy). She was also a Non-Executive Director of Morgan Advanced Materials Plc (UK), Norsk Hydro ASA (Norway) and Outokumpu Oyj (Finland). During her earlier executive career she held senior management positions in France, Germany and the USA with Atochem, Carnaud MetalBox and Pechiney. She holds a PhD in Strategic Management from Université Panthéon-Assas.

Maintaining high standards

Mike Turner CBE, Chairman

Dear Shareholder

The Board is committed to working in an effective, transparent and ethical manner so that it can make its decisions in a way it believes will benefit shareholders by promoting and maintaining the long-term success of the Company. We understand the need to undertake a formal and rigorous annual evaluation of the performance of the Board and its Committees to allow the Board to test whether it has the appropriate balance of skills, experience, independence and knowledge of the Company. This year, this evaluation exercise was led by Independent Board Evaluation, a business with wide experience and expertise in carrying out senior level evaluations. No significant concerns were highlighted as a result of this process, although a summary of the evaluation's review is described on page 89. We are addressing and will continue to address the matters identified as areas for focus or improvement.

The period under review saw the appointment of Archie Bethel as Chief Executive on the retirement of Peter Rogers. Archie's appointment was the culmination of a number of years planning for succession by the Nominations Committee. At Babcock, succession planning is taken seriously and the Board does devote time to considering the talent management, recruitment and training and development programmes of the business.

I believe that the importance placed by the Board and the Company as a whole on succession planning assists in ensuring that the senior management team has the strength in depth which means that excellent candidates are ready throughout the business to step up as and when opportunities present themselves, whilst ensuring that the culture and deep understanding of Babcock are maintained.

Finally, we are satisfied as a Board that all our Non-Executive Directors are independent for UK Corporate Governance Code purposes and have the necessary time to devote to their duties. We, therefore, recommend to shareholders that they reappoint each of our Non-Executive Directors at the forthcoming Annual General Meeting in July. In this regard, the Nominations Committee, after consideration, has extended for a further three-year term, subject to annual re-election, the current expected term of appointment of Jeff Randall. Jeff has been a Director since April 2014. The Nominations Committee was satisfied as to both Jeff's continuing independence and the ongoing value of having him serve as our Chairman of the Remuneration Committee.

Mike Turner CBE
Chairman

23 May 2017

Governance Code Compliance Statement

The Company is required to report on how in the year under review it has applied the UK Corporate Governance Code published in September 2014 (the Code). The Code contains broad principles and specific provisions which set out standards of good governance practice in relation to leadership, effectiveness, remuneration, accountability and relations with shareholders.

The Board considers that the Company complied with all the provisions of the Code throughout the year to 31 March 2017.

The required governance and regulatory assurances are provided throughout this Directors' report and in some cases in other parts of the Annual Report. The Other Disclosures section on page 134 provides further cross references to where in this Annual Report disclosures under the Code and also the Disclosure and Transparency Rules and Listing Rules can be found.

How the Company has applied the principles of the Code

Leadership

The Board, led by the Chairman, sets the strategic direction for the Company, providing leadership within a framework of prudent and effective controls, which enable risk to be assessed and managed. This section details the composition of the Board and its Committees, how responsibilities are divided and the key areas of focus for the Board during the year.

Effectiveness

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. This section provides details on the 2017 Board evaluation process, including the progress made since the 2016 Board evaluation, and sets out the induction process for new Directors. The Report of the Nominations Committee (pages 92 to 93) expands on the process for Board appointments including diversity policy.

Accountability

The Board, principally acting through the Audit and Risk Committee which reviews the effectiveness of the risk management systems and internal controls in place, believes that it has presented a fair, balanced and understandable assessment of the Company's position and prospects throughout this Annual Report. Principal risks and management controls are described in the Strategic report (pages 68 to 79) where the Board also makes its viability statement. Internal controls and risk management are further discussed in the Report of the Audit and Risk Committee (pages 94 to 97).

Remuneration

The Remuneration Committee has principal responsibility for determining and agreeing with the Board the overall remuneration of the Executive Directors. The Directors' Remuneration Report (on pages 98 to 133) details the Company's Remuneration Policy and how it is applied.

Relations with shareholders

The Board recognises the importance of maintaining open dialogue with its shareholders. Throughout the year the Company undertook a wide variety of presentations, meetings and roadshows. This section (pages 90 to 91) outlines how the Board has communicated with shareholders and how the shareholders can engage with the Company.

Babcock governance structure

Babcock International Group PLC Board
See pages 82 and 86

Audit and Risk Committee
See page 94

Remuneration Committee
See page 98

Nominations Committee
See page 92

Chief Executive
See pages 82 and 88

Group Finance Director
See page 82

Diversity Steering Group
See page 64

Corporate Safety Steering Group
See page 66

Executive Committee
See pages 82 and 89

International Committee
See page 89

Group Security Committee
See page 69

Group Finance Committee
See page 87

Leadership

Board of Directors

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

The current Directors' biographies are set out on pages 82 and 83. The Board is satisfied that each Director has the necessary time to devote to the effective discharge of 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.

The powers of the Directors are set out in the Company's Articles of Association (the Articles), which may be amended by way of a special resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles and in accordance with the Companies Act 2006, and other applicable legislation. The Articles are available for inspection online at www.babcockinternational.com and can also be seen at the Company's registered office.

Board meeting attendance

The Board has at least 10 scheduled full Board meetings each financial year and two other meetings devoted solely to strategy. The Chairman also meets separately with Non-Executive Directors without Executive Directors or other managers present from time to time. Debate and discussion at Board and Committee meetings is encouraged to be open, challenging and constructive. Directors regularly receive presentations by functional and senior managers. In the annual Board and Committee evaluation review, no Directors expressed dissatisfaction with the timing or quality of information provided to them.

Attendance at Board meetings

Chairman	
Mike Turner	12 of 12
Executive Directors	
Archie Bethel	12 of 12
Peter Rogers[1]	4 of 4
Franco Martinelli	12 of 12
John Davies	12 of 12
Bill Tame[2]	11 of 12
Non-Executive Directors	
Sir David Omand	12 of 12
Ian Duncan	12 of 12
Anna Stewart	12 of 12
Jeff Randall	12 of 12
Myles Lee[3]	11 of 12
Victoire de Margerie	12 of 12

(1) Peter Rogers retired from the Board on 31 August 2016.
(2) Bill Tame was unavailable to attend one meeting due to overseas business commitments.
(3) Myles Lee was unavailable for one meeting due to medical reasons.

Composition of the Board

The composition of the Board during the year, and as it currently stands, is shown below:

	Chairman	Executive Directors	Independent Non-Executive Directors
Date			
1 April 2016 – 31 August 2016	1	5	6
1 September 2016 – 31 March 2017	1	4	6

During the financial year and up to the date of this report the only change to the Board was the retirement of Peter Rogers on 31 August 2016.

Board matters and delegation

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees and these are clearly defined within their terms of reference.

Summary of key Board reserved matters

- Group strategy and resourcing
- Interim and final results announcements and the Annual Report and financial statements
- Dividend policy
- Acquisitions, disposals and other transactions outside delegated 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 systems (advised by the Audit and Risk Committee)
- Major press releases and shareholder circulars.

Board Committee terms of reference and other delegated authorities are formalised and reviewed from time to time, usually at least once a year. Key Committee terms of reference are available to view on our website: www.babcockinternational.com.

In addition to the principal Committees of the Board – the Remuneration Committee, the Audit and Risk Committee and the Nominations Committee (each of which has its own report in the pages that follow) – the Board from time to time establishes committees to deal with specific matters on its behalf. The Board also allows for routine matters, or the implementation of formal steps for matters approved in principle by the Board, to be dealt with by a Board meeting of any two Directors, but these are later ratified by the full Board.

There is also a Group Finance Committee consisting of any two Directors, one of whom must be the Group Finance Director, to approve borrowing, guarantees, treasury and related matters within its terms of reference. The Company has, as described on page 89, an Executive Committee and an International Committee, though neither committee is a formal Board Committee.

Key areas of focus during the year

During the year key areas focused on by the Board included:

Strategy and business development

- Group strategy with particular reference to the Group's international development, which included two special Board meetings dedicated to strategy
- Business unit strategy updates and presentations
- Financial planning, including budgets and dividend policy
- Business development opportunities and pipeline review
- The implementation of a new Enterprise Resource Planning (ERP) application
- Succession planning and (through the Remuneration Committee) Executive Directors' remuneration

Risk

- Review (either by itself and/or through the Audit and Risk Committee) of the Company's principal risks to determine the nature and extent of the risks the Company is willing to take and to review the management of those risks, including internal controls and risk management
- Assessment of viability as well as considering the principal risks to the Group's solvency and viability
- Succession planning and talent development
- Consideration of the implications of political developments and outlook
- Cyber-security and information assurance risk management
- Legal updates and litigation reports
- Insurance strategy

Shareholder relations

- Annual Report and Accounts and half-year results
- Annual General Meeting
- Independent investor relations surveys and feedback reports
- Monthly investor relations and shareholder engagement reports
- Review of analyst reports

Governance

- Annual review of Board, Committee and Director effectiveness
- Health and safety management reports and annual and half-yearly reviews
- Annual anti-bribery and corruption and risk management update
- Review of terms of reference of Board Committees
- Monthly management reports
- Tax affairs
- Review of delegated authorities
- Potential conflicts of interest of Directors
- Consideration of revisions to the Governance Code

The Chairman and Chief Executive

The roles and responsibilities of the Chairman and the Chief Executive are separate, clearly established and set out in writing, and have been approved by the Board. The Chairman is responsible for the leadership and governance of the Board as a whole, and the Chief Executive for the management of the Group and the successful planning and implementation of Board strategy. The descriptions below summarise their current respective roles and responsibilities. A copy of the formal written statement is also maintained on the Company's website at www.babcockinternational.com.

Chairman

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

- With the Chief Executive, demonstrate ethical leadership and promote the highest standards of integrity and probity throughout the business
- Ensure effective operation of the Board and its Committees in conformity with the highest standards of corporate governance
- Set the agenda, style and tone of Board discussions to promote constructive debate and effective decision-making and ensure that the flow of information to the Board is accurate, timely and clear
- Build an effective and complementary Board, with the appropriate balance of skills, experience and knowledge, initiating change and planning succession, as well as ensuring Director development and leading the evaluation of the performance of the Board, its Committees and individual Directors
- Foster effective working relationships between the Executive and Non-Executive Directors, support the Chief Executive the development of strategy and, more broadly, support and advise the Chief Executive
- Ensure effective communication with shareholders, governments and other relevant constituencies and that the views of these groups are understood by the Board.

Chief Executive

The Chief Executive is responsible for the day-to-day leadership of the business and managing it within the authorities delegated by the Board. In particular, his role is to:

- Develop strategic proposals and annual plans for recommendation to the Board and ensure that agreed strategies are implemented in the business
- Develop an organisational structure, establishing processes and systems and planning people resourcing to ensure that the Company has the capabilities and resources required to achieve its plans
- Be responsible to the Board for the performance of the business consistent with agreed plans, strategies and policies
- Demonstrate and communicate to the Group's employees the expectation of the Board with regard to ethical and cultural values and behaviours, promoting the highest standards of good governance
- Oversee the application of Group policies and governance procedures as regards health and safety and environmental matters
- Develop and promote effective communication with shareholders and other relevant constituencies.

Senior Independent Director

Sir David Omand is currently and has throughout the year been the Senior Independent Director. Shareholders can bring matters to his attention if they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive or Group Finance Director, or if these channels are not deemed appropriate. The Chairman looks to the Senior Independent Director as a sounding board and he is available as an intermediary between the other Directors and the Chairman. The Senior Independent Director is also responsible for leading the Non-Executive Directors in the annual performance evaluation of the Chairman. The specific role of the Senior Independent Director has been set out in writing and approved by the Board.

Non-Executive Directors

The Non-Executive Directors bring external perspectives and insight to the deliberations of the Board and its Committees, providing a range of knowledge and business or other experience from a range of sectors and undertakings (see their biographies on page 83). They play an important role in the formulation and progression of the Board's agreed strategy, and review and monitor the performance of the executive management in the implementation of this strategy.

Non-Executive Directors are appointed for an expected initial three-year term (though the appointments are terminable at will by either party at any time), subject to their annual re-election by shareholders at the Annual General Meeting (AGM), commencing with their election by shareholders at the first AGM following their appointment by the Board. Reappointment after the expiry of their three- year terms is subject to review by the Nominations Committee. The Board considers the independence of each Non- Executive Director against criteria specified in the Code. The Board is conscious that before extending the appointment of any Non-Executive Director in office over six years they should be subject to a 'particularly rigorous review' of their performance and commitment.

The table below shows that we have a Board of Non-Executives that is clearly being renewed and enjoys the benefit of a range of periods in office.

Non-Executive	Period in office to date
Sir David Omand	8 years, 1 month
Ian Duncan	6 years, 6 months
Anna Stewart	4 years, 6 months
Jeff Randall	3 years, 1 month
Myles Lee	2 years,1 month
Victoire de Margerie	1 year, 3 months

Group Executive Committee
The 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. It is not a formal Board Committee and has no delegated powers as such. It is now made up of the Chief Executive, the Group Finance Director, the sector Chief Executives, the Chief Executive, Global Growth and Operations, the Company Secretary, the Group Director of Organisation and Development, the Group Director of Investor Relations and Communications and the Managing Director Technology. It is scheduled to meet 10 times a year and minutes of its meetings are circulated to Board members.

Group International Committee
The Group International Committee reviews and discusses the Group's international development. It is not a formal Board Committee and has no delegated powers as such. It is principally made up of the Group Finance Director and the sector Chief Executives and is chaired by Bill Tame, Chief Executive, Global Growth and Operations. It is also attended by the heads of the principal overseas operations. It is scheduled to meet 10 times a year and minutes of its meetings are circulated to the Board.

Effectiveness

Board evaluation
The evaluation for the financial year ending 31 March 2017 was carried out externally by Independent Board Evaluation (IBE). Neither IBE nor any of its representatives had any other connections with the Company. IBE carried out confidential one on one meetings with each Director, the Company Secretary and other senior managers, as well as representatives from certain external advisers who work closely with the Board or its Committees. The review considered the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its Committees, the Chairman and individual Directors performed and how they worked together; as well as other factors relevant to effectiveness. As part of the evaluation process, IBE attended, as observers, a Board meeting and a Remuneration Committee meeting. IBE found that the feedback from Board members was positive and concluded that the Board was functioning well. No significant concerns were expressed by Board or Committee members as to the way in which the Board or its Committees functioned, the support given to them, the matters covered at their meetings or how they were dealt with, or as to the contribution of any individual Director.

Recommendations for primary areas of focus or consideration going forward were:

- Overseeing a changing organisation
- Talent management and bench strength below Board and sector level
- Planning to ensure that the Group has the necessary diversity of talent and skills for its long term needs.

The Board is addressing and will continue to address the above matters and will report back to shareholders on progress in the 2018 Annual Report.

Follow up on the review for year ending 31 March 2016
As reported last year, the Board evaluation for the year ending 31 March 2016 was led internally, by the Company Secretary. Key areas of focus to come out of that review and how they were addressed in the year to 31 March 2017 included:

Executive succession plans and their implementation
The succession of Archie Bethel to the position of Chief Executive as of 1 September 2016 was the culmination of the succession plans put into place in the event of the retirement of Peter Rogers. However, the Board has continued to look to the future and considers succession planning and talent development across the Group (as described on page 92).

Planning to ensure that the Group has the necessary talent and skills being recruited and developed for its long-term needs
This was the subject of formal presentations at both the Board and the Executive Committee following detailed divisional reviews. Further information on activity in this area can be found on page 63.

Strategy and awareness of potential strategic risks
In the year the Board, in addition to the time spent in its regular monthly meetings, devoted at least two meetings, of which one was a full day meeting held off-site, solely to consider the Company's strategy. The Board also asks senior management to attend these meetings. As part of these discussions, the Board considers potential strategic risks. In addition, the Company can also draw on the International Committee which has as its principal focus the setting and review of the Company's international strategy, the coordination and focus of effort by the Group on international development, and the review of progress. The International Committee is concentrating on expanding the capabilities of the Company's international operations.

Induction and training for Directors
New Non-Executive Directors receive detailed business briefings on the Group's operations and make induction visits to operational sites. Those who have not previously served as a director of a listed company receive a briefing from the Company's external lawyers on their duties and responsibilities.

As required by the Chairman, training for new Directors and ongoing general director training is arranged as necessary or as they may request, and the Company Secretary briefs, or arranges briefings for, Board members about significant changes in the law, regulations or governance codes affecting their duties as Directors.

Non-Executive Directors may at any time make visits to Group businesses or operational sites and Board visits are also made to sites. Presentations on the Group's businesses and specialist functions are made to the Board from time to time.

Non-Executive Directors receive copies of minutes of meetings of the Group Executive Committee, the Group International Committee and divisional Boards and monthly divisional operating reports which also cover health, safety and environmental matters and compliance with the Group's ethical and security standards. They are also invited to attend the Group's senior management conferences.

Information and support for the Board

The Chairman, with the assistance of the Company Secretary, ensures appropriate information flows to the Board and its Committees to facilitate their discussions and allow fully informed decisions to be made. The Company Secretary attends all Board meetings and all Directors have access to his advice and, if necessary, to independent professional advice at the Company's expense to assist with the discharge of their responsibilities as Directors.

Election of Directors

The rules relating to the appointment and replacement of Directors are contained within the Articles. The Articles provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in that way retires and is submitted for election at the first AGM following their appointment. In compliance with provision B.7.1 of the Code, all existing Directors will be seeking re-election at the 2017 AGM. The names and biographical details of each of the Directors are set out on page 82 and 83.

Executive Directors are entitled under their service agreements to 12 months' notice of termination of employment from the Company; Non-Executive Directors, including the Chairman, have letters of appointment which can be terminated at will.

Relations with shareholders

Dialogue with shareholders

The Board believes it is important to maintain open and constructive relationships with all of its shareholders – large and small, institutional and private. The Chief Executive, Group Finance Director and Group Director of Investor Relations and Communications undertake a programme of meetings, conference calls and presentations to discuss the Group's strategy and financial performance with investors, brokers' sales teams and analysts. The Company offers meetings with the Chief Executive and Group Finance Director to its top 20 shareholders at least twice a year and, additionally, during the year the Chairman wrote to our largest shareholders inviting them to meet with him to discuss strategy, performance and corporate governance matters, resulting in meetings with two shareholders. The Chairman of the Remuneration Committee was also in contact with leading shareholders as further explained in his annual statement on pages 98 to 99. Both the Chairman and Sir David Omand, the Senior Independent Director, are available to shareholders should they have any concerns where contact through the normal channels is deemed inappropriate or where shareholders believe a matter has not been adequately resolved.

How we communicate

Results and trading updates (available as audiocasts at www.babcockinternational.com/investors)	When
Full-year and half-year results: announcement and presentation	May and November 2016
Interim management statements and conference call with Group Finance Director	July 2016 and February 2017

Other presentations	When
By Group Finance Director at broker organised conferences and events	June, July and September 2016 and March 2017

Dealings with shareholders, investors and analysts Resolutions of AGM available at www.babcockinternational.com/investors	When
Meetings with shareholders and potential investors	Throughout
Meetings with sell-side analysts and brokers' sales teams	Throughout
Letter from the Group Chairman to our shareholders	December 2016
Annual General Meeting	July 2016
Roadshow in London and Edinburgh	May and November 2016

Over 95% of Babcock shares are held by institutional shareholders. Whilst it is normal practice for institutional funds to have a greater degree of contact with the Company, all shareholders are welcome to raise questions with the Board at the Annual General Meeting.

In addition, on a day-to-day basis our investor relations team engages with shareholders on a wide range of issues on a variety of platforms. To assist our private and international shareholders, the investor relations team makes sure that all price-sensitive information is released in accordance with the applicable legal and regulatory requirements. All announcements and major presentations given to institutional shareholders, along with annual reports, shareholder circulars, shareholder services information, other stock exchange releases and share price information, are made available to all shareholders through the Babcock website (www.babcockinternational.com/investors).

The Company ensures that the Board has an up-to-date perspective on the views and opinions of shareholders and the investment market. An investor relations report summarising share price performance compared to market, changes to the shareholder register and feedback from shareholders is produced for each Board meeting. During 2016/17, the Company once again commissioned Clare Williams Associates to undertake a market perception review to provide an independent evaluation of investor attitudes towards the Group (which this year involved nine investors, including some of the Company's major shareholders, accounting for around 43% of the shareholder register, as well as some underweight or non-holding institutions). The results were formally presented to the Board in July 2016.

Annual General Meeting

The 2017 AGM will be held at 11 am on Thursday 13 July 2017 at the Grosvenor House Hotel, Park Lane, London W1K 7TN. The Company will send notice of the AGM and any related papers at least 20 working days prior to the date of the meeting in accordance with best practice standards.

All shareholders are welcome. The event provides a platform for the Chairman and Chief Executive to explain how the Company has progressed during the year.

It also provides all shareholders with the opportunity to put questions to the Chairman of the Board, the Chairmen of the Audit and Risk, Nominations and Remuneration Committees, and the Senior Independent Director. At these meetings a poll is conducted on each resolution; shareholders also have the opportunity to cast their votes by proxy, either electronically or by post. Directors also make themselves available before and after the AGM to talk informally to shareholders. Following each AGM the results of the polls are published on the Company's website and released to the London Stock Exchange.

Report of the Nominations Committee

Mike Turner CBE
Committee Chairman

Committee membership and attendance

Mike Turner (Chairman)	2 of 2
Sir David Omand	2 of 2
Ian Duncan	2 of 2
Anna Stewart	2 of 2
Jeff Randall	2 of 2
Myles Lee	2 of 2
Victoire de Margerie	2 of 2

Membership of the Committee

The Nominations Committee is chaired by the Chairman of the Company and its other members are the Company's Non-Executive Directors (all of whom are independent). The Committee sometimes invites Executive Directors to attend meetings of the Committee, if appropriate. The current membership of the Committee, and its membership throughout the year to 31 March 2017 as well as attendance at Committee meetings during the year, is shown opposite.

No individual participates in discussion or decision-making when the matter under consideration relates to him or her. The Company Secretary is Secretary to the Committee.

In addition to its formal meetings, members of the Committee also met together informally to discuss senior executive succession planning.

Matters within the Committee's remit are also sometimes taken as specific items at full Board meetings, principally consideration of succession planning more widely within the Group and talent identification, management and development.

Responsibilities of the Committee

The Committee is responsible for making recommendations to the Board, within its agreed terms of reference, on appointments to the Board. The terms of reference of the Committee are available on the Company's website.

The Committee also assists the Board in discharging its responsibilities in respect of:

- Regularly reviewing and evaluating the size, structure and composition (including the balance of skills, diversity, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes
- Considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future
- Reviewing the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace
- Identifying and making recommendations for the approval of the Board regarding candidates to fill Board vacancies and reviewing the time required from Non-Executive Directors for the performance of their duties to the Company.

Diversity

When considering recommendations for appointment to the Board the Committee has in mind the strategic plans and the development of the business in both existing and new market sectors and with new, and new types of, customers, both in the UK and internationally, and the need to maintain the Board's credibility in its chosen business areas. The Committee also takes into account as part of its deliberations the Board's aspiration and intent to foster and encourage greater diversity of gender, outlook, background, perception and experience at Board level.

The Board is clear that it wants to see an increasing number of women in senior executive management roles and throughout the workforce as a whole. However, we believe that diversity should not be about firm quotas or solely a gender debate and that instead we should look at a wide-ranging approach.

For this reason the Board has chosen not to set any specific objectives but will continue to maintain its practice of embracing diversity in all its forms when compiling a shortlist of suitable candidates and recommending any future Board appointments. Further insight into the work being done to foster female participation in the industries in which we operate is provided in the Strategic report on pages 64 to 65.

Activities undertaken by the Committee during the year

During the year ended 31 March 2017, the Committee:

- Oversaw the appointment of Archie Bethel as Group Chief Executive, effective 1 September 2016, following the retirement of Peter Rogers;
- Considered the governance structure established by the Group's realignment; and
- Considered and recommended the extension of the term of appointment as Chairman of Mike Turner and the extension of the term of appointment as Non-Executive Director of Jeff Randall, in both cases for up to a further three years.

The Committee was pleased with the smooth succession of Archie Bethel, as his appointment was the culmination of a number of years' planning. The Committee will continue to focus on ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company in order to meet the Company's strategic goals.

Mike Turner CBE
Committee Chairman

23 May 2017

Report of the Audit and Risk Committee

Ian Duncan
Committee Chairman

Committee membership and attendance

Ian Duncan (Chairman)	4 of 4
Sir David Omand	4 of 4
Anna Stewart	4 of 4
Jeff Randall	4 of 4
Myles Lee	4 of 4
Victoire de Margerie	4 of 4

Membership of the Committee

The Audit and Risk Committee was during the year, and at the date of this report is, made up entirely of independent Non-Executive Directors. Committee membership and attendance at its meetings in the year are set out opposite.

Unless otherwise stated, members were members throughout the year. Further details of the backgrounds and qualifications of the members of the Committee can be found on page 83. The Group Company Secretary and General Counsel was Secretary to the Committee throughout the year.

The Board is satisfied that Ian Duncan, who has been Chairman of the Committee since July 2011, has recent and relevant financial experience and that the Committee complies with Code provision C.3.1. Ian is a chartered accountant and former Group Finance Director of Royal Mail Holdings PLC. Currently, Ian is a Non-Executive Director and Chairman of the Audit Committee of Bodycote plc and SIG plc. He has also formerly been Corporate Finance Director at British Nuclear Fuels plc, and CFO and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA.

Role of the Committee

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

- Monitor the integrity of the full-year and half-year financial statements and any formal announcements relating to the Company's financial performance
- Make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor
- Review and monitor at least once a year the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm
- Keep under review the adequacy and effectiveness of the Company's internal financial controls as well as its internal control and risk management systems
- Monitor and keep under review the effectiveness of the Company's internal audit service
- Report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

The full terms of reference for the Committee can be found on the Company's website.

Who attends Committee meetings?

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chairman, Chief Executive, Group Finance Director, Group Company Secretary and General Counsel, and Group Financial Controller to attend its meetings. Divisional Chief Executives (each of whom is a Director and/or Group Executive Committee member) have in the past also been invited to attend meetings and since 1 April 2017, with the implementation of the Group's realignment, the Committee has invited, at its discretion, the sector Chief Executives and the Chief Executive, Global Growth and Operations. The Committee is satisfied that having these invited attendees present does not influence or constrain the Committee's discussions or compromise the Committee's independence. Their presence ensures that all Board Directors and the senior management of the Group are directly aware of the Committee's deliberations, how it goes about the discharge of its responsibilities on behalf of the full Board and any areas of concern or focus for the Committee. It also assists the Committee by allowing direct questioning of executives on matters that the Committee thinks need further challenge, clarification, explanation or justification. Should a situation arise where the presence of any such attendee would be inappropriate or might compromise discussion the Committee would either not invite the attendee concerned or request that they not attend the relevant part of that meeting.

The Group Risk Manager attended Committee meetings for its discussion of Group risk reports and related items.

During the year to 31 March 2017, Ernst & Young LLP provided internal audit services to the Company and PricewaterhouseCoopers LLP was the Group's external auditor. Both auditors attended the Committee's meetings during the year to 31 March 2017. The Committee Chairman also met PricewaterhouseCoopers LLP (PwC) and Ernst & Young LLP in the absence of executive management. The auditors are also invited to address the Committee without executives present at least once a year.

The Committee's terms of reference were reviewed during the year to ensure that they are in line with best practice guidelines.

Activities undertaken by the Committee during the year

During the year to 31 March 2017 the Committee met four times. The agenda for each meeting is set by the Committee Chairman in conjunction with the Company Secretary and other members of the Committee as appropriate. During the year ended 31 March 2017, the Committee considered the following:

Audit re-tender process

The Committee completed the external audit re-tendering process and recommended the reappointment of PwC as the Company's external auditor. This appointment was approved by the Company's shareholders at the AGM on 21 July 2016.

Financial results

- full-year and half-year financial statements and related results announcements
- reports and reviews from the external auditors
- matters that required the exercise of a significant element of management judgement in relation to the financial statements for the year to 31 March 2017 (see page 96)
- advising the Board on the requirement for a statement from it that the Annual Report and Accounts for the year to 31 March 2017 are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy during the relevant period. The Committee satisfies itself that this is so by circulating to Board members draft wording at an early stage with sufficient time and detailed content to allow for an assessment of the content against the reports and accounts provided to the Board and its discussions throughout the relevant period. In addition, the Committee asks the Group Financial Controller to prepare a formal written report for the Committee reviewing the relevant draft, its consistency with his knowledge and understanding of matters and the appropriateness of the weighting given to them, in each case to allow for their review and consideration by the Committee (with all Directors and divisional (or now sector) Chief Executives present) in the context of their own understanding of reports and accounts provided to the Board and its discussions throughout the year. Before drafts are submitted to the Board, the Group Director of Investor Relations and Communications reviews the content of the Strategic report to ensure consistency with other financial statements made by the Group during the year
- review of the assumption that the Company's financial statements are prepared on a going concern basis
- considering the Company's approach to the requirement on the Company to examine the Company's longer term solvency and viability (please see page for further details).

Audit plans

Internal and external audit plans for the year.

Internal audit

At each meeting, the Committees received internal audit reports on findings from audit visits to business units, which as a matter of course look at accounting, anti-bribery and corruption controls, business continuity, contract performance and contract bidding risks. These include follow-up reports on any matters identified in earlier reports as requiring attention or improvement. The reports contain tracking information to enable the Committee easily to see the control performance of business units over time and how quickly any matters are addressed.

Risk and Internal controls

- review of internal control processes and their effectiveness
- regular detailed reports identifying areas of risk at business unit, divisional and Group level, assessing and prioritising potential impact, risk mitigation steps in place and the pre- and post-mitigation risk levels
- focused reviews of selected major risk areas: insurance strategy, business critical suppliers, treasury risk, and contract performance.

Fraud

Reports covering any suspected incidents of fraud, their investigation and any remedial or preventive action.

Whistleblowing

The Committee is responsible for monitoring the Group whistleblowing policy and receives regular reports of calls and emails to the Group's external independent whistleblowing services and how these have been investigated and concluded. The total number of whistleblowing reports in the year to 31 March 2017 was 41 (2016: 60). For further explanation of the whistleblowing procedure please see page 70.

Audit/non-audit fees and auditor independence

Audit and non-audit fees for the external and internal auditors were reviewed by the Committee and considered in relation to their effect on auditor independence.

Significant issues considered by the Committee in relation to the financial statements

We are required to provide an explanation of the significant issues that the Committee considered in relation to the financial statements for the year to 31 March 2017 and how these issues were addressed, having regard to matters communicated to the Committee by the auditors.

In planning the year-end audit, the Committee considered with management and the Company's auditors the key areas of focus for the audit having in mind their significance to the Group's reporting of results and the degree of judgement involved in their evaluation. The significant issues considered in relation to the financial statements for the year ended 31 March 2017 and how the Committee addressed them are set out in the table below.

Significant issue	How the Committee addressed it
Contract accounting and revenue recognition	The Committee considered the material contracts which require a significant degree of management judgement that could materially affect the appropriate accounting treatment for them; these were the subject of discussion and challenge with management to ensure that the Committee was satisfied as to the reasonableness of those judgements.
Pensions accounting – the choice of assumptions in the valuation for accounting purposes of the liabilities of the Group's defined benefit schemes	The Committee assessed the particular assumptions proposed to be used by management and their impact on scheme assets and liabilities in the context of assumptions being used in respect of the same factors by other companies and the pensions industry more widely. See note 24 on pages 186 to 190.
Business acquisitions – goodwill impairment assessment	The Committee reviewed and challenged management's assessment of the goodwill balance by considering, amongst other things, management's evaluation of cash flow forecasts, budget, and growth rates. See note 10 on page 170.

Internal controls and risk management

The Committee believes that the identification, control, mitigation and reporting of risk is central to the delivery of the Company's strategy. The way that the Company manages risk is set out in the Strategic report on pages 68 to 70, with the principal risks facing the Group set out on page 71 to page 79. The Committee has conducted a rigorous and robust review of the ongoing effectiveness of the Company's risk management processes in light of the 2014 UK Corporate Governance Code (and the Financial Reporting Council's associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting).

A statement regarding the effectiveness of the internal controls and control processes, including those over financial reporting, can be found on pages 139 to 140.

Internal audit

The Committee considers that it is still appropriate to have an internal audit service provided by an external adviser, but keeps this under review. In the year to 31 March 2017, the Committee was satisfied with the service provided by Ernst & Young LLP acting as internal auditor.

External audit and the re-tender of external audit

The Committee manages the relationship with the external auditor on behalf of the Board and monitors the auditor's independence and objectivity along with the effectiveness of the external audit on an annual basis. Audit fees are re-evaluated periodically.

For the year to 31 March 2017, PwC has been the Group's external auditors having been reappointed by shareholders at the AGM on 21 July 2016 on the recommendation of the Board following a re-tendering process. The Chairman and the Committee regularly assess PwC's effectiveness in the provision of audit services in their meetings with PwC, and after each annual audit there is a rigorous review of PwC's audit services in that audit examining the level and consistency of qualification, expertise and resources, the effectiveness of the audit (including, inter alia, the understanding of our business and reporting processes for subsidiary audit teams), independence and leadership. The review includes the provision to PwC, and discussion with it, of detailed feedback from those exposed to the audit process within the Group. The question of PwC's continuing independence in the provision of audit services is considered and discussed with PwC including the basis upon which that assessment can reasonably be made and supported. The Group and Company audits for the year to 31 March 2017, were the first for audit partner, Nicholas Campbell-Lambert.

The Company expects to tender the external audit function in four years and PwC, having been auditor since 2002, will not be invited to participate in that tender. The Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the auditor for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. The Company's policy is to consider whether to place material non-audit services work with external auditor on a case-by-case basis based on an assessment of who is best placed to do the work having regard to the availability, resources, capability, experience and any conflicts of interest of potential candidate firms for the work, and to make the choice based on what is considered to be in the Company's best interest overall having regard to potential independence issues if the work is placed with the Company's auditor. Non-audit services offered to the auditor would not include the design or operation of financial information systems, internal audit services, maintenance or preparation of accounting records or financial statements that would be subject to external audit or work that the Committee considers as reasonably capable of compromising their independence as auditors. If use of the auditors for non-audit work would lead to non-audit fees payable to them in the year exceeding 20% of their audit fee, the Committee Chairman's approval is required. In addition, any fee for non-audit work in excess of £100,000 must be approved by the Committee Chairman. Having considered the non-audit services provided by the auditor during the year ended 31 March 2017, the Committee is satisfied that these services were provided effectively and did not prejudice the objectivity or independence of the auditor.

For the year ended 31 March 2017, the Committee has approved the payment to PwC of fees of £2.1 million for audit services (£0.4 million of which was for the statutory audit of the Company's consolidated financial statements) and of fees of £0.1 million for tax related work. Non-audit related work accounted for 4% of the total audit and non-audit related fees paid to the external auditor during the year. A breakdown of fees paid to the auditor is set out in note 4 on page 166.

Ian Duncan

Committee Chairman

23 May 2017

Report of the Remuneration Committee

Jeff Randall
Committee Chairman

Committee membership and attendance

Jeff Randall (Chairman)	4 of 4
Sir David Omand	4 of 4
Ian Duncan	4 of 4
Anna Stewart	4 of 4
Myles Lee	4 of 4
Victoire de Margerie	4 of 4

Annual Statement of the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' remuneration report for 2016/17.

This Directors' remuneration report has three parts: this, the Chairman's Annual Statement, a Policy Report and an Annual Report on Remuneration. Together they present full and transparent disclosure of the Company's intentions as to Directors' remuneration and how our remuneration arrangements operate. Our current remuneration policy was approved at the 2014 AGM. As such we are required by governing legislation to put a new remuneration policy to shareholders for a binding vote at this year's AGM, which is set out on pages 101 to 111 below. We will also be seeking an advisory vote as to your approval of this Annual Statement and the Annual Report on Remuneration at the AGM on 13 July 2017.

Changes to remuneration arrangements for Executive Directors

The remuneration policy is pitched to deliver fixed remuneration at or below median and total remuneration capable of delivering upper quartile reward for upper quartile performance.

During the year the Committee conducted an in-depth review of our remuneration policy for Executive Directors and concluded that the structure of executive remuneration arrangements, as revised last year to remove the Deferred Bonus Matching Plan (DBMP), continues to be appropriate and effective going forward. Our updated policy therefore remains largely unchanged, but will incorporate some new features that ensure alignment with best practice and shareholders' interests. The Committee consulted with its largest shareholders during the year on the above changes, and received broad support for the proposals.

Annual bonus measures

The Committee has reweighted financial measures to reflect the Company's business priorities and has simplified the approach to measurement of non-financial measures. The weightings are now 40% on EPS; 20% on PBT; 20% on cash flow; and 20% on non-financial measures.

All financial measures will be assessed on a sliding scale with corresponding payment between a threshold and maximum level of performance, defined by the Committee at the start of each financial year. Non-financial measures will be condensed to focus on the key c 5-6 strategic targets for each executive. We will provide enhanced retrospective disclosure of non-financial measures.

Removal of the DBMP

Following shareholder feedback, and as outlined in our Annual Report on Remuneration for 2015/16, no further matching awards will be made to Executive Directors (or any other members of the senior management team) under the DBMP. As such, we will formally remove this element from the Policy Report this year.

Holding periods for the Performance Share Plan (PSP)

For awards granted from 2017 a 2-year holding period will be introduced for any shares vesting under the PSP following the 3-year performance period, resulting in a total 5-year time horizon for long-term incentives.

Company Share Option Plan (CSOP)

We have removed the provision to grant a portion of awards as CSOP options, simplifying and reducing the administrative complexity of the PSP. The flexibility to make awards in the form of conditional shares or nil-cost options has been retained, in line with typical market practice.

Clawback and malus

We have extended the malus and clawback provisions to apply to all incentive awards, including the annual bonus plan and PSP for Executive Directors. The circumstances in which malus and clawback may be applied are:

- if the accounts used to determine vesting levels have to be materially corrected;
- actual performance being materially worse than originally believed;
- gross misconduct; and
- the award holder leaving 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 under the plans differently.

Leaver provisions

As communicated in our announcement to the market on 21 July 2016, the Committee notes that a significant proportion of our shareholders disagreed with the decision to disapply time pro-rating for the outstanding awards for our retiring Executive Directors. As a result of this, we have removed from our policy the Committee's discretion to waive time pro-rating of any incentive awards; any incentive awards paid to an Executive Director who is a good leaver will be subject to performance and time pro-rating.

New Chief Executive

Archie Bethel took over as Chief Executive on 1 September 2016, at which point the Committee reviewed his salary and determined that a salary of £750,000 (as initially indicated in last year's report) was appropriate. Following the removal of the DBMP this represents a reduction in overall total remuneration relative to his predecessor. His maximum annual bonus and PSP opportunities remain unchanged at 150% and 200% of salary respectively. At the annual salary review for 2017/18, all Executive Directors' salaries were increased by 2%, broadly in line with the average salary increase across the wider employee population.

Remuneration outcomes for 2016/17

Against the background reported in the Chairman's statement earlier in this Annual Report:

- annual bonus payments in respect of the year to 31 March 2017 ranged from 44% to 65% of maximum (see page 115 for more detail); and
- performance over the longer-term performance period from 1 April 2014 to 31 March 2017 is expected to result in 26.5% vesting of the PSP awards made in 2014 and 17.0% vesting of the matching awards made that year under the DBMP.

Jeff Randall
Committee Chairman

23 May 2017

Glossary of terms

As used in this Remuneration report

CSOP	means the 2009 Babcock Company Share Option Plan
DBP	means the 2009 Babcock Deferred Bonus Plan
DBMP	means the 2012 Babcock Deferred Bonus Matching Plan
EBIT	means Earnings Before Interest and Tax
EPS	means basic underlying Earnings per Share
OCF	means Operating Cash Flow as determined for management purposes
PSP	means the 2009 Babcock Performance Share Plan
PBT	means underlying Profit Before Tax
PBIT	means underlying Profit Before Interest and Tax
ROCE	means Return on Capital Employed
TSR	means Total Shareholder Return

Remuneration Committee (the Committee)

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

The composition of the Committee (see page 111) and its terms of reference comply with the provisions of the UK Corporate Governance Code.

Compliance statement

This report covers the reporting period from 1 April 2016 to 31 March 2017 and provides details of the Committee's membership, its deliberations on executive remuneration during the year under review and remuneration policy for the Company. This report has been prepared by the Committee according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and other relevant requirements of the FCA Listing Rules. In addition, the Committee has applied the principles of good corporate governance set out in the UK Corporate Governance Code 2016, and has considered guidelines issued by its leading shareholders and bodies such as the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association. In accordance with Section 439 of the Act, an advisory resolution to approve this Annual Statement and the Annual Report on Remuneration will be proposed at the Annual General Meeting on 13 July 2017 and, in accordance with Section 439A of the Act, a binding resolution to approve the Policy Report will be proposed at that meeting.

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

The Regulations require the Company's auditors to report that the 'Audited information' in this report has been properly prepared in accordance with the Regulations.

Remuneration Policy Report

Our current remuneration policy was approved at the 2014 AGM. As such we are required by governing legislation to put a new remuneration policy to shareholders for a binding vote at the 2017 AGM and, if approved, we will apply that new policy to payments made after that date and replace the existing remuneration policy in its entirety. It is intended that the new Remuneration Policy will apply for three years, although the Committee may seek approval for a new policy at an earlier point if it is considered appropriate.

Key principles of the remuneration policy

Objective

To provide fair remuneration arrangements that allow for enhanced rewards for delivery of superior performance by allowing for the possibility of upper quartile rewards for upper quartile performance, that align Directors' and shareholders' interests and take account of risk.

Our policy for executives 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. The rationale is to incentivise and reward success.

Weighting towards long-term, performance-related pay

The focus of our executive remuneration is, therefore, weighted towards performance-related pay with a significant element weighted towards long-term rather than short-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.

Directors' Remuneration Policy

Summary of the remuneration policy for Executive Directors (Policy Table)

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed pay			
Base salary			
Should be at a level that is (i) fair and (ii) capable, when taken with the gearing effect of performance-related pay, of delivering upper quartile actual remuneration for upper quartile performance.	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.	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. Latest salaries are set out in the Annual Report on Remuneration on page 119.	Business and individual performance are considerations in setting base salary.
Pension			
To provide market competitive retirement benefits.	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.	All the Executive Directors currently receive a cash supplement of 25% of base pay in lieu of all pension benefits. The cash supplement payable is set having regard to market practice, and in the context of the other elements of the remuneration package, notably base salary. Other than in exceptional cases (such as to replace existing arrangements for new recruits) the Committee does not anticipate employer contributions into a defined contribution pension scheme or cash in lieu of benefit as being at a cost to the Company that would exceed 25% of base salary.	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed pay			
Benefits			
Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.	A range of benefits are provided which may include life insurance; medical insurance; car and fuel benefits and allowances; home to work travel and related costs if agreed on an individual basis or if incurred at the request of the Company; accommodation benefits and related costs if based away from home at the request of the Company; Board function-related costs; and, in certain circumstances, cash allowances in respect of the tax charge on accommodation or travel to work benefit if incurred at the request of the Company or with its prior approval. Other benefits (eg relocation) may be offered if considered appropriate and reasonable by the Committee.	Benefit values vary by role and are periodically reviewed and set at a level which 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 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 (eg relocation) or in circumstances where factors outside the Company's control have changed materially.	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics

Variable pay

Annual bonus

Purpose and link to strategy	Operation	Opportunity	Performance metrics
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. The requirement to defer a substantial part of bonus into Company shares strengthens the link to long-term sustainable growth.	Performance targets are set at the start of the year and reflect the responsibilities of the executive in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which 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. At least 40% of annual bonus payments for Executive Directors must be deferred into awards over Company shares for three years. Mandatory deferred bonus awards are subject to potential forfeiture if the holder leaves before the awards vest. Malus and clawback 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.	Maximum bonus opportunity is 150% of salary. For achievement of threshold, up to 15% of maximum bonus is earned; for achievement of target up to 55% of maximum bonus is earned.	Performance is determined by the Committee on an annual basis by reference to Group and/or divisional financial measures, eg EPS growth, PBT, OCF, as well as the achievement of non-financial objectives. The financial and personal/strategic objectives are typically weighted 80% and 20% of maximum, respectively. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year. Measures used for the 2016/17 annual bonus and proposed for 2017/18 are included in the Annual Report on Remuneration on pages 115 and 119.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Variable pay			
Performance Share Plan (PSP)			
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.	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The award levels and performance conditions, on which vesting depends, are reviewed from time to time to ensure they remain appropriate. 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. 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 2-year holding period will apply to Executive Directors' vested shares before they are released. Malus and clawback 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.	Maximum annual PSP awards of up to 200% of base pay. For each performance condition applying to an award, 16.7% of the maximum award will vest for threshold performance.	Vesting of PSP awards is subject to continued employment and Company performance over a three year performance period. 2017/18 PSP awards will be based on the achievement of stretching EPS, TSR and ROCE targets. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy. Details of measures and targets used for specific PSP grants are included in the Annual Report on Remuneration on page 120.
All-employee plans – Babcock Employee Share Plan			
To encourage employee ownership of Company shares.	Open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan is an HMRC approved share incentive plan that allows an employee to purchase shares (through the plan trustees) 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. The Company can match purchased shares with an award of free shares. Matching shares are forfeited if employees leave within three years of their award (other than for 'good leaver' reasons).	Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate. 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 matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.	Not performance related.

Approach to recruitment remuneration – (Recruitment policy)

In the cases of hiring or appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Pay element	Policy on recruitment	Maximum
Salary	Based on size and nature of responsibilities of the proposed role; the candidate's experience; implications for total remuneration positioning vs. market pay levels for comparable roles; internal relativities; and the candidate's current salary.	N/A
Pension	Membership of pension scheme or salary supplement on a similar basis to other executives, as described in the policy table.	N/A
Benefits	Provision of benefits on a similar basis to other executives, as described in the policy table.	N/A
Annual bonus	As described in the policy table, and may be pro-rated for proportion of year served.	150% of salary
Performance Share Plan	New appointees may be granted awards under the PSP on similar terms to other executives.	200% of salary
All-employee plans	New appointees may be granted awards under all-employee plans on similar terms to other executives.	As per Policy Table
Other	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 appointment to 'replace' incentive arrangements forfeited on leaving a previous employer. 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 Listing Rule 9.4.2(2) if required.	N/A
Other recruitment events		
Internal promotion	When appointing a new Executive Director by way of promotion from an internal role, the Committee 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 as stated above.	N/A
Non-Executive Director	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.	N/A

Changes to the approved Remuneration Policy

- Formally removing the matching element of the DBMP (as outlined in last year's annual report on remuneration)
- Introducing a 2-year holding period on any shares vesting under the PSP
- Simplifying the PSP by removing the provision to grant a portion of awards as CSOP options
- Ensuring that clawback and malus provisions apply on a consistent basis for all incentive awards
- Removing the discretion for the Committee to waive time pro-rating on any incentive awards for Executive Directors who are 'good leavers'.

Rationale for the changes above is set out in the Annual Statement.

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 and 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 and ROCE continue to be effective measures of long-term performance for the Company, providing a good balance between shareholder value creation and line of sight for executives.

The TSR performance measure is tested by reference to the Company's relative long-term share price performance against suitable peers. The Committee believes that the use of relative TSR provides strong alignment with shareholders' interests by incentivising management for the delivery of above-market returns. The TSR calculation would normally use a 12-month average for opening and closing share prices adjusted for dividends paid during the period. The Company feels that this is the most appropriate period because a 12-month average ensures both that short-term market volatility is excluded and that for each company a 12-month period will capture the impact of the announcement of results and payment of dividends. A shorter period would not capture all these events and would not necessarily put all companies on an equal footing.

The use of an EPS growth performance measure, in the opinion of the Committee, focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals. The Committee believes that ROCE reinforces the focus on returns for shareholders and encourages capital discipline.

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, 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.

Differences between Executive Director and general employee remuneration

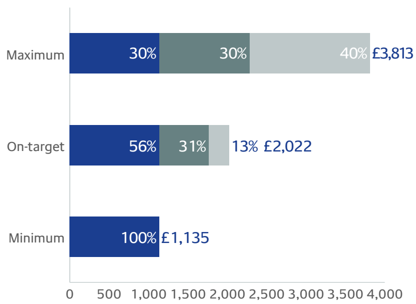
The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The remuneration 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

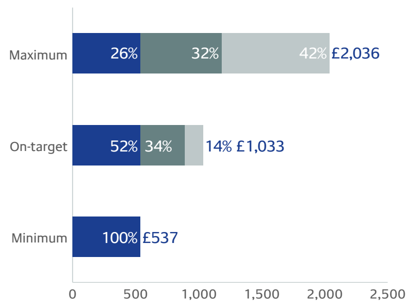
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on the Company's remuneration policy and implementation in 2017/18, as outlined in the Chairman's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2017. Note that the projected values exclude the impact of any share price movements. For this reason, were the PSP shares to vest in full, actual total remuneration may exceed the value shown in the chart below.

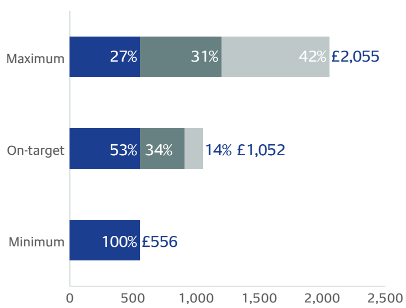
Chief Executive
Archie Bethel (£'000)



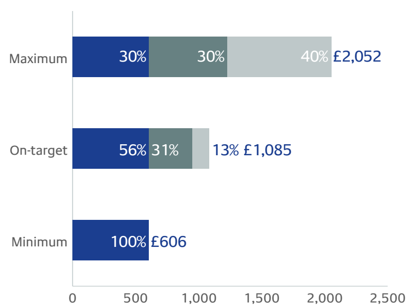
Group Finance Director
Franco Martinelli (£'000)



Chief Executive, Global Growth and Operations
Bill Tame (£'000)



Chief Executive, Land
John Davies (£'000)



Fixed remuneration
Annual variable remuneration
Long-term incentives

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 which are not at risk.

The 'On-target' scenario reflects fixed remuneration as above, plus a pay-out 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 pay-out of all incentives.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for 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).

The guidelines also state that an Executive Director is 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 Executive Directors' compliance with these guidelines is shown in the table on page 126.

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 Directors' service contracts or terms of appointment:

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
Bill Tame (Chief Executive, Global Growth and Operations)	1 October 2001 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director
John Davies (Chief Executive, Land)	20 December 2012	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. In these circumstances, since 2012, new Executive Directors' contracts (those for Archie Bethel, John Davies and Franco Martinelli) allow the Company to 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. For contracts made before 2012 (for Bill Tame only) such a payment would be by way of a lump sum payment on termination. If the Company terminates an Executive Director's service contract it will have regard to all the circumstances (including the scope for mitigation) and the Company's interests in determining the amount of compensation, if any, payable to him in connection with that termination.

The contract for Bill Tame contains provisions which provide that within 90 days of the occurrence of a change of control of the Company, he may terminate his employment forthwith. If he exercises this right, he is entitled, for a 12-month period, to be paid (on a monthly basis) his base salary plus 40% (compared to a maximum entitlement under the annual bonus plan of 150%) in lieu of bonus and all other contractual entitlements. From this payment there is to be deducted any amount that he receives by way of income, if it exceeds 10% of his Babcock salary, from other sources that he would not have been able to earn had he continued in employment with the Company.

The contract for Bill Tame also provides that if the Company terminates his appointment within 12 months of a change of control, he would be entitled to a termination payment equal to 100% of annual salary (plus 40% in lieu of bonus and all other benefits), subject to any additional entitlement as outlined below.

No other Executive Director has these arrangements in their service contract.

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.

Component	Treatment on a change of control	Treatment for a good leaver[2]	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[1].	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 a time pro-rated proportion 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.

(1) Treatment of bonus on a change of control for Bill Tame is also subject of the provisions outlined on page 108 and above.
(2) 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 (in each case evidenced to the Committee's satisfaction). 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 Chairman, 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.

Chairman 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)
Mike Turner (Chairman)	1 June 2008	20 March 2014	AGM 2017
Sir David Omand	1 April 2009	26 March 2015	AGM 2018
Ian Duncan	10 November 2010	25 January 2016	AGM 2019
Anna Stewart	1 November 2012	26 March 2015	AGM 2018
Jeff Randall	1 April 2014	6 December 2013	AGM 2017
Myles Lee	1 April 2015	3 March 2015	AGM 2018
Victoire de Margerie	1 February 2016	3 December 2015	AGM 2019

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	Fee levels are reviewed against market practice from time to time (by the Chairman and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chairman), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for acting as Chairman of the Audit and Risk, and Remuneration Committees. 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). 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. Fees for the year ending 31 March 2017 and those for the year ending 31 March 2018 are set out in the Annual Report on Remuneration on page 124.	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 Director pay the Committee is aware of the proposals for review of 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 Company now formally presents a summary of its policy for remuneration arrangements for Executive Directors to the Babcock Employee Forum, which is attended by representatives from across the business operations, and will consider any feedback from that Forum.

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 is always open to feedback from shareholders on remuneration policy and arrangements, as reflected in the changes to this Remuneration Policy, and commits to undergoing consultation with leading shareholders in advance of any significant changes to remuneration policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

Further detail on the votes received on the 2016 Directors' Remuneration report are provided in the Annual Report on Remuneration on page 112.

Annual Report on Remuneration

The Committee

The members of the Committee are appointed by the Board on the recommendation of the Nominations Committee and, in accordance with provision D 2.1 of the UK Corporate Governance Code, the Committee is made up of the independent Non-Executive Directors. The membership of the Committee currently and during the year to 31 March 2017 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown below. The Company Secretary is Secretary to the Committee.

Committee attendance

Member	Number of meetings attended/Number of meetings possible (year to 31 March 2017)
Jeff Randall	6/6
Sir David Omand	6/6
Ian Duncan	6/6
Anna Stewart	6/6
Myles Lee	6/6
Victoire de Margerie	6/6

The Group Chairman and the Chief Executive normally attend meetings by invitation, as does the Group Finance Director on occasion, but they are not present when their own remuneration is being decided. The Company Secretary attends meetings as Secretary to the Committee. The Group Director of Organisation and Development also attends meetings.

Advisers

Kepler, a brand of Mercer (which is part of the MMC group of companies), was appointed by the Committee in late 2008, following a selection process including interviewing a number of candidate firms, to provide it with 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. Kepler reports directly to the Committee Chairman. A representative from Kepler typically attends Committee meetings. Kepler also provides participant communications, performance reporting, and non-executive directors' fee benchmarking services to the Company. Kepler is a member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to remuneration committees of UK listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Kepler adheres to this Code of Conduct. The fees paid to Kepler in respect of work for the Committee carried out in the year under review totalled £125,190 on the basis of time and materials, excluding expenses and VAT.

The Committee reviews Kepler's involvement each year and considers any other relationships that Kepler's parent company has with the Company that may limit their independence. The Committee is satisfied that the advice provided by Kepler is objective and independent and that any services provided by their parent to the Company do not impair their independence.

How often it meets

In total there were 6 meetings in the year to 31 March 2017. The Committee plans to meet at least 6 times in the year to 31 March 2018.

Matters considered

The Committee considered a number of matters during the year to 31 March 2017, including:

- Archie Bethel's salary as the new Chief Executive from 1 September 2016
- review of shareholders feedback and voting at the 2016 AGM, including review of developments in remuneration governance
- consulting our largest shareholders and investor bodies on proposed changes to remuneration policy
- the Committee's terms of reference
- trends in executive remuneration, remuneration governance and investor views
- the making of share awards under the Company's share plans and the performance measures and targets to be applied
- the finalisation of performance targets and non-financial objectives for the 2017/18 annual bonus plan
- the level of vesting of PSP and CSOP awards granted in 2013
- the vesting of DBP and DBMP awards made in 2014 and 2013 respectively
- the level of annual bonuses to be paid for the year to 31 March 2016 in light of financial and non-financial measures applying
- setting of annual bonus financial targets and non-financial objectives for the year to 31 March 2018
- review of share ownership guidelines for senior executives
- pay reviews for other senior executives for the year to 31 March 2018
- review of the Directors' Remuneration report
- approval of procedure for the authorisation of Chairman and CEO expenses
- review of the continued appointment of the Committee's independent advisers.

Summary of shareholder voting at the 2016 AGM

The following table shows the results of the advisory shareholder vote on the 2016 Annual Report on Remuneration at the 2016 AGM, and the results of the binding shareholder vote on the 2014 Remuneration Policy at the 2014 AGM:

	2016 Annual Report on Remuneration		2014 Remuneration Policy	
Votes cast	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	203,814,997	57.9%	322,568,767	98.9%
Against	148,069,709	42.1%	3,734,746	1.1%
Total votes cast (excluding withheld votes)	351,884,706	100%	326,303,513	100%
Votes withheld	43,326,745		38,245,712	
Total votes cast (including withheld votes)	395,211,451		364,549,225	

As communicated in our announcement to the market on 21 July 2016, the Committee notes that a significant proportion of our shareholders disagreed with the decision to disapply time pro-rating for the outstanding awards for our retiring Executive Directors in 2016. As a result of this, we have removed Committee discretion to waive time pro-rating of any incentive awards; any incentive awards paid to a 'good leaver' will be subject to performance and time pro-rating. Additionally, the Committee has consulted with its major shareholders during the year, and will continue to engage with shareholders to facilitate a better understanding of the Company, the environment in which it operates and how this translates into the Group's executive remuneration policy.

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the years ending 31 March 2017 and 31 March 2016.

	Archie Bethel[a] £000		Franco Martinelli £000		Bill Tame £000		John Davies £000		Peter Rogers[b] £000	
	16/17	15/16	16/17	15/16	16/17	15/16	16/17	15/16	16/17	15/16
Fixed Remuneration										
1 Salary	667	354	420	354	420	397	405	338	275	643
2 Benefits in kind and cash	179	7	1	1	20	15	90	27	14	15
3 Pension	167	88	105	88	105	99	101	68	69	161
Annual Variable Remuneration										
4 Annual bonus (cash or voluntarily deferred bonus)	390	197	246	192	167	187	172	188	193	349
5 DBMP (deferred annual bonus)	260	131	164	128	112	125	115	125	129	233
Long-term incentives										
6 DBMP (matching awards)	71	308	18	178	55	324	63	302	148	622
7 PSP	100	182	100	116	114	209	95	174	241	440
8 Dividends	14	35	8	21	13	38	13	34	31	76
Total (of which)	1,848	1,302	1,062	1,079	1,006	1,394	1,054	1,256	1,100	2,539
Fixed Remuneration(1,2,3)	1,013	449	526	443	545	511	596	433	358	819
Annual Variable Remuneration(4,5)	651	328	410	320	279	312	287	313	322	582
Long-term Incentives(6,7,8)	184	525	126	316	182	571	171	510	420	1,138

(a) Archie Bethel was appointed as Chief Operating Officer on 1 April 2016 on a salary of £550,000. On 1 September 2016, he was appointed as Chief Executive on a salary of £750,000.
(b) Peter Rogers retired as a Director on 31 August 2016, figures for 2016/17 are shown for the part-year up to this date.

The figures have been calculated as follows:

(1) Salary: basic 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, car and fuel benefits and costs in connection with accommodation. Archie Bethel in 16/17 received £173,806 and John Davies £62,200 in connection with their accommodation costs in London, at the Company's request, to enable them to lead the business effectively.
(3) Pension: for all Executive Directors the numbers above represent for each year the value of the cash supplement of 25% of salary paid to each of them; except for John Davies in 2016 for which they represent (i) 20 times the increase in accrued benefit over the year in question less his contributions, plus (ii) a cash supplement of £36,000.
(4) Annual bonus (cash or voluntarily deferred bonus): this is the part of total annual bonus earned for performance during the year (see page 115) that is not required to be mandatorily deferred into a basic award of shares under the DBMP (see page 116) and that is to be satisfied in cash. As disclosed in last year's Annual Report on Remuneration, Peter Rogers was eligible for a time pro-rated annual bonus opportunity for 2016/17 of 75% of annualised salary.
(5) DBMP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
(6) DBMP (matching awards): the market value of awards that vest on performance to (i) 31 March 2017: based on vesting as to 17.0% of the total award (see page 118) and an average share price in the 3 months to 31 March 2017 of 910p and (ii) 31 March 2016: based on vesting as to 57.8%. Note: the difference between the 2015/16 DBMP figures in the table above and the equivalent numbers disclosed in last year's Annual Report on Remuneration reflects truing up for the actual share price on subsequent actual vesting on 13 June 2016 of 999.5p.
(7) PSP: the market value of awards that vest on performance to (i) 31 March 2017: based on vesting as to 26.5% of the total award (see page 118) and an average share price in the 3 months to 31 March 2017 of 910p and (ii) 31 March 2016: based on vesting as to 37.3%. Note: the difference between the 2015/16 PSP figures in the table above and the equivalent numbers disclosed in last year's Annual Report on Remuneration reflects the actual share price on subsequent actual vesting on 13 June 2016 of 999.5p.
(8) Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory and voluntary deferral of bonus awards under the DBMP/DBP) vesting on performance to (i) 31 March 2017 and (ii) 31 March 2016, payable in cash on exercise of the award.

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

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2017 and the prior year:

	Base fee £000		Additional fees £000		Total £000	
	16/17	15/16	16/17	15/16	16/17	15/16
Mike Turner	310	310	0	0	310	310
Jeff Randall	58	58	15[2]	15[2]	73	73
Sir David Omand	69	69	0	0	69	69
Ian Duncan	58	58	15[2]	15[2]	73	73
Anna Stewart	58	58	0	0	58	58
Myles Lee	62	62	0	0	62	62
Victoire de Margerie[1]	62	10	0	0	62	10

(1) Appointed to the Board on 1 February 2016.
(2) Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).

Pensions

None of the Executive Directors participated in a Group pension scheme or otherwise receive pension benefits from the Group for service during the year to 31 March 2017. They instead received a cash supplement equal to 25% of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

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

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

Bill Tame was an active member of the senior executive tier of the Scheme until 30 September 2011. Archie Bethel was an active member of the executive tier of the Scheme until 31 March 2012. Franco Martinelli was an active member of the executive tier of the Scheme until 31 March 2015. Whilst still members of the Scheme, Bill Tame accrued benefits at the rate of one-thirtieth, and for Archie Bethel and Franco Martinelli the rate of accrual was one-forty-fifth, of pensionable salary for each year of service, with a cash supplement on earnings over the applicable scheme earnings cap. Until 31 March 2016, John Davies was a member of the VT Upper Section Ex-Short Brothers section of the Scheme and accrued benefits on earnings up to the scheme earnings cap at the rate of one-sixtieth of pensionable salary for each year of service.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2017 are set out in the following table:

Director[1]	Accrued pension at 31 March 2017 £ pa	Normal retirement date[2]
Archie Bethel	41,148	65
Bill Tame	53,485	60
John Davies	57,875	65
Franco Martinelli	60,750	65

(1) None of the Executive Directors were active members of the scheme during the year.
(2) Date from which payment can be drawn with no actuarial reduction.

Note: The figures in the above table make no allowance for the cost of death in service benefits under the Scheme, or for any benefits in respect of earnings in excess of the earnings cap. In calculating the above figures no account has been taken of any retained benefits that the Director may have from previous employments.

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

Director	2016/17 £000	2015/16 £000
Archie Bethel	5	2
Bill Tame	3	3
John Davies	3	2
Franco Martinelli	3	2

Annual Bonus

2016/17 Annual bonus (audited)

For our Executive Directors' annual bonus plans in 2016/17, as in previous years, a mix of financial and non-financial measures was used. The non-financial measures were principally based on the key themes that the Committee considers to be of material importance to the continued success of the Company. Objectives for the 2016/17 bonus were set by the Committee at the beginning of the year.

The table below sets out the annual bonus plan in place for the Executive Directors and the outturn under them in 2016/17. The figures in the table below for actual outturn exclude the effect of changes in exchange rates.

Bonus element	Threshold target	Maximum target	Actual outturn		Archie Bethel	Franco Martinelli	Bill Tame	John Davies	Peter Rogers[5]
EPS[1] performance Stretching targets, with a sliding scale between threshold and maximum	77.2p	81.2p	79.7p	Maximum potential (% of salary)	90%	90%	90%	90%	45%
				Outturn (% of salary)	41.0%	41.0%	41.0%	41.0%	20.5%
Achieving budgeted Group cash flow	96% of budget	Budget (£392m)	£390m	Maximum potential (% of salary)	15%	15%			7.5%
				Outturn (% of salary)	13.1%	13.1%			6.6%
Achieving budgeted Group PBT[2]	96% of budget	Budget (£487m)	£488m	Maximum potential (% of salary)	15%	15%			7.5%
				Outturn (% of salary)	15%	15%			7.5%
Achieving budgeted Divisional cash flow	96% of budget	Budget[3]	–	Maximum potential (% of salary)			15%	15%	
				Outturn (% of salary)			0%	0%	
Achieving budgeted Divisional PBIT[2]	96% of budget	Budget[3]	–	Maximum potential (% of salary)			15%	15%	
				Outturn (% of salary)			0%	0%	
Non-financial objectives[4]				Maximum potential (% of salary)	30%	30%	30%	30%	15%
				Outturn (% of salary)	28.5%	28.5%	25.5%	30%	14.3%
Total				Maximum potential (% of salary)	150%	150%	150%	150%	75%
				Outturn (% of salary)	97.6%	97.6%	66.5%	71.0%	48.8%

(1) Threshold vesting is 20% of maximum for each financial bonus element except for EPS performance, where 18% of maximum vests at threshold. In line with our policy, overall vesting at threshold is no more than 15% when all measures are taken into account.
(2) Before amortisation of acquired intangibles. The treatment of exceptional items is at the discretion of the Committee.
(3) The Committee considers that the divisional budgets remain commercially sensitive given the strategic nature of some of our customers or their activities and they would also be of assistance to competitors, and will not be published.
(4) Non-financial objectives were set around the strategic and risk management 'Themes', which for the year were Reputation; Growth; Employees; and Processes. Within these Themes were areas of 'Focus' and for each such area there were a number of more detailed 'Indicators' relating to specific matters that fall within that area of Focus. The plan did not ascribe fixed amounts of potential bonus to particular Themes, areas of Focus or Indicators as Directors are expected to respond to changing internal or external priorities, conditions or developments within those areas over the year in the best interests of the Group without being tied to or having to have regard to a set of objectives that were framed before the year got under way. At the end of the bonus year, the Committee reviewed progress against the Themes, Focuses and Indicators overall having regard to all relevant circumstances and made an assessment as to performance on non-financial measures and what the appropriate bonus payment was for that.
The actual 'Indicators' used in the year are considered by the Board to be commercially sensitive as they tend to be ongoing in nature, relating as they do to customer relationships, specific bids, specific strategic steps or objectives, security measures and personnel matters. By way of example, areas of focus typically include maintenance and development of reputation (with customers and investors, including specified improved strategic and customer engagement and key relationship objectives; ethical training and compliance); growth (relating to strategy planning and business development steps and positioning, progress against existing strategic plans, particularly for territories outside the UK, specific bidding or market targets and objectives, development and leveraging of identified strategic partnerships, organisational and management changes to support growth and strategic objectives); employee development and engagement (communications and cultural initiatives, diversity; talent identification, development and succession planning initiatives and programmes; development of graduate and apprentice recruitment and development of the group's relationships with universities); process improvements (development of IT strategy, upgrading and development of resource planning and management information systems, cyber-security and information assurance objectives).
Additionally, Health and Safety performance is an overriding underpin to all elements of the annual bonus scheme allowing the Committee to reduce or withhold entirely any bonus otherwise payable if it considers such performance to have been unsatisfactory.
(5) As disclosed in last year's Annual Report on Remuneration, Peter Rogers was eligible for a time pro-rated annual bonus opportunity for 2016/17 of 75% of salary.

Annual bonus deferral into shares (audited)

To ensure that a substantial part of the Director's annual bonus is exposed to the longer term impact of decision-making and further to align their interests with shareholders, 40% of any annual bonus earned by Executive Directors (and other senior executives) must be deferred into Company shares (by means of an award of nil-cost options).

Mandatorily deferred annual bonus awards (Basic Awards) are subject to potential forfeiture if the holder leaves before the awards vest (other than by reason of death, disability, redundancy, retirement or the company or business in which they are employed ceasing to be part of the Group).

Long-term incentive schemes (PSP)

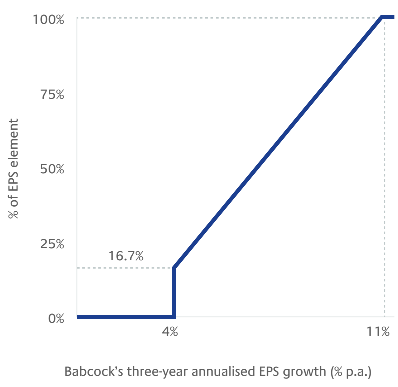
PSP awards made in 2016/17* (audited)

Director	Basis	Number of Shares	Face value(£)[1]	Face value (% of salary)[2]	% receivable for threshold performance	End of performance period
Archie Bethel	As per the Policy. Performance measures and targets are set out below	110,312	1,099,811	200%	16.7%	31 March 2019
Franco Martinelli		84,238	839,853	200%	16.7%	31 March 2019
Bill Tame		84,238	839,853	200%	16.7%	31 March 2019
John Davies		81,230	809,863	200%	16.7%	31 March 2019
Peter Rogers		22,060[3]	219,938	33%	16.7%	31 March 2019

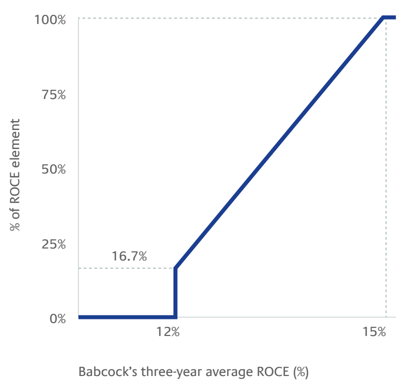
(1) Based for Directors on 3 day average share price (of 997p) at time of grant. Exercise price is nil because awards are nil-cost options.
(2) Expressed as a percentage of salary at the date of the award (15 June 2016).
(3) Peter Rogers stepped down from the Board on 31 August 2016. His 2016 PSP award is pro-rated to reflect the proportion of the performance period he has served.
* In the form of nil-cost options.

The performance targets that were attached to these awards – split equally between TSR performance relative to the peer group, EPS growth and ROCE – are illustrated in the charts below:

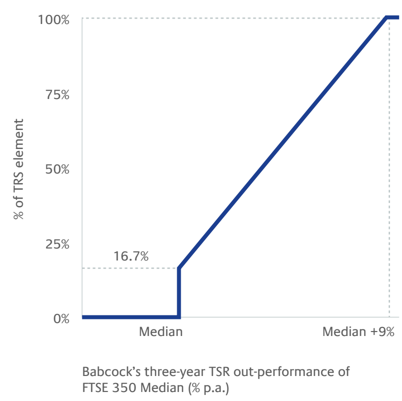
EPS element
(33% of award)



ROCE element
(33% of award)



TSR element
(33% of award)



Note: TSR comparators are the companies comprised in the FTSE 350 (excluding investment trusts and financial services companies). Threshold vesting (16.7% of this element) for the EPS element was set at growth of 4% per annum and maximum vesting at growth of 11% per annum. We believe that growth of 11% would represent exceptional performance. For the comparative TSR element, threshold vesting (16.7% of this element) would be for performance in line with the median of the FTSE 350 (excluding investment trusts and financial services companies) and maximum vesting would be for 9% pa outperformance of the median, representing upper quartile performance. For the ROCE element, the target for maximum vesting of these awards was set at 15% and for threshold vesting at 12%.

Deferred Bonus Plan awards made in 2016/17* (audited)

Director	Basis	Number of Shares	Face value(£)[1]	Face value (% of salary)[2]	% receivable for threshold performance	End of performance period
Archie Bethel	As per the Policy. No additional performance conditions required for vesting.	13,162	131,225	24%	n/a	n/a
Franco Martinelli		12,843	128,045	30%	n/a	n/a
Bill Tame		12,498	124,605	30%	n/a	n/a
John Davies		13,571	135,303	33%	n/a	n/a
Peter Rogers		23,332	232,620	35%	n/a	n/a

(1) Based for directors on three day average share price of 997p at time of grant.
(2) Expressed as a percentage of salary at the date of award (15 June 2016).
* In the form of nil-cost options.

Deferred Bonus Matching Plan awards made in 2016/17* (audited)

As set out in last year's Annual Report on Remuneration, following the restructuring of remuneration arrangements for the continuing Executive Directors, only Peter Rogers was eligible for a DBMP award in 2016/17. Peter Rogers received the following awards

Director	Deferred annual bonus (mandatorily deferred bonus) no of shares	Voluntarily Deferral Awards (no of shares)	Total shares invested in the DBMP in 2016/17	Potential Maximum number of matching shares
Peter Rogers	23,332	25,787	49,119	16,373[3]

Director	Basis	Number of matching shares	Face value (£)[1]	Face value (% of salary)[2]	% receivable for threshold performance	End of performance period
Peter Rogers	As per the Policy. Performance measures and targets are set out below	16,373[3]	163,239	25%	12.5%	31 March 2019

(1) Based for Directors on three day average share price of 997p at time of grant. Exercise price is nil because awards are nil-cost options.
(2) Expressed as a percentage of salary at the date of award.
(3) Peter Rogers stepped down from the Board on 31 August 2016. His 2016 DBMP award is pro-rated to reflect the proportion of the performance period he has served.
* In the form of nil-cost options.

Only Peter Rogers was eligible to participate in the DBMP in 2016/17. The plan has now been removed from the Remuneration Policy and no further matching awards will be granted to Executive Directors. The DBMP allowed the Committee to make matching share awards of up to two times the deferred bonus shares (40% of bonus) and any additional shares or extra bonus deferral self-invested under the plan by the Director (of an amount equal to up to 40% of salary). The matching share award is performance-related and only vests to the extent that the performance criteria are met in respect of the three-year performance period. For the 2016 cycle, the performance period runs from 1 April 2016 to 31 March 2019, the same as for PSP awards made in 2016 and the same performance targets apply. The maximum match is 2 for 1 on any shares held under the plan; 0.25 matching shares would be released for each such share at threshold vesting. Therefore, for each measure, threshold vesting would be a (0.25/3) for 1 match (4.2% of maximum) and maximum vesting would be a (2/3) for 1 match (33% of maximum).

2014 PSP awards vesting (audited)

Awards granted in 2014 under the PSP were subject to 3-year TSR and EPS targets outlined on page 120. Performance against these measures, and resulting vesting, is as follows:

		% weighting on each element	% of each element vesting
Outcome of 3-year TSR to 31 March 2017	6% pa below median TSR for the FTSE350 (excluding investment trusts and financial services)	50%	0%
Outcome of 3-year adjusted basic underlying EPS growth to 31 March 2017	7.1% pa in excess of RPI (historical EPS numbers were restated to ensure they were on the same accounting basis)	50%	53%
2014 PSP awards expected to vest to Executive Directors in June 2017:			26.5%

Director	Award	Number expected to vest
Archie Bethel	PSP 2014	10,940
Franco Martinelli[1]	PSP 2014	10,939
Bill Tame	PSP 2014	12,581
John Davies	PSP 2014	10,453
Peter Rogers[2]	PSP 2014	26,501

(1) Franco Martinelli's June 2014 awards were made prior to his appointment as a Director.
(2) Peter Rogers retired as a Director on 31 August 2016.

2014 DBMP awards vesting (audited)

Awards granted in 2014 under the DBMP were subject to the 3-year TSR, EPS and average ROCE targets outlined on page 121. The maximum match is 2 for 1 on any shares held under the plan; 0.25 matching shares would be released for each such share at threshold vesting. Performance against these measures, and resulting vesting, is as follows:

		% weighting on each element	Match on each element
Outcome of 3-year TSR to 31 March 2017	6% pa below median TSR for the FTSE350 (excluding investment trusts and financial services)	33%	0x
Outcome of 3-year adjusted basic underlying EPS growth to 31 March 2017	7.1% pa in excess of RPI (historical EPS numbers were restated to ensure they were on the same accounting basis)	33%	1.01x
Outcome of 3-year average ROCE	14.5%	33%	0x
Match expected on 2014 DBMP awards for Executive Directors on vesting in June 2017:			0.34x

Director	Award	Number expected to vest
Archie Bethel	DBMP 2014	7,792
Franco Martinelli[1]	DBMP 2014	2,028
Bill Tame	DBMP 2014	6,000
John Davies	DBMP 2014	6,905
Peter Rogers[2]	DBMP 2014	16,279

(1) Franco Martinelli's award was made prior to his appointment as a Director.
(2) Peter Rogers retired as a Director on 31 August 2016.

Sourcing of shares

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

Executive Directors' remuneration for 2017/18

Following consultation with the Company's major shareholders, the Committee has considered carefully both best practice and shareholders' interests. Whilst the updated policy is substantially unchanged, it does incorporate new features that further align the policy with best practice and shareholder interests. These new features are described in the Chairman's Annual Statement.

Base salary

Executive Directors base salaries are reviewed each year with any changes usually taking effect from 1 April. The remuneration policy is pitched to deliver fixed remuneration at or below median and total remuneration capable of delivering upper quartile performance. The increase in Executive Directors' salary for 2017/18 was in line with increases for the wider UK work force (see below).

	Salary 2017/18 £	Salary 2016/17 £
Archie Bethel (as Chief Executive)	765,000	750,000
Archie Bethel (as Chief Operating Officer)	n/a	550,000
Franco Martinelli	428,400	420,000
Bill Tame	428,400	420,000
John Davies[1]	413,100	405,000

(1) Salary reflects that he receives car and fuel benefits.

Internal relativity

As noted in our Remuneration policy, when reviewing Executive Directors' remuneration, the Committee takes note of proposals for pay in the wider Group. Each business within the Group determines its own pay structures and remuneration in light of its own position and the employment market in which it operates.

The overall average salary increase for employees in the UK generally for the year to 31 March 2018 is expected to be in the range of 1% to 2% (with individual increases significantly above this amount in some cases) dependent on business and personal performance and local market conditions. The salary increase for the Executive Directors has been set at 2%.

2017/18 Annual bonus

For our Executive Directors' annual bonus plans for 2017/18 we are continuing to use the broad structure adopted in 2016/17 as set out on page 115, with a reweighting of measures to be based 40% on EPS, 20% on PBT, 20% on OCF and 20% on non-financial objectives. For Executive Directors other than the Chief Executive and Group Finance Director, a portion of the PBT and OCF element will be based on performance of their area of the business, and for the Chief Executive, Global Growth and Operations (GGO) a portion of the OCF element will be based on GGO measures. The Committee intends to disclose the Group financial performance targets for 2017/18 and non-financial objectives retrospectively in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive. The Committee will seek to enhance its retrospective disclosure of non-financial objectives in particular. These will fall under the categories of:

- Growth: continue delivery of value-creating growth
- Technology: improve our technical offering and build barriers to entry
- Resources: develop robust resourcing plans to meet the future growth plans of the business
- Reputation: deliver value to our customers, enhance our reputation and sustain operational performance
- Processes: continually improve our systems, technologies and processes to maximise business opportunities.

The weighting of the elements of bonus is kept under review.

For all Executive Directors, 40% of any earned bonus will continue to be deferred into shares for three years.

PSP awards for 2017/18

The Committee intends to grant awards in 2017/18 under the PSP of 200% of salary for all Executive Directors, with the performance measures and targets as follows: the EPS growth targets for 2017 awards in nominal terms of 4% pa to 11% pa over three years; TSR targets between median and median +9% relative to the peer group; ROCE targets (based on the average return over the performance period) will vest from 12% to 14.5%.

Summary of the structure of Executive Directors' remuneration

Based on the Committee's policy, the principal elements of the remuneration arrangements (other than pension benefits or supplements in lieu of pension benefits) for Executive Directors in the year to 31 March 2017 and for the year to 31 March 2018 are summarised in the table below.

	2017/18			2016/17		
Director	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)
Archie Bethel	765,000	150%	200%	750,000[1]	150%	200%
Franco Martinelli	428,400	150%	200%	420,000	150%	200%
Bill Tame	428,400	150%	200%	420,000	150%	200%
John Davies	413,100	150%	200%	405,000	150%	200%

(1) Salary as Chief Executive from 1 September 2016

Outstanding share awards summaries: grants made up to and during 2016

The following tables on pages 120 to 122 summarise the performance targets (if applicable) and other information about the plans relevant to currently outstanding share awards held by Executive Directors (ie those awards yet to vest) and those that vested during the year to 31 March 2017 (the awards made in 2013 under the PSP, the CSOP and the DBMP).

Scheme	Performance Share Plan (nil price options) and Company Share Option Plan (market price options) 2013–2016			
Performance period	For the 2013 awards: 1 April 2013 to 31 March 2016 (vested in June 2016 as to 37.3%). For the 2014 awards: 1 April 2014 to 31 March 2017 (expected to vest in June 2017 as to 26.5%). For the 2015 awards: 1 April 2015 to 31 March 2018. For the 2016 awards: 1 April 2016 to 31 March 2019.			
General performance target	EPS growth test	Comparative TSR test	ROCE test	Proportion of total award that can vest under each measure
Maximum	Compound annual growth: 2013 and 2014 Awards: 11% or more in excess of RPI 2015 and 2016 Awards: 11% or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	2016 Awards: ROCE of more than 15%	50% on EPS and TSR for 2013-15 awards 33% on EPS, TSR and ROCE for 2016 awards
Threshold	Compound annual growth in: 2013 and 2014 Awards: 4% or more in excess of RPI 2015 and 2016 Awards: 4% or more	TSR performance equivalent to the median for the peer group as a whole	2016 Awards: ROCE of 12%	8.3% on EPS and TSR for 2013-15 awards 5.6% on EPS, TSR and ROCE for 2016 awards
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight–line basis between 8.3% and 50% on EPS and TSR for 2013-15 awards; and between 5.6% and 33% on EPS, TSR and ROCE for 2016 awards
	Compound annual growth below threshold	Performance less than equivalent to median for the whole peer group	ROCE of less than threshold	0%
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.			

Performance Share Plan (nil price options) and Company Share Option Plan (market price options) 2013–2016 continued	
Other information	The awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is after exceptional items. ROCE is underlying EBIT after amortisation of acquired intangibles but before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Average Capital Employed over the Performance Period where Capital Employed is calculated as Total Shareholders' Equity plus Net Debt (or minus Net Funds), as stated in the Company's consolidated audited accounts for the relevant Financial Year; and Average Capital Employed will be calculated as the average of the opening and closing value of Capital Employed for each year of the applicable Performance Period. ROCE targets set at the start of each cycle represent challenging returns in relation to the capital structure at that time, including the impact of any acquisitions or disposals made in the period prior to grant. The Committee has discretion to adjust the ROCE outcome for significant changes to the capital structure made during the performance period (e.g. acquisitions and disposals) to ensure a fair outcome for participants and shareholders. The awards carry the right to receive on vesting a payment equal to the value of any dividends in the period between grant and vesting but this right applies only to the shares that actually vest under the award. Exercise periods commence not less than three years from actual or nominal award grant date. CSOP and PSP awards are linked so that in aggregate the holder cannot receive more gross value from them than a standalone PSP award of shares equal to the relevant award multiple of the Director's base salary.

Scheme	Deferred Bonus Matching Plan (nil price options) 2013–2016 matching awards			
Performance period	For the 2013 awards: 1 April 2013 to 31 March 2016 (vested in June 2016 as to 57.8%). For the 2014 awards: 1 April 2014 to 31 March 2017 (expected to vest in June 2017 as to 17.0%). For the 2015 awards: 1 April 2015 to 31 March 2018. For the 2016 awards: 1 April 2016 to 31 March 2019.			
General Performance target	EPS growth test	Comparative TSR test	ROCE test	Match that can vest under each measure
Maximum	Compound annual growth: 2013 and 2014 Awards: 11% or more in excess of RPI 2015 and 2016 Awards: 11% or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	ROCE of more than 23.5% (2013)/ 17% (2014)/15% (2015 and 2016)	0.33x maximum
Threshold	Compound annual growth: 2013 and 2014 Awards: 4% or more in excess of RPI 2015 and 2016 Awards: 4% or more	TSR performance equivalent to the median for the peer group as a whole	ROCE of 21.5% (2013)/ 15% (2014)/12% (2015 and 2016)	0.042x maximum
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight–line basis between 0.042x and 0.33x maximum
	Compound annual growth below threshold	Performance less than equivalent to median for the whole peer group	ROCE of less than threshold	0x

Deferred Bonus Matching Plan (nil price options) 2013–2016 matching awards continued	
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that the Company's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.
Other information	Matching awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is after exceptional items. For the 2013, 2015 and 2016 awards, ROCE is underlying EBIT after amortisation of acquired intangibles but before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Average Capital Employed over the Performance Period where Capital Employed is calculated as Total Shareholders' Equity plus Net Debt (or minus Net Funds), as stated in the Company's consolidated audited accounts for the relevant Financial Year; and Average Capital Employed will be calculated as the average of the opening and closing value of Capital Employed for each year of the applicable Performance Period. For 2014 awards, the test is based on Average Capital Employed in the 2016/17 Financial Year, with EBIT for the Babcock businesses excluding Avincis (now called Mission Critical Services) being calculated after amortisation of acquired intangibles and EBIT for the Avincis business being calculated before amortisation of acquired intangibles in each case before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Capital Employed calculated as the average of the opening and closing value of Capital Employed for that year. In addition, for the 2014 awards, the Committee has to be satisfied that ROCE for 2014/15 and 2015/16 was satisfactory, and that the recorded ROCE performance is a genuine reflection of the underlying performance of the Company. ROCE targets set at the start of each cycle represent challenging returns in relation to the capital structure at that time, including the impact of any acquisitions or disposals made in the period prior to grant. The Committee has discretion to adjust the ROCE outcome for significant changes to the capital structure made during the performance period (eg acquisitions and disposals) to ensure a fair outcome for participants and shareholders. The awards carry the right to receive on vesting a payment equal to the value of any dividends in the period between grant and vesting but this right applies only to the shares that actually vest under the award. Exercise periods commence not less than three years from actual or nominal award grant date.

Linkage of remuneration to strategic objectives, risk management and its alignment with shareholder interests

The Committee links the remuneration of executives to the long-term interests of shareholders and key strategic and risk management objectives by the performance criteria it uses in the annual bonus and long-term incentive plans.
Examples include the following:

Strategic Objective (SO)/Risk (R)	Annual bonus scheme metric	Long-term incentive metric
SO/R: Delivering superior and sustainable value for our shareholders, whilst balancing risk and reward.	Financial measures focused on annual delivery of sustainable earnings and/or profits with stretch targets, whilst maintaining strict control of cash.	Incentivising delivery of top quartile shareholder returns and earnings growth over the longer term. Long-term measures and deferral of significant part of annual bonus to guard against short-term steps being taken to maximise annual rewards at the expense of future performance.
SO: Growth.	Setting challenging budgets and stretch targets, as well as non-financial measures specifically aimed at: • laying the foundations for sustainable growth in specific existing and new geographical business markets; • winning key bids and re-bids; • fostering strategically important partnering arrangements.	
SO: Developing and maintaining leading market positions in the UK and selected overseas markets.	Specific non-financial objectives for: • progressing plans for entry into or expansion in targeted domestic and overseas markets; • securing key business development milestones.	
SO: Building and maintaining customer focused, long-term relationships with strategically important customers. R: Loss of business reputation, poor contract performance.	Non-financial objectives linked to: • customer satisfaction; • continuing improvement of management processes; • meeting and planning for existing and future customer expectations on capability and compliance, for example, in the field of security and information assurance.	
SO/R: Ensuring the Group will continue to retain and attract the suitably qualified and experienced people it needs to deliver its growth and strategic plans, maintain and develop its technical and management expertise.	Non-financial objectives linked to recruitment and development, resource and succession planning, and fostering diversity and employee engagement. Retentive nature of the requirement for deferral into shares of 40% of annual bonuses earned by senior executives.	Retentive nature of the long-term plans.
SO/R: Maintenance of an excellent health, safety and environmental record.	Overriding health, safety and environmental performance criterion in annual bonus plans.	

Exit payments made in year (audited)

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

Payments to past Directors (audited)

As outlined in last year's Annual Report on Remuneration, Peter Rogers retired from the Board on 31 August 2016. As he served as Chief Executive for most of the first half of the 2016/17 financial year, he also participated in the 2016/17 annual bonus plan on similar terms as for other Executive Directors, although on a time pro-rated basis, so that he will only receive 50% of the amount that would be payable for the full year after testing for performance. This payment, as included in his single figure of remuneration on page 113, is to be made in June 2017 as to 60% in cash and 40% by way of deferral in shares for three years into a basic award under the DBMP. He will not be eligible for a matching award on the deferral. Details of Peter Rogers' other outstanding equity awards are included elsewhere in this report.

Kevin Thomas retired from the Company on 31 March 2016, having previously served as an Executive Director until stepping down on 31 December 2015. 37.3% and 57.8% of his existing 2013 PSP and 2013 DBMP matching awards, totalling 49,004 shares, vested at the normal time and in line with other participants on 13 June 2016.

Non-Executive Directors' fees (including the Chairman)

The Chairman and Non-Executive Directors receive fixed fees. These fees are reviewed against market practice. From this year the review will take place annually (by the Chairman and the Executive Directors in the case of the Non-Executive Director fees and by the Committee in respect of the fees payable to the Chairman). The Chairman and Non-Executive Director fees were reviewed and set as of 1 April 2017. Prior to this, they were last increased in April 2015.

Annual rate of fees	Year to 31 March 2017 £	Year to 31 March 2018 £	% change since last review (% p.a)
Chairman	310,000	330,000	3.2%
Senior Independent Director (inclusive of basic fee)	69,000	71,000	1.4%
Basic Non-Executive Director's fee (UK based directors)[1]	58,000	60,000	1.7%
Chairmanship of Audit and Risk Committee[2]	15,000	15,000	0%
Chairmanship of Remuneration Committee[2]	15,000	15,000	0%

(1) Fees for non-UK based Directors will be set having regard to the extra time commitment involved in attending meetings. For Myles Lee, appointed 1 April 2015 and based in Ireland, and for Victoire de Margerie, appointed 1 February 2016 and based in France, the fee has been set at £64,200 for the year to 31 March 2018.
(2) Committee chairmanship fees are paid in addition to the basic applicable Non-Executive Directors' fee. No additional fees are paid for membership of Committees.

Percentage change in Chief Executive remuneration

The table below shows the percentage change in the Chief Executive's remuneration (as disclosed in the single total figure of remuneration table on page 113) from the prior year compared to the average percentage change in remuneration for other employees.

The analysis is based on UK employees as they are operating in the same geography and macro-economic background as the Chief Executive.

	% change 2015/16 TO 2016/17	
	Chief Executive[1]	Other employees
Base salary	11%[2]	2.4%
Taxable benefits	766%[3]	8.0%
Single-year variable	29%	-1.0%

(1) The percentage change for the Chief Executive has been determined with reference to the aggregate 2016/17 remuneration for Archie Bethel and Peter Rogers for the period they were undertaking the role of Chief Executive.
(2) Increase reflects the restructuring of remuneration for 2016/17. As disclosed in last year's report, as part of the deleveraging of the package and removal of the DBMP, Archie Bethel was appointed as Chief Executive on a salary of £750,000 p.a. which was higher than his predecessor's salary.
(3) Increase reflects additional costs (£173,806) in 2016/17 in connection with Archie Bethel's accommodation in London, at the Company's request, to enable him to lead the business effectively.

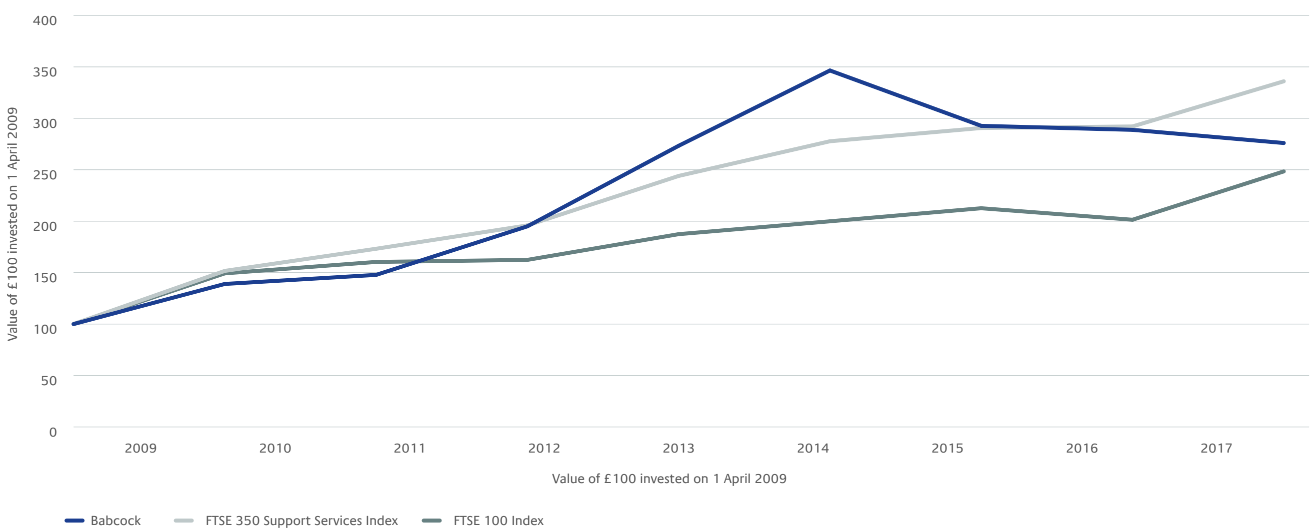
Relative importance of spend on pay

	2015/16	2016/17	% change
Distribution to shareholders	£122m	£133m	9%
Employee remuneration	£1,459m	£1,547m	6%

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE100 Index and FTSE350 Support Services Index, assuming £100 was invested on 1 April 2009 (investment in the Company was worth £276 on 31 March 2017). The Board considers that these indices currently represent the most appropriate of the published indices for these purposes as they provide a view of performance against the broad equity market and sector index of which the Company is a constituent.

Babcock International vs. FTSE 350 Support Services Index and FTSE 100 Index



The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

CEO single figure of remuneration and % of variable awards vesting

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Peter Rogers[1]								
Single figure (£'000)	1,706	1,792	2,185	2,731	3,809	4,448	2,491	1,100
Bonus vesting (% max)	97%	98%	99%	99%	93%	78%	60%	66%
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	n/a	88.4%	57.8%	17.0%
PSP/CSOP vesting (% max)	100%	82.9%	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%
Archie Bethel[2]								
Single figure (£'000)								1,848
Bonus vesting (% max)								66%
DBMP matching shares vesting (% max)								17.0%
PSP/CSOP vesting (% max)								26.5%

(1) Until retirement on 31 August 2016.
(2) Includes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.

Directors' share ownership

Directors' interests in shares (audited)

The interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2017, and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

	At 31 March 2016	At 31 March 2017							
	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?[2]
Archie Bethel	298,407	351,333	21,170	0	290,241	38,054	300%	450%	Yes
Franco Martinelli	263,114	292,210	0	0	204,059	28,851	200%	646%	Yes
Bill Tame	508,847	551,891	0	0	251,349	46,217	200%	1,210%	Yes
John Davies	118,371	157,359	15,538	0	244,050	37,495	200%	404%	Yes
Peter Rogers[4]	1,250,829	1,338,658	67,238	0	440,158	76,400	200%	1,895%	Yes
Mike Turner	65,384	75,384							
Jeff Randall	4,268	4,375							
Sir David Omand	0	0							
Ian Duncan	0	0							
Anna Stewart	5,656	5,656							
Myles Lee	2,000	5,000							
Victoire de Margerie[5]	1,000	1,000							

(1) Beneficially held shares (of Director and/or spouse).
(2) Current shareholdings for comparison with the shareholding requirements for Executive Directors is calculated based on salary as at 31 March 2017 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, valued assuming exercise of options on 31 March 2017 and calculated post-tax.
(3) Disclosure of these shareholdings reflects any adjustments made due to the rights issue which completed during May 2014.
(4) Peter Rogers left the board on 31 August 2016, his interests are shown at that date.
(5) Victoire de Margerie joined the Board on 1 February 2016.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2017 and 23 May 2017.

Directors' share-based awards and options (audited)

The tables below shows 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 2017 was 882p. The highest and lowest mid-market share prices in the year ended 31 March 2017 were 1,105p and 869.5p, respectively.

Director	Plan[1] and year of award[7]	Number of shares subject to award at 1 April 2016 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2017	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Archie Bethel	PSP 2013	48,723		18,173[a]	30,550	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic award)	14,751		14,751[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)	29,502		17,052[a]	12,450	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)	11,920		11,920[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)	23,840		13,173[a]	10,061	0		1,036.88	Jun 2016	Jun 2017
	PSP 2014	41,286				41,286		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic award)	12,705				12,705		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	25,410				25,410		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral award)	10,215				10,215		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral matching award)	20,430				20,430		1,223.67	Jun 2017	Jun 2018
	PSP 2015	46,519				46,519		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	12,187				12,187		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	24,374				24,374		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	10,955				10,955		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	21,910				21,910		1,141.00	Jun 2018	Jun 2019
	PSP 2016		110,312			110,312		997.17	Jun 2019	Jun 2020
	DBP 2016		13,162			13,162		997.17	Jun 2019	Jun 2020

(a) Market value of each share at date of exercise (21 Jun 2016) = 997.1p.
For other notes to the table see page 132.

Director	Plan[1] and year of award[7]	Number of shares subject to award at 1 April 2016 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2017	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Franco Martinelli	PSP 2013[7]	31,247		11,655[a]	19,592	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic award)[7]	7,311		7,311[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)[7]	14,625		8,451[a]	6,174	0		1,036.88	Jun 2016	Jun 2016
	DBMP 2013 (voluntary deferral award)[7]	8,125		8,125[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)[7]	16,250		9,392[a]	6,858	0		1,036.88	Jun 2016	Jun 2017
	PSP 2014[7]	27,090				27,090		1,223.67	Jun 2017	Jun 2018
	PSP 2014	14,196				14,196		1,015.00	Jan 2018	Jan 2019
	DBMP 2014 (basic award)[7]	5,966				5,966		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)[7]	11,932				11,932		1,223.67	Jun 2017	Jun 2018
	PSP 2015	46,519				46,519		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	10,042				10,042		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	20,084				20,084		1,141.00	Jun 2018	Jun 2019
	PSP 2016		84,238			84,238		997.17	Jun 2019	Jun 2020
	DBP 2016		12,843			12,843		997.17	Jun 2019	Jun 2020

(a) Market value of each share at date of exercise (21 Jun 2016) = 997.1p.
For other notes to the table see page 132.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2015 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2017	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
John Davies	PSP 2013	46,554		17,364[a]	29,190	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic award)	14,464		14,464[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)[7]	28,929		16,720[a]	12,209	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)	11,688		11,688[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)	23,377				0		1,036.88	Jun 2016	Jun 2017
	PSP 2014	39,448				39,448		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic award)	12,139				12,139		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	24,279				24,279		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral award)	8,172				8,172		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral matching award)	16,344				16,344		1,223.67	Jun 2017	Jun 2018
	PSP 2015	44,447				44,447		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	11,785				11,785		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	23,570				23,570		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	7,366				7,366		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	14,732				14,732		1,141.00	Jun 2018	Jun 2019
	PSP 2016		81,230			81,230		997.17	Jun 2019	Jun 2020
	DBP 2016		13,571			13,571		997.17	Jun 2019	Jun 2020

(a) Market value of each share at date of exercise (17 Jun 2016) = 975.25p.
For other notes to the table see page 132.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2016 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2017	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Bill Tame	PSP 2013	56,032		20,899[a]	35,133	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic award)	20,356		20,356[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)	40,713		23,53[a]	17,182	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)	7,714		7,714[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)	15,430		8,917[a]	6,513	0		1,036.88	Jun 2016	Jun 2017
	PSP 2014	47,479				47,479		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic award)	17,649				17,649		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	35,299				35,299		1,223.67	Jun 2017	Jun 2018
	PSP 2015	52,193				52,193		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	16,070				16,070		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	32,140				32,140		1,141.00	Jun 2018	Jun 2019
	PSP 2016		84,238			84,238		997.17	Jun 2019	Jun 2020
	DBP 2016		12,498			21,498		997.17	Jun 2019	Jun 2020

(a) Market value of each share at date of exercise (13 Jun 2016) = 1,001.6p.
For other notes to the table see page 132.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2016 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2017	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Peter Rogers	PSP 2013	118,020		44,021[a]	73,999	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic award)	32,157		32,157[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)	64,315		37,173[a]	27,142	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)	21,654		21,654[a]	0	0		1,036.88	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)	43,310		25,032[a]	18,278	0		1,036.88	Jun 2016	Jun 2017
	PSP 2014	100,006				100,006		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic award)	27,881				27,881		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	55,763				55,763		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral award)	20,001				20,001		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral matching award)	40,002				40,002		1,223.67	Jun 2017	Jun 2018
	PSP 2015	112,681				112,681		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	25,187				25,187		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	50,374				50,374		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	21,450				21,450		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	42,900				42,900		1,141.00	Jun 2018	Jun 2019
	PSP 2016		22,060			22,060		997.17	Jun 2019	Jun 2020
	DBMP 2016 (basic award)		23,332			23,332		997.17	Jun 2019	Jun 2020
	DBMP 2016 (basic matching award)		7,777			7,777		997.17	Jun 2019	Jun 2020
	DBMP 2016 (voluntary deferral award)		25,787			25,787		997.17	Jun 2019	Jun 2020
	DBMP 2016 (voluntary deferral matching award)		8,595			8,595		997.17	Jun 2019	Jun 2020

(a) Market value of each share at date of exercise (16 Jun 2016) = 966.75p.
For other notes to the table see page 132.

Notes applicable to all tables on pages 127 to 131.

Outstanding awards granted prior to June 2014 were adjusted to reflect the rights issue which completed during May 2014 using a standard adjustment factor of 1.13417. Any reference price, including the exercise prices shown was also adjusted.

(1) PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBMP = 2012 Deferred Bonus Matching Plan; DBP = 2012 Deferred Bonus Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 120 to 122.
(2) The PSP and DBMP awards are structured as nil priced options. DBMP basic awards represent the amount of the annual bonus mandatorily deferred and DBMP voluntary deferral awards represent the amount voluntarily deferred by the Director, in each case converted into shares at their value at the award date.
(3) Subject to the rules of the plan concerned, including as to meeting performance targets for PSP, CSOP and DBMP Matching Awards.
(4) Where this date is less than ten 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.
(5) Awards shown in the table for Franco Martinelli for 2013 and June 2014 were made prior to his appointment as a Director, which took effect on 1 August 2014.

Summary of share based awards and options vested during the year

During the year to 31 March 2017 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) £
Archie Bethel	PSP 2013	18,173	13 Jun 2016	213,714	181,639	
	DBMP 2013 (basic award)	14,751	13 Jun 2016	173,472	147,436	
	DBMP 2013 (basic matching award)	17,052	13 Jun 2016	200,532	170,435	
	DBMP 2013 (voluntary deferral award)	11,920	13 Jun 2016	140,179	119,140	
	DBMP 2013 (voluntary deferral matching award)	13,779	13 Jun 2016	162,041	137,721	
Franco Martinelli	PSP 2013	11,655	13 Jun 2016	137,063	116,492	
	DBMP 2013 (basic award)	7,311	13 Jun 2016	85,977	73,073	
	DBMP 2013 (basic matching award)	8,451	13 Jun 2016	99,384	84,468	
	DBMP 2013 (voluntary deferral award)	8,125	13 Jun 2016	95,550	81,209	
	DBMP 2013 (voluntary deferral matching award)	9,329	13 Jun 2016	110,450	93,873	
Bill Tame	PSP 2013	20,899	13 Jun 2016	245,772	208,886	
	DBMP 2013 (basic award)	20,356	13 Jun 2016	239,387	203,458	
	DBMP 2013 (basic matching award)	23,531	13 Jun 2016	276,725	235,192	
	DBMP 2013 (voluntary deferral award)	7,714	13 Jun 2016	90,717	77,101	
	DBMP 2013 (voluntary deferral matching award)	8,917	13 Jun 2016	104,864	89,125	
John Davies	PSP 2013	17,364	13 Jun 2016	204,201	173,553	
	DBMP 2013 (basic award)	14,464	13 Jun 2016	170,097	144,568	
	DBMP 2013 (basic matching award)	16,720	13 Jun 2016	196,627	167,116	
	DBMP 2013 (voluntary deferral award)	11,688	13 Jun 2016	137,451	116,822	
	DBMP 2013 (voluntary deferral matching award)	13,511	13 Jun 2016	158,889	135,042	
Peter Rogers	PSP 2013	44,021	13 Jun 2016	517,687	439,990	
	DBMP 2013 (basic award)	32,157	13 Jun 2016	378,166	321,409	
	DBMP 2013 (basic matching award)	37,173	13 Jun 2016	437,154	371,544	
	DBMP 2013 (voluntary deferral award)	21,654	13 Jun 2016	254,651	216,432	
	DBMP 2013 (voluntary deferral matching award)	25,032	13 Jun 2016	294,376	250,195	

General Notes:

(1) ‘Dividend equivalent cash’ (an amount representing dividends earned) of 69.77p per vested share had accrued on the PSP 2013 awards and on the DBMP 2013 awards, in each case for the period between grant and vesting. It is payable by the Company to the award holder on exercise of the award concerned.
(2) Closing Share Price on the last dealing date before vesting was 999.5p (12 June 2016) for PSP 2013 and DBMP 2013 awards.

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 2016/17

The table below details the fee received by Bill Tame during the year, in respect of his other directorship, which is retained by him.

Name of Director	Company	Fees received £000
Bill Tame	Southern Water	67

This Remuneration report was approved by the Board on 23 May 2017 and signed on its behalf by:

Jeff Randall

Chairman of the Remuneration Committee

23 May 2017

Disclosure locations

The principal activities of the Group and its subsidiaries and details of important events affecting the Group which have occurred since 31 March 2017 and an indication of likely future developments in the business of the Group can be found in the Strategic report on pages 1 to 79.

The Corporate Governance Statement along with the Reports of the Nominations Committee, the Audit and Risk Committee and the Remuneration Committee, as well as this section, comprise the Directors' report.

For the purposes of DTR 4.1.5 R (2) and DTR 4.1.8 R the required content of the Management report can be found in the Strategic report and the Directors' report including the sections of the Annual Report and Accounts incorporated by reference.

For the purposes of DTR 7.2.5, a description of the main features of the Group's internal control and risk management systems, including in relation to the financial reporting process, can be found on pages 68 to 70 and a statement regarding the effectiveness of the internal controls can be found on pages 139 to 140. Details in connection with the Company's share capital as required by DTR 7.2.6 can be found on pages 182 to 184.

The information which is required to be disclosed by LR 9.8.4 R and which forms part of the Directors' report can be found in the locations listed in the table below.

A statement regarding compliance with the UK Corporate Governance Code 2016 is included in the Governance section of the Directors' report on page 85.

Listing Rule	Topic	Location
9.8.4 (1)	Interest capitalised by the Group during the year	Financial statements, notes 11 and 12 on pages 171 and 172
9.8.4 (2) (4-11) (14)	Not applicable	N/A
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 22 on page 184

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 2342138, is the holding company for the Babcock International Group of companies.

The Directors and their powers

Biographies of the current Directors of the Company are to be found on pages 82 and 83. The table on page 86 shows the Directors who served during the year to 31 March 2017.

A summary of the rules relating to the appointment and removal of Directors can be found on page 90.

The powers of the Directors are set out in the Company's Articles of Association, which may be amended by way of a special resolution of the members of the Company. For further information see page 86.

Results and dividends

The profit attributable to the owners of the Company for the financial year was £311.8 million (2016: £286.6 million). An interim dividend of 6.50 pence per 60 pence ordinary share was declared in the year (2016: 6.05 pence). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 21.65 pence (2016: 19.75 pence) on each of the ordinary shares of 60 pence to be paid on 11 August 2017 to those shareholders on the register at the close of business on 30 June 2017.

Authority to purchase own shares

At the Annual General Meeting in July 2016, members authorised the Company to make market purchases of up to 50,559,659 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting in July 2017 when a resolution will be put to renew it so as to allow purchases of up to a maximum of no more than 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 21 July 2016 (the date the current authority was granted) to the date of this Report. The Company currently does not hold any treasury shares.

Details of issues to and purchases of the Company's shares made in the year to 31 March 2017 by the Babcock Employee Share Trust and the Peterhouse Employee Share Trust in connection with the Company's executive share plans are to be found in note 22 on pages 182 to 184 and details of purchases of the Company's shares by Capita IRG Trustees Limited in connection with matching share awards under the Babcock Employee Share Plan can be found in note 23 on page 185.

Major shareholdings

As at 31 March 2017, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Standard Life Investments (Holdings) Limited	70,388,424	13.92%
The Capital Group Companies Inc.	50,380,653	9.96%
Invesco Ltd	50,160,084	9.92%
Woodford Investment Management LLP	25,474,689	5.04%
Legal & General Group Plc	14,352,920	3.97%

Since 31 March 2017 Standard Life Investments (Holdings) Limited has notified the Company of further changes to its interest culminating on 1 May 2017 with a decrease to 55,427,431, representing 10.96% of the share capital. There have been no further notifications between then and the date of this report.

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

Employee involvement

Engagement with our employees is important to Babcock.

The Company operates a UK-approved share plan, the Babcock Employee Share Plan, which is open to all employees of participating UK Group companies. The Plan allows the Company to award free and/or matching shares to participants. The shares bought on behalf of the employee are held in a tax-approved employee trust.

The trustees of the Plan exercise voting rights attached to those shares in accordance with directions from the employees on whose behalf they are held.

The Company has also established for certain non-UK employees an International Plan which reflects the structure of the UK Plan.

Senior employees of the Group are given awards under the Company's long-term incentive plans as detailed in the Remuneration report on pages 98 to 133. Shares intended to be used for satisfying existing share awards and options are held by the trustees of the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The trustees of these Schemes have no present intention of exercising the voting rights attached to the shares held by them.

Twice a year representatives from across the UK and the other European countries in which we operate attend the Babcock International Group Employee Forum.

Further information regarding our employees and their involvement within the business, including the Company's policy on discrimination and diversity, can be found within the Sustainability Report on pages 64 to 65 and the Nominations Committee Report on page 93.

Employment of disabled persons/equal opportunities

Babcock is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock.

Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Political donations

No donations were made during the year for political purposes.

Financial risk management

Details relating to financial risk management in connection with the use of financial instruments by the Group can be found in note 2 on pages 160 to 163.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic report on page 67.

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purpose of the Companies Act 2006 in respect of their Directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

There are also qualifying third-party indemnity provisions entered into between the Company and Archie Bethel and Kevin Thomas in their capacity as Directors of International Nuclear Solutions PLC (a former subsidiary of the Company) which were in force at the date of approval of this report.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which can often be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be significant.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Group

Borrowing facilities

The Company extended the maturity date of its five year £750,000,000 Revolving Credit Facility by a further year, from December 2019 to December 2020.

The facility provides funds for general corporate and working capital purposes. In the event of a change of control of the Company, the facility agreement provides that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the credit facility.

Multi-Currency Loan Note facility

The Company has in issue £40 million 5.405% Series B Shelf Notes due 21 January 2020 (the Notes), a facility which is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. Unless previously redeemed or purchased and cancelled, the Company will redeem the Notes on 21 January 2020 at their principal amount. In the event of a change of control of the Company before then, the Company must offer to repay the Notes together with a make-whole premium.

US Dollar Loan Notes

The Company has in issue the following US Dollar Loan Notes: (i) US$150 million aggregate principal amount of 4.94% Series A Senior Notes due 17 March 2018; and (ii) US$500 million aggregate principal amount of 5.64% Series B Senior Notes due 17 March 2021. Each series is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. In the event of a change of control of the Company before then, the Company must offer to purchase the Notes.

£1,800,000,000 Euro Medium-Term Note Programme

The Company has in place a Euro Medium-Term Note Programme under which the Company could issue notes up to £1,800,000,000. Under the Note Programme, the Company has in issue €550,000,000 1.75% Notes due in 2022 as well as £250,000,000 1.875% Notes due in 2026.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment-grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

Share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 108 and 109.

Marine

Articles of Association of Devonport Royal Dockyard Limited and Rosyth Royal Dockyard Limited

The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so. Any level of ownership by particular foreign or domestic persons may, on the facts of the case, be so treated.

Under its Articles of Association RRDL is not entitled to redeem the special share.

Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Babcock Marine (Rosyth) Limited

The ToBA confirms Babcock as a key support partner of MOD in the maritime sector and covers the 15-year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a Change in Control of the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners of the Company to become involved, or interested, in the Marine division. 'Change in Control' occurs where a person or group of persons that controls the Company ceases to do so or if another person or group of persons acquires control of the Company.

Maritime Support Delivery Framework Agreement dated 1 October 2014 between (1) The Secretary of State for Defence (2) Devonport Royal Dockyard Limited (3) Babcock Marine (Clyde) Limited and (4) Babcock Marine (Rosyth) Limited

In October 2014, Babcock signed the Maritime Support Delivery Framework (MSDF) with MOD. Working within the ToBA, which runs through to 2025, MSDF confirms the continuation of Babcock's contract to deliver services at HMNB Clyde and HMNB Devonport to March 2020, replacing Babcock's Warship Support Modernisation Initiative (WSMI) contracts. The MSDF agreement also covers a number of surface ship projects which will be delivered through the Surface Ship Support Alliance. MOD can terminate the MSDF in the event of a change of control of the Company. The provisions follow those in ToBA in this respect.

Cavendish Nuclear

Parent Body Agreement between Cavendish Fluor Partnership (CFP) and the Nuclear Decommissioning Authority (NDA) dated 27 August 2014

CFP, a joint venture between Cavendish Nuclear, part of Babcock International, and US-based Fluor Corporation, with ownership split 65:35 to Cavendish and Fluor respectively, is the parent body organisation (PBO) for the site licence company Magnox Limited.

Magnox Limited is responsible for ten Magnox nuclear power plants, as well as the Harwell and Winfrith research centres. The sites are all owned by the Nuclear Decommissioning Authority (NDA). The NDA has appointed CFP as the PBO in respect of the management of the 12 UK nuclear sites and their respective decommissioning programmes. Under the terms of appointment the NDA may terminate CFP's appointment if there is a change of control to which it has not consented.

Aviation

MCS Operator's Licences

Certain of the operating subsidiaries of Babcock Mission Critical Services Limited engaged in the provision of the air services described on pages 54 to 57 of this report are required to hold operating licences in order to operate their principal business. Under Regulation (EC) No. 1008/2008 (the Regulation), a holder of an operating licence is required to be majority-owned and majority-controlled by European Economic Area (EEA) nationals, which includes for these purposes nationals of member states of the European Union, Norway and Switzerland. If the relevant operators cease to be owned and effectively controlled by EEA nationals, this could lead to aviation regulators refusing, withholding, suspending or revoking the relevant operating licence which in turn could have a material adverse effect on the business, financial condition and/or operations of the Group. The Board believes that these companies currently satisfy the relevant nationality requirements of the Regulation. However, as compliance with the Regulation is an ongoing requirement, the risk of this ceasing to be so cannot be ruled out.

See also Nationality-related restrictions on share ownership on page 138 below.

Share capital and rights attaching to the Company's shares

General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws) or by the nationality-related restrictions, more particularly described later on this page.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange.

Nationality-related restrictions on share ownership

As noted on page 137 under MCS Operator's Licences' certain Group companies must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other things, requires those companies to be majority-owned and majority-controlled by EEA nationals.

At the Company's Annual General Meeting in July 2014, shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove, from the separate register, particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such shareholder to attend or speak (whether by proxy or person) at any general or class meeting of the Company or to vote or exercise any other right attaching to the shares in question. Where the shares represent at least 0.25% of the aggregate nominal value of the Company's share capital, the Company may also (subject to certain exceptions) refuse to register the transfer of such shares.

The Articles also require that a declaration (in a form prescribed by the Directors) relating to the nationality of the transferee is provided to the Directors upon the transfer of any shares in the Company, failing which the Directors may refuse to register such transfer (see further below).

Power to treat shares as 'Affected Shares'

The Articles empower the Directors, in certain circumstances, to treat shares as 'Affected Shares'. If the Directors determine that any shares are to be treated as Affected Shares, they may serve an 'Affected Share Notice' on the registered shareholder and any other person that appears to have an interest in those shares. The recipients of an Affected Share Notice are entitled to make representations to the Directors with a view to demonstrating that such shares should not be treated as Affected Shares. The Directors may withdraw an Affected Share Notice if they resolve that the circumstances giving rise to the shares being treated as Affected Shares no longer exist.

Consequences of holding or having an interest in Affected Shares

A holder of Affected Shares is not entitled, in respect of those shares, to attend or speak (whether by proxy or person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings and the rights attaching to such shares will vest in the Chairman of the relevant meeting (who may exercise, or refrain from exercising, such rights at his sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held on trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then to treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

Right to refuse registration

The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that currently the nationality requirements, set out in the Regulation, are met and, based on the Company's understanding of the application of the Regulation and of its shareholder base, more than 70% of the share capital of those companies which are required to be majority-EEA-owned and controlled is owned by EEA nationals or funds managed in the EEA. There can however be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above.

Directors' duty to avoid conflicts of interest

The Company has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' conflicts of interest and potential conflicts of interest in accordance with the provisions of 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 actual or potential conflict of interest with their duties to the Company or of any material change in existing actual or potential conflicts that may have been authorised by the Board. Notified actual or potential conflicts will be reviewed by the Board as soon as possible. The Board will consider whether a conflict or potential conflict does, in fact, exist and, if so, whether it is in the interest of the Company that it be authorised and, if so, on what terms.

In making their judgement on this, the other Directors must have regard to their general duties to the Company. A register is maintained for the Board of all such disclosures and the terms of any such authorisation.

Authorisations may be revoked, or the terms on which they were given varied, at any time. Cleared conflicts will in any event be reviewed annually by the Board. In the event of any actual conflict arising in respect of any matter, mitigating action would also be considered (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him or her of relevant papers).

Post-balance-sheet events

There have been no reportable events from the balance sheet date to the date of this report.

Internal controls and risk management

There has been a process for identifying, evaluating and managing principal risks throughout the year to 31 March 2017 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review, and data for consolidation into the Group's financial statements is reviewed by management to ensure that it reflects a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Group Financial Controller is asked to report on the effectiveness of the Group's internal controls and the Audit and Risk Committee reviews this report in light of all the other information supplied to it during the course of the year including internal audit reports, risk reports and monthly financial and operational reports.

The Board considers the system to be effective and in accordance with Guidance for Risk Management, Internal Control, and Related Financial and Business reporting (which has replaced the Turnbull Guidance). Further information on the principal internal controls in use in the Company is to be found on pages 68 to 70.

Going concern and viability

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date these accounts were signed. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Directors are also required to provide a broader assessment of viability over a longer period, which can be found on page 79.

Auditor

PricewaterhouseCoopers LLP is willing to continue in office as independent auditor of the Company and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Disclosure of relevant audit information

So far as the Directors who are in office at the time of the approval of this report are aware, there is no relevant audit information (namely, information needed by the Company's auditor in connection with the preparation of its auditor's report) of which the auditor is unaware. Each such Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Group's financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors’ report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and Company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company’s auditors are aware of that information.

Each of the Directors listed below (being the Board of Directors at the date of this Annual Report and these financial statements) confirms that to the best of his or her knowledge:

- the Group financial statements (set out on pages 150 to 202) which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and the Strategic report and Directors’ report contained on pages 1 to 141 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In addition, each of the Directors listed below considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position, performance, business model and strategy.

Mike Turner	Chairman
Archie Bethel	Chief Executive
Franco Martinelli	Group Finance Director
Bill Tame	Chief Executive, Global Growth and Operations
John Davies	Chief Executive, Land
Sir David Omand	Non-Executive Director
Ian Duncan	Non-Executive Director
Anna Stewart	Non-Executive Director
Jeff Randall	Non-Executive Director
Myles Lee	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director

Approval of the Strategic report and the Directors’ report

The Strategic report and the Directors’ report (pages 1 to 141) for the year ending 31 March 2017 have been approved by the Board and signed on its behalf by:

Mike Turner CBE
Chairman

23 May 2017

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Increasing returns to shareholders

“Radiometric Physics is all about measuring and detecting radiation. My work involves designing and deploying assay systems, modelling data, and interpreting the data in a useful way. Some really exciting work goes on here, and I’ve had the opportunity to contribute to some fantastic and innovative projects.

On top of being a Radiometric Physicist, I am a STEM Ambassador for Babcock. I visit schools, participating in activities, giving career talks and talking to some of our young engineers and scientists-to-be. The important thing for me is getting young people excited about STEM subjects, and showing that there are fascinating careers accessible to everyone. The diversity of Ambassadors at these events is a brilliant way to break down perceptions about what it means to be an engineer or a scientist.”

Sarah Calvert
Radiometric Physicist

Independent auditors' report to the members of Babcock International Group PLC

Report on the Group financial statements

Our opinion

In our opinion, Babcock International Group PLC's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report') comprise:

- the Group balance sheet as at 31 March 2017;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the Group cash flow statement for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Materiality

- Overall Group materiality: £24.0 million (2016: £22.5 million) which represents 5% of profit before tax, adjusted for amortisation of acquired intangible assets.

Audit scope

- We conducted our audit work over the complete financial information for 25 of the largest and highest risk reporting components located in the UK, Europe and South Africa.
- In addition, we performed specific audit procedures at one further reporting component, and on the Group's share of the results of five joint ventures, selected based on their relative materiality.
- Where the operating businesses were located outside the UK, we worked together with our network firms located in the relevant territory to make sure we had sufficient evidence upon which to base our audit opinion.
- Taken together, our audit work covers 78% of Group revenue and 74% of profit before tax adjusted for amortisation of acquired intangibles (on an absolute basis).

Areas of focus

- Contract accounting and revenue recognition.
- Goodwill impairment.
- Defined benefit pension liabilities.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Contract accounting and revenue recognition Refer to note 1 to the Group financial statements, and to the Report of the Audit and Risk Committee on page 94. The Group's business involves entering into contractual relationships with customers to provide a range of services with a significant proportion of the Group's revenues and profits derived from long term contracts. Due to the contracting nature of the business, revenue recognition involves a significant degree of judgement and estimates including to: • estimate the total contract costs; • estimate the stage of completion of the contract; • forecast the profit margin after taking consideration of additional revenue relating to cost and time completion incentive targets; and • appropriately provide for loss making contracts. There is a broad range of acceptable outcomes resulting from these estimates and judgements that could lead to different revenue and profit being reported in the financial statements.	We read the relevant clauses within new and amended key contracts and discussed each with management to obtain a full understanding of the specific terms and risks, which informed our consideration as to whether revenue and profit for these contracts was appropriately recognised. We evaluated and tested the relevant IT systems and tested the operating effectiveness of internal controls over the accuracy and timing of revenue recognised in the financial statements, including: • detailed contract reviews performed by management and reviewed at both Group and divisional level, which included estimating total costs, stage of completion of contracts, profit margin and evaluating contract profitability; and • transactional controls that underpin the production of underlying contract related cost balances, including the purchase to pay and payroll cycles. Our testing of the controls did not identify any matters that caused us to change our audit approach. For the more significant and judgemental contracts, we: • attended management's contract review meetings, and, through discussions with the contract project teams, we obtained an understanding of the performance and status of the contracts; • corroborated management's positions through the examination of externally generated evidence, such as customer correspondence; • discussed and understood management's estimates for total contract costs and forecast costs to complete, including taking into account the historical accuracy of such estimates; and • compared management's position on the recognition of any cost and time completion incentive target amounts to the actual costs incurred and current progress of the contract. Our testing did not identify any factors that management had not taken into account in their estimates of the total contract costs, stage of completion and expected profit margin of each contract (including the expected losses on loss making contracts).

Area of focus	How our audit addressed the area of focus
Goodwill impairment **Refer to note 10 to the Group financial statements and to the Report of the Audit and Risk Committee on page 94.** The goodwill balance of £2,608 million (2016: £2,551 million), which principally relates to the acquisitions of the VT Group in 2010 and Avincis (now MCS) in 2015, is subject to an annual impairment review. No impairment charge has been recorded against these balances in the current financial year. The value in use assessment to support the continued carrying amount of goodwill involves the application of subjective judgement about future business performance. Certain assumptions made by management in the impairment review are considered by the engagement team to be key areas of judgement, including the forecast cash flows, the overall growth rates and the discount rates applied.	We evaluated management's future cash flow forecasts and the process by which they were determined and approved, including confirming that the forecasts were consistent with the latest Board approved budgets and confirming the mathematical accuracy of the underlying calculations. We also considered the accuracy of previous forecasts made by management. We obtained corroborating evidence regarding the carrying value of goodwill, and the related disclosures, through challenging key assumptions including: • growth rates in the cash flow forecasts by comparing them to historical results, and economic forecasts; and • the discount rates by independently estimating a range based on market data. We performed sensitivity analysis around the key drivers of the cash flow forecasts. Having ascertained the extent of change in those assumptions that either individually, or collectively would be required for the impairment to arise, we considered the likelihood of such a movement occurring. Our work supported management's assessment that there was no material impairment. For those assets where the Directors determined that no impairment was required and that no additional sensitivity disclosures were necessary, we found that these judgements were supported by reasonable assumptions that would require significant downside changes before any additional material impairment was necessary.

Area of focus	How our audit addressed the area of focus
Defined benefit pension liabilities **Refer to note 24 to the Group financial statements, and to the Report of the Audit and Risk Committee on page 94.** The Group operates a number of defined benefit pension plans, giving rise to net and gross pension liabilities of £105 million (2016: £203 million) and £4,781 million (2016: £4,028 million) respectively, which are significant in the context of the overall balance sheet of the Group. The valuation of pension liabilities requires judgement and technical expertise in choosing appropriate assumptions, and management engages external actuarial specialists to assist them in selecting appropriate assumptions and calculate the liability. Inappropriate selections of assumptions or methodologies for calculating the pension liability could result in a material difference in the value of the liability.	We assessed, using our actuarial specialists, whether the assumptions used in calculating the pension plan liabilities, including salary increases, inflation, mortality rate and discount rate assumptions, were consistent with our internally developed benchmarks based on national and industry data. We were satisfied that the rates used fell within acceptable ranges. We also performed sample testing to agree underlying membership data to supporting human resources documentation and assessed the appropriateness of the closing liability based on known movements and assumptions. No issues were identified which raised concerns over the valuation of the Group's pension liability.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

During the period the Group was primarily structured and monitored across four divisions, being Marine and Technology, Defence and Security, Support Services and International. The Group financial statements are a consolidation of multiple reporting components, including both operating businesses and central functions.

The Group's reporting components vary significantly in size and we identified 25 components that, in our view, required an audit of their complete financial information due to their size and risk. Specific risk-based audit procedures were performed at one further reporting component and over the Group's share of the results of five joint ventures. In scope reporting components and joint ventures were based in several jurisdictions including the UK, Spain, Italy, Canada and South Africa.

We sent detailed instructions to all component audit teams, which included communication of the areas of focus above and other required communications, and we held an audit planning workshop in London attended by component teams as well as regular meetings with the teams throughout the year.

In addition the Engagement Leader and senior members of the Group team undertook visits to two components in the UK during the audit, including the Group's only financially significant component, Devonport. Senior team members also attended all four of the divisional audit clearance meetings in person.

During both the site visits and the clearance meetings, the findings reported to the Group team by the component teams were discussed and any further work required by the Group audit team was then performed by the component audit team.

This, together with additional procedures performed at the Group level (including audit procedures over material head office entities, pensions, impairment assessments, financial statement disclosure, tax, treasury, share based payments and consolidation adjustments), gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£24.0 million (2016: £22.5 million).
How we determined it	5% of profit before tax adjusted for amortisation of acquired intangibles.
Rationale for benchmark applied	Given the contractual nature of the business, and consistent with last year, we adjusted for amortisation of acquired intangibles as this better reflects the true underlying performance and nature of operations. When a business is acquired the full value of contractual relationships is fair valued and included on balance sheet as intangible assets, representing the future profitability of the contracts.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £20.0 million and £1.0 million.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.2 million (2016: £1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 140, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 141, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 95, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or draw attention to in relation to:

• the Directors' confirmation on page 79 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 79 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibility statement set out on page 140, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company financial statements of Babcock International Group PLC for the year ended 31 March 2017 and on the information in the Directors' Remuneration report that is described as having been audited.

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 May 2017

Group income statement

For the year ended 31 March 2017	Note	2017 £m	2017 Total £m	2016 £m	2016 Total £m
Revenue[1]	3		4,547.1		4,158.4
Cost of revenue			(3,883.0)		(3,549.3)
Gross profit			664.1		609.1
Distribution expenses			(13.0)		(9.8)
Administration expenses			(291.5)		(246.8)
Operating profit before share of results of joint ventures and associates	3, 4		359.6		352.5
Share of results of joint ventures and associates	3		56.7		34.6
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles		545.1		509.1	
Investment income		29.7		30.6	
Underlying operating profit[2]		574.8		539.7	
Amortisation of acquired intangibles		(118.5)		(121.6)	
Group investment income		(1.2)		(1.1)	
Joint ventures and associates finance costs		(24.6)		(21.9)	
Joint ventures and associates income tax expense		(14.2)		(8.0)	
Operating profit			416.3		387.1
Finance costs					
Investment income	3	1.2		1.1	
Retirement benefit interest	24	(6.4)		(5.1)	
Finance costs	5	(60.4)		(64.1)	
Finance income	5	11.4		11.1	
			(54.2)		(57.0)
Profit before tax			362.1		330.1
Income tax expense	7		(46.5)		(39.0)
Profit for the year			315.6		291.1
Attributable to:					
Owners of the parent			311.8		286.6
Non-controlling interest			3.8		4.5
			315.6		291.1
Earnings per share	9				
Basic			61.8p		57.0p
Diluted			61.7p		56.8p

1 Revenue does not include the Group's share of revenue from joint ventures and associates of £669.5 million (2016: £683.7 million).
2 Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

Group statement of comprehensive income

For the year ended 31 March 2017	Note	2017 £m	2016 £m
Profit for the year		315.6	291.1
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		88.8	34.1
Fair value adjustment of interest rate and foreign exchange hedges		4.3	15.9
Tax on fair value adjustment of interest rate and foreign exchange hedges		(0.9)	(3.2)
Fair value adjustment of joint venture and associates derivatives	13	2.6	(16.4)
Tax on fair value adjustment of joint venture and associates derivatives	13	(0.5)	3.3
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	24	66.8	(64.1)
Tax on remeasurement of retirement benefit obligations		(13.3)	13.0
Impact of change in UK tax rates		1.1	(4.7)
Other comprehensive income/(loss), net of tax		148.9	(22.1)
Total comprehensive income		464.5	269.0
Total comprehensive income attributable to:			
Owners of the parent		458.0	265.8
Non-controlling interest		6.5	3.2
Total comprehensive income		464.5	269.0

Group statement of changes in equity

For the year ended 31 March 2017	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 31 March 2015	301.3	873.0	851.3	30.6	314.5	(91.6)	(99.0)	2,180.1	18.0	2,198.1
Total comprehensive income/(loss)	–	–	–	–	230.8	(0.4)	35.4	265.8	3.2	269.0
Shares issued in the year	1.2	–	–	–	–	–	–	1.2	–	1.2
Dividends	–	–	–	–	(121.5)	–	–	(121.5)	(4.1)	(125.6)
Share-based payments	–	–	–	–	16.2	–	–	16.2	–	16.2
Tax on share-based payments	–	–	–	–	(1.9)	–	–	(1.9)	–	(1.9)
Other reserves released	–	–	(82.5)	–	82.5	–	–	–	–	–
Disposal of subsidiary with non-controlling interest	–	–	–	–	(0.7)	–	–	(0.7)	0.7	–
Own shares and other	–	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Net movement in equity	1.2	–	(82.5)	–	204.7	(0.4)	35.4	158.4	(0.2)	158.2
At 31 March 2016	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3
At 1 April 2016										
Total comprehensive income	–	–	–	–	366.3	5.5	86.2	458.0	6.5	464.5
Shares issued in the year	0.9	–	–	–	–	–	–	0.9	–	0.9
Dividends	–	–	–	–	(132.5)	–	–	(132.5)	(1.3)	(133.8)
Share-based payments	–	–	–	–	15.0	–	–	15.0	–	15.0
Tax on share-based payments	–	–	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Transaction with non-controlling interest	–	–	–	–	(1.5)	–	–	(1.5)	(0.6)	(2.1)
Own shares and other	–	–	–	–	(7.8)	–	–	(7.8)	–	(7.8)
Net movement in equity	0.9	–	–	–	238.7	5.5	86.2	331.3	4.6	335.9
At 31 March 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2

Group balance sheet

As at 31 March 2017	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	10	2,608.8	2,550.6
Other intangible assets	11	608.0	676.2
Property, plant and equipment	12	1,036.9	950.8
Investment in joint ventures and associates	13	71.9	39.9
Loan to joint ventures and associates	13	32.3	32.6
Retirement benefits	24	193.5	45.0
Trade and other receivables	16	29.4	29.2
IFRIC 12 financial assets		20.0	17.7
Other financial assets	20	152.6	84.3
Deferred tax asset	14	113.1	125.5
		4,866.5	4,551.8
Current assets			
Inventories	15	159.2	139.1
Trade and other receivables	16	885.4	766.9
Income tax recoverable		16.5	24.8
Other financial assets	20	11.9	10.1
Cash and cash equivalents	17	191.4	185.9
		1,264.4	1,126.8
Total assets		6,130.9	5,678.6
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	22	303.4	302.5
Share premium		873.0	873.0
Capital redemption and other reserves		735.5	643.8
Retained earnings		757.9	519.2
		2,669.8	2,338.5
Non-controlling interest		22.4	17.8
Total equity		2,692.2	2,356.3
Non-current liabilities			
Bank and other borrowings	19	1,398.1	1,401.3
Trade and other payables	18	3.7	4.4
Deferred tax liabilities	14	134.6	151.9
Other financial liabilities	20	9.7	6.3
Retirement liabilities	24	298.0	248.1
Provisions for other liabilities	21	90.3	137.8
		1,934.4	1,949.8
Current liabilities			
Bank and other borrowings	19	154.3	131.6
Trade and other payables	18	1,297.6	1,185.6
Income tax payable		11.1	11.6
Other financial liabilities	20	4.3	10.6
Provisions for other liabilities	21	37.0	33.1
		1,504.3	1,372.5
Total liabilities		3,438.7	3,322.3
Total equity and liabilities		6,130.9	5,678.6

The notes on pages 154 to 202 are an integral part of the consolidated financial statements. The Group financial statements on pages 150 to 202 were approved by the Board of Directors on 23 May 2016 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

Group cash flow statement

For the year ended 31 March 2017	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	25	504.0	490.3
Income tax paid		(61.5)	(46.6)
Interest paid		(63.0)	(61.7)
Interest received		11.4	8.3
Net cash flows from operating activities		390.9	390.3
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	29	(0.6)	10.3
Dividends received from joint ventures and associates		26.7	23.0
Proceeds on disposal of property, plant and equipment		71.9	66.0
Purchases of property, plant and equipment		(175.9)	(163.2)
Purchases of intangible assets		(30.9)	(28.2)
Investment in, loan movements and interest received from joint ventures and associates		2.4	1.2
Acquisition of subsidiaries net of cash acquired	28	(24.7)	(1.8)
Net cash flows from investing activities		(131.1)	(92.7)
Cash flows from financing activities			
Dividends paid	8	(132.5)	(121.5)
Finance lease principal payments		(26.4)	(37.2)
Bank loans repaid		(329.5)	(111.3)
Loans raised		250.0	28.9
Dividends paid to non-controlling interest		(1.3)	(4.1)
Net proceeds on issue of shares		0.9	1.2
Transactions with non-controlling interest		(2.1)	–
Movement on own shares		(7.8)	(0.7)
Net cash flows from financing activities		(248.7)	(244.7)
Net increase in cash, cash equivalents and bank overdrafts		11.1	52.9
Cash, cash equivalents and bank overdrafts at beginning of year		168.8	112.5
Effects of exchange rate fluctuations		5.7	3.4
Cash, cash equivalents and bank overdrafts at end of year	27	185.6	168.8

Notes to the Group financial statements

1. Basis of preparation and significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretations Committee (IFRSIC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and on a going concern basis. The Company is a public limited company, is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

Principal accounting policies

The principal accounting policies adopted by the Group are disclosed below. They have been applied consistently throughout the year.

Basis of consolidation

The Group financial statements comprise the Company and all of its subsidiary undertakings made up to 31 March.

(a) Subsidiaries

An entity is controlled by the Group regardless of the level of the Group's equity interest in the entity, when the Group has power over the entity, when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to use its power to affect those returns.

In determining whether control exists, the Group considers all relevant facts and circumstances to assess its control over an entity such as contractual commitments and potential voting rights held by the Group if they are substantive.

Subsidiaries are fully consolidated from the date control has been transferred to the Group and de-consolidated from the date control ceases. Where control ceases the results for the year up to the date of relinquishing control or closure are analysed as continuing or discontinued operations.

(b) Joint ventures and associates

Associates are those entities in which the Group exercises its significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its joint ventures and associates post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains and losses on transactions between the Group and its joint venture and associate are eliminated to the extent of the Group's interest in the joint venture and associate. The Group's share of joint venture revenue is disclosed after elimination of sales to that joint venture. Loans to joint ventures are valued at amortised cost.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable. As can be seen from note 3, this represents approximately 10% of the business.

(b) Provision of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually, the revenue and costs are similarly recognised over the course of the year.

(c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs, labour hours incurred or earned value of work performed.

1. Basis of preparation and significant accounting policies (continued)

Revenue (continued)

(c) Long-term service contracts (continued)

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Certain contracts will have pain/gain share arrangements whereby target cost under/over spends are shared with the customer. These sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the consolidated income statement. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties and businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

Transactions with non-controlling interest

The Group policy is to treat transactions with non-controlling interest as transactions with owners of the parent and therefore is reflected in movements in reserves.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision is made where operating leases are deemed to be onerous.

A provision for deferred consideration on acquisitions is recognised at the fair value at acquisition. Fair value is based on an assessment of the likelihood of payment.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

Goodwill and intangible assets

(a) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

Goodwill relating to acquisitions prior to 1 April 2004 is maintained at its net book value on the date of transition to IFRS. From that date goodwill is not amortised but is reviewed at least annually for impairment.

Annual impairment reviews are performed as outlined in note 10.

(b) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

1. Basis of preparation and significant accounting policies (continued)

Goodwill and intangible assets (continued)

(b) Acquired intangibles (continued)

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years. Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis up to five years.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

d) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective phase.

Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%
Aircraft components	14% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Net debt

Net debt consists of the total of loans, bank overdrafts, cash and cash equivalents, joint venture and associate loans and finance leases granted or received plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency and interest rate basis of the company carrying the debt and fair value hedges.

Leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

As a lessor, the Group recognises assets held under a finance lease in the balance sheet as a financial asset. The lease payment receivable is treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

1. Basis of preparation and significant accounting policies (continued)

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Contract accounting balances

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

Taxation

(a) Current income tax

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Foreign currencies

(a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of the net investment of a foreign operation.

Exchange differences arising from the translation of the balance sheets and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign subsidiary undertakings are translated using the average exchange rate for the month of the applicable results. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

1. Basis of preparation and significant accounting policies (continued)

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Employee benefits

(a) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Group's pension schemes are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the Income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the Statement of comprehensive income so that the Group's balance sheet reflects the IAS19 measurement of the schemes' surpluses or deficits at the balance sheet date.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's ESOP trusts are recognised as a deduction to equity.

(c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Discontinued and held for sale

A significant business stream sold in a prior year or during the year or being actively marketed with an expectation of being sold within a year will be treated as discontinued within the income statement. The prior year comparatives will be restated. If such a business has not been sold at year end the relevant assets and liabilities will be shown as held for sale within the balance sheet.

In addition businesses bought as part of a larger acquisition but identified for sale on purchase will be treated as discontinued.

Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (eg where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

1. Basis of preparation and significant accounting policies (continued)

Derivative financial instruments (continued)

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. The key areas of estimates and judgements for the Group are contract accounting and revenue recognition (see above), the accounting for defined benefit pension schemes (see note 24) and impairment of goodwill (see note 10).

Fair value adjustments on acquisitions are by nature subject to critical judgements.

Profit and revenue recognition on contracts is a key judgement exercised by management on a contract-by-contract basis. In order to make such a judgement an estimate of contract outturn is made for all significant contracts. Local management divisions and Group review and challenge estimates made.

Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2017 or later periods but which the Group has not early adopted.

(a) Standards, amendments and interpretations effective in 2017 with minimal or no impact on the Group:

- IAS 7 (amendments), 'Statement of cash flows', effective 1 January 2017;
- IAS12 (amendments), 'Income taxes on recognition of deferred tax assets for unrealised losses', effective 1 January 2017.

(b) Interpretations to existing standards that are not yet effective, have not been endorsed by the EU and the impact on the Group's operations is currently being assessed but is not expected to be significant:

- IFRS 2, 'Share based payments', effective 1 January 2018;
- IFRS 9 'Financial instruments', effective 1 January 2018;
- 2016 Annual improvements, effective 1 January 2018.

(c) Standards and interpretations that are not yet effective and the impact on the Group's operations is currently being assessed:

- IFRS 15, 'Revenue from contracts with customers', effective from 1 January 2018 and endorsed by the EU, identifies performance obligations in contracts with customers, allocates the transaction price to the performance obligations and recognises revenue as the performance obligations are satisfied. The standard additionally requires more detailed disclosures. We have completed an initial but detailed review of all significant contracts, including consideration of all types of contracts undertaken by the Group and the results of our review indicate that IFRS 15 is not expected to result in any significant change to the timing of revenue or profit recognition on service provision contracts or long-term service contracts. This assessment reflects, amongst other matters, that the Group's contracting arrangements meet the requirements set out in IFRS 15 to satisfy performance obligations and recognise revenue over time. The review also indicates that the new standard is not expected to introduce any significant change to the Group's revenue recognition policy in relation to revenue from the sale of goods not under service provision contracts or long-term service contracts;
- IFRS 16, 'Leases', effective 1 January 2019 but not yet endorsed by the EU. Currently, operating leases are not recognised on the balance sheet and the impact of this standard will be to recognise a lease liability and corresponding asset on the Group's balance sheet in relation to most leases currently classified as operating leases. The change will result in an improvement in operating profit, with the amortisation of the asset being less than the current operating lease charge. This will however be offset by an increase in interest charge with the net position dependent on the average lease length on adoption. See note 31 Operating lease commitments.
- The Interpretations Committee proposed amendments to IAS 19 and IFRIC 14, 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', which has yet to be approved; however management does not expect that there would have been any material impact on the amounts disclosed in the accounts had the amendments proposed in the exposure draft been in force this year.

2. Financial risk management

The Group's treasury and capital policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

Capital availability

The Company defines capital as shareholder equity plus net debt but in addition considers available financial capital which adds committed undrawn facilities to capital as a measure.

Objective on available financial capital	To ensure an appropriate level of capital and available financial capital to maintain operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth. The Group seeks to maintain the necessary headroom to cover the peaks and troughs in its working capital cycle, and sufficient liquidity to see it through any periods of tightened liquidity in the market.
Policy	The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of carry whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. The Group, in considering its capital structure and financial capital, views net debt to EBITDA at two and a half times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above two and a half times, as illustrated by previous acquisitions, but only to the extent that the Group can see a clear path to reducing net debt to EBITDA back to two and a half times or below within a reasonable time frame.
Performance	The Group's gearing and debt cover ratios, used by the Group to evaluate capital, saw an improvement to 1.8 times net debt to EBITDA in 2017 (2016: 2.0 times), demonstrating further progress in bringing gearing back towards a steady state level, both through the pay down of debt and increasing profits attributable to shareholders.

		Covenant	2017	2016
Debt service cover	EBITDA/net interest	>4	12.0	10.8x
Debt cover	Net debt/EBITDA	<3.5	1.8x	2.0x
Gearing	Net debt/shareholders' funds	n/a	42%	48%

Debt ratios are below covenanted levels and gearing has continued to reduce, leaving sufficient headroom for bolt-on acquisitions and funding of organic growth. The Group believes that capital markets remain accessible, if or when required.

Financial risk management

Financial instruments, in particular forward currency contracts and interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities.

The Group looks in the first instance to prime rated counterparties with which to carry out treasury transactions, including investments of cash and cash equivalents.

The Group's customers are mainly from government, government backed institutions or blue chip corporations and as such credit risk is considered small.

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The Group's treasury policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

2. Financial risk management (continued)

Management of capital

The Group's capital structure is derived from equity and net debt and is overseen by the Board through the Group Finance Committee.

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt divided by earnings before interest, tax, depreciation, amortisation and exceptionals), Gearing ratio (defined as net debt, excluding retirement benefit deficits or surpluses, divided by shareholders' funds), ROIC (defined as net income divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt)) and EBITDA interest cover (defined as profit before interest, tax, depreciation, amortisation and exceptionals divided by net interest payable). These ratios are discussed under the business review.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded, balancing risk and price on the capital markets and to retain sufficient flexibility to fund future organic and acquisitive growth.

Foreign exchange risk

The functional and presentational currency of Babcock International Group PLC and its UK subsidiaries is pounds Sterling. The Group has exposure primarily to EUR, USD, ZAR and increasingly AUD and CAD. The USD exposure arises firstly through the US$650 million US Private Placements which are swapped into Sterling and secondly, through a number of activities in Babcock Mission Critical Services where it has some revenue and costs denominated in USD. The EUR exposure is largely due to the activities of Babcock Mission Critical Services in Europe, where both translational and transactional exposure exists. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposure exist. The increasing AUD and CAD exposure arises from the activities of Babcock's subsidiaries in those counties where both transactional and translational exposure exists.

Objective	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar and South African Rand.
Policy – Transactional risk	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IAS 39 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
Policy – Translational risk	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the aforementioned assets with foreign currency denominated debt.
Performance	There have been no material unhedged foreign exchange losses in the year.

A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies expressed in the Group's presentation currency, with the largest exposure being £17.4 million Euro to US Dollars (2016: Euro to US Dollars £16.4 million).

The pre-tax effect on profit and equity, increase or decrease, if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant, would in total be £0.8 million (2016: £0.9 million). The reasonable shifts in exchange rates are based on historical volatility and range from 10% for Sterling to US Dollars; 15% for Euro to Sterling and US Dollars; 25% for Sterling to Canadian and Australian Dollars; 25% for South African Rand to Euro; and 15% Sterling to Omani Rial.

2. Financial risk management (continued)

Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of ±50bp (2016: ±50bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt. All other variables are held constant. The Group believes ±50bp is an appropriate measure of volatility at this time.

	2017		2016	
	£m +50bp	£m –50bp	£m +50bp	£m –50bp
Net results for the year	(2.2)	2.2	(3.4)	3.4
Equity	3.7	(3.7)	8.8	(8.8)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest hedging and the monitoring of the mix between fixed and floating rates are the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2017, the Group had 74% fixed rate debt (March 2016: 61%) and 26% floating rate debt (March 2016: 39%) based on gross debt including derivatives of £1,424.8 million (March 2016: £1,461.2 million). For further information see note 20 to the Group financial statements.

Liquidity risk

The key objectives are to ensure that the Group has an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines (see note 19).

The Group's committed Revolving Credit Facility (RCF) of £750 million has an expiry date of December 2021, and is available to meet general corporate funding requirements. At 31 March 2017, £120.7 million (2016: £306.2 million) was drawn on this facility.

The Group has US Private Placements with a value of US$650 million, with notes maturing in March 2018 and March 2021.

The Group has a Sterling loan note with a value of £40 million, with the note maturing in January 2020.

The Group has a Eurobond with a value of EUR 550 million, with notes maturing in October 2022.

The Group has a Sterling bond with a value of £250 million, with the notes maturing in October 2026.

Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a KPI.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with strong financial institutions for short periods, with bank counterparty credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating.

2. Financial risk management (continued)

Liquidity risk (continued)

Objective	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the course of the financial year, the Group extended the maturity date of its £750 million Revolving Credit Facility to December 2021 and in October 2016 issued a £250 million ten year Sterling bond. In addition to the aforementioned Revolving Credit Facility and the Sterling bond, the Group's other main debt facilities include: £40 million loan note issued in January 2010, US$650 million US private placement notes issued in March 2011, a EUR 550 million Eurobond issued in October 2014. These debt facilities provide the Group with total available committed banking facilities and loan notes of £1.91 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 19 to the Group financial statements.

The table below analyses the Group's liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contract maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2017				
Bank and other borrowings	153.1	39.9	628.4	753.4
Derivative financial instruments	24.0	0.5	105.6	(2.0)
Trade and other payables*	1,278.6	2.1	0.5	0.8
At 31 March 2016				
Bank and other borrowings	160.9	52.8	887.7	551.5
Derivative financial instruments	(5.0)	10.7	62.6	–
Trade and other payables*	1,127.6	1.4	1.5	1.0

* Does not include other taxes and social security.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Held for trading contracts are economic hedges and not hedge accounted.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2017				
Forward derivative contracts – hedges:				
– outflow	199.8	26.4	373.3	17.8
– inflow	223.9	27.0	472.7	16.5
Forward derivative contracts – held for trading:				
– outflow	0.5	3.6	–	–
– inflow	0.5	3.6	–	–
At 31 March 2016				
Forward derivative contracts – hedges:				
– outflow	179.1	104.2	329.1	–
– inflow	175.3	115.6	388.9	–
Forward derivative contracts – held for trading:				
– outflow	18.3	–	–	–
– inflow	19.0	–	–	–

3. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM).

2017	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,805.6	976.5	1,478.8	955.7	–	5,216.6
Less: joint ventures and associates revenue	27.8	90.8	542.3	8.6	–	669.5
Revenue	1,777.8	885.7	936.5	947.1	–	4,547.1
Operating profit before share of results of joint ventures and associates	201.8	66.8	47.5	49.2	(5.7)	359.6
Acquired intangible amortisation	9.4	20.4	30.1	52.8	–	112.7
Operating profit*	211.2	87.2	77.6	102.0	(5.7)	472.3
IFRIC 12 investment income – Group	–	0.7	0.5	–	–	1.2
Share of operating profit – joint ventures and associates	6.9	30.2	32.4	3.3	–	72.8
Share of IFRIC 12 investment income – joint ventures and associates	–	28.5	–	–	–	28.5
Underlying operating profit	218.1	146.6	110.5	105.3	(5.7)	574.8
Share of finance costs – joint ventures and associates	–	(23.5)	–	(1.1)	–	(24.6)
Share of tax – joint ventures and associates	(2.1)	(5.4)	(6.0)	(0.7)	–	(14.2)
Acquired intangible amortisation – Group	(9.4)	(20.3)	(30.2)	(52.8)	–	(112.7)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	–	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(55.4)	(55.4)
Group profit before tax	206.6	91.6	74.3	50.7	(61.1)	362.1

* Before amortisation of acquired intangibles and exceptional items.

2016	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,695.9	843.1	1,513.0	790.1	–	4,842.1
Less: joint ventures and associates revenue	21.6	88.5	566.4	7.2	–	683.7
Revenue	1,674.3	754.6	946.6	782.9	–	4,158.4
Operating profit before share of results of joint ventures and associates	185.7	62.6	54.1	55.8	(5.7)	352.5
Acquired intangible amortisation	10.2	22.9	33.1	49.6	–	115.8
Operating profit* – Group	195.9	85.5	87.2	105.4	(5.7)	468.3
IFRIC 12 investment income – Group	–	0.6	0.5	–	–	1.1
Share of operating profit – joint ventures and associates	3.0	15.9	19.7	2.2	–	40.8
Share of IFRIC 12 investment income – joint ventures and associates	–	29.3	0.2	–	–	29.5
Underlying operating profit	198.9	131.3	107.6	107.6	(5.7)	539.7
Share of finance costs – joint ventures and associates	–	(20.7)	(0.2)	(1.0)	–	(21.9)
Share of tax – joint ventures and associates	(0.9)	(2.1)	(4.5)	(0.5)	–	(8.0)
Acquired intangible amortisation – Group	(10.2)	(22.9)	(33.1)	(49.6)	–	(115.8)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	–	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(58.1)	(58.1)
Group profit before tax	187.8	79.8	69.8	56.5	(63.8)	330.1

* Before amortisation of acquired intangibles and exceptional items.

3. Segmental information (continued)

Inter divisional revenue is immaterial.

Revenues of £2.5 billion (2016: £2.3 billion) are derived from a single external customer. These revenues are attributable to the Marine and Technology, Defence and Security, and Support Services segments.

The segment assets and liabilities at 31 March 2017 and 31 March 2016 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Marine and Technology	872.8	837.5	621.4	653.3	45.3	37.4
Defence and Security	1,062.9	1,063.9	246.4	280.6	7.1	18.5
Support Services	982.1	1,005.6	294.7	305.9	4.3	9.5
International	2,462.4	2,242.5	364.6	425.8	126.4	111.8
Unallocated	750.7	529.1	1,911.6	1,656.7	23.7	33.9
Group total	6,130.9	5,678.6	3,438.7	3,322.3	206.8	211.1

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £71.9 million (2016: £66.0 million). Proceeds are in the main within the International division. See note 18 relating to the treatment of amounts payable in respect of capital expenditure.

All assets and liabilities are allocated to their appropriate segments except for cash, cash equivalents, borrowings, income and deferred tax and discontinued operations which are included in the unallocated segment.

The segmental analysis of joint ventures and associates is detailed in note 13.

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2017 and 31 March 2016 are as follows:

	Depreciation		Amortisation of intangible assets	
	2017 £m	2016 £m	2017 £m	2016 £m
Marine and Technology	25.8	23.9	11.4	12.4
Defence and Security	4.1	5.1	20.5	23.0
Support Services	8.2	8.8	31.8	33.8
International	39.0	34.4	53.0	50.6
Unallocated	5.3	5.9	3.6	3.9
Group total	82.4	78.1	120.3	123.7

The geographic analysis by origin for the years ended 31 March 2017 and 31 March 2016 is as follows:

	Revenue		Assets		Capital expenditure	
Geographic analysis	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
United Kingdom	3,423.5	3,289.9	3,947.9	3,747.5	95.1	116.1
Rest of Europe	428.8	362.0	1,433.2	1,331.0	99.0	82.4
Africa	322.0	248.4	268.8	193.0	3.4	6.8
North America	150.9	113.1	100.6	79.5	0.4	0.5
Australasia	143.2	89.1	303.4	260.4	8.3	3.9
Rest of World	78.7	55.9	77.0	67.2	0.6	1.4
Group total	4,547.1	4,158.4	6,130.9	5,678.6	206.8	211.1

The analysis of revenue for the years ended 31 March 2017 and 31 March 2016 is as follows:

	Total	
	2017 £m	2016 £m
Sales of goods	611.7	532.1
Provision of services	3,931.6	3,624.5
Rental income	3.8	1.8
	4,547.1	4,158.4

4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	Total	
	2017 £m	2016 £m
Employee costs (note 6)	1,546.9	1,458.6
Inventories		
– cost of inventories recognised as an expense	373.3	327.8
– decrease in inventory provisions	(1.9)	(2.7)
Depreciation of Property, plant and equipment (PPE)		
– owned assets	69.7	65.7
– under finance leases	12.7	12.4
	82.4	78.1
Amortisation of intangible assets		
– acquired intangibles	112.7	115.8
– other	7.6	7.9
	120.3	123.7
Impairment of goodwill	2.3	–
Profit on disposal of PPE	(2.8)	(2.4)
Operating lease rentals payable		
– property	27.6	24.9
– vehicles, plant and equipment	118.3	90.4
Research and development	1.6	1.5
Trade receivables charged	4.0	4.0
Net foreign exchange loss/(gains)	9.3	(4.6)

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

Included within vehicle operating lease rentals is £37.2 million (2016: £30.2 million) for the Phoenix contract where the leases are predominantly short term lease rentals for the end customer.

There were no exceptional costs in the current year nor the previous year.

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

	Total	
	2017 £m	2016 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	0.4	0.5
Audit related services	–	0.1
Fees for other services:		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	1.7	1.7
Taxation advisory services	0.1	–
Services relating to corporate finance transactions	–	0.2
Other non-audit services	–	0.1
Total fees paid to the Group's auditor and network firms	2.2	2.6

5. Net finance costs

	2017 £m	2016 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	43.6	47.8
Finance leases	7.1	7.3
Amortisation of issue costs of bank loan	1.4	2.0
Other	8.3	7.0
Total finance costs	60.4	64.1
Finance income		
Bank deposits and loans	11.4	11.1
Total finance income	11.4	11.1
Net finance costs	49.0	53.0

6. Employee costs

	Total	
	2017 £m	2016 £m
Wages and salaries	1,281.6	1,203.5
Social security costs	148.9	133.4
Share-based payments (note 23)	15.0	16.2
Pension costs – defined contribution plans (note 24)	62.6	60.8
Pension charges – defined benefit plans (note 24)	38.8	44.7
	1,546.9	1,458.6

The average number of people employed by the Group during the year was:

	Total	
	2017 Number	2016 Number
Operations	31,220	30,617
Administration and management	4,530	4,433
	35,750	35,050

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the key cash-generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2017 £m	2016 £m
Salaries	9.3	9.2
Post-employment benefits	0.2	0.3
Share-based payments	3.5	5.2
	13.0	14.7

7. Income tax expense

	Total 2017 £m	Total 2016 £m
Analysis of tax charge in the year		
Current tax		
– UK current year charge	72.5	74.7
– Overseas current year charge	14.2	12.4
– UK prior year credit	–	(3.6)
– Overseas adjustment in respect of prior year	–	(0.8)
	86.7	82.7
Deferred tax		
– UK current year credit	(26.7)	(27.0)
– Overseas current year credit	(7.1)	(8.6)
– Overseas prior year credit	(6.9)	
– Impact of change in UK tax rate	0.5	(4.3)
– Impact of change in Italian (2016: Italian) tax rate	–	(3.8)
	(40.2)	(43.7)
Total income tax expense	46.5	39.0

The tax for the year is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Profit before tax	362.1	330.1
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 20% (2016: 20%)	72.4	66.0
Effects of:		
Expenses not deductible for tax purposes	0.4	0.5
Re-measurement of deferred tax re change in UK tax rate	0.5	(4.3)
Re-measurement of deferred tax re change in Italian (2016: Italian) tax rate	–	(3.8)
Difference in respect of joint venture results	(11.3)	(7.9)
Differences in respect of foreign rates and UK consortium relief rates	(1.1)	(1.8)
Adjustments in respect of earlier years	(6.9)	(3.6)
Other	(7.5)	(6.1)
Total income tax expense	46.5	39.0

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% from April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in the 2017 budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal. As a result a charge of £0.5 million has been taken to the Income statement in respect of the remeasurement of year end UK deferred tax balances to 17%. A further £1.1 million has been charged to reserves in respect of the remeasurement of year end UK deferred tax balances to 17%.

8. Dividends

	2017 £m	2016 £m
Final dividend for the year ended 31 March 2016 of 19.75p (2015: 18.1p) per 60p share	99.7	91.0
Interim dividend for the year ended 31 March 2017 of 6.50p (2016: 6.05p) per 60p share	32.8	30.5
	132.5	121.5

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2017 of 21.65p (2016: 19.75p) per share which will absorb an estimated £109.2 million (2016: £99.5 million) of shareholders' equity. It will be paid on 11 August 2017 to shareholders who are on the register of members on 30 June 2017. These financial statements do not reflect this dividend payable which is subject to approval at the Annual General Meeting on 13 July 2017.

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust and the Peterhouse Employee Share Trust.

The calculation of the basic and diluted EPS is based on the following data:

Number of shares

	2017 Number	2016 Number
Weighted average number of ordinary shares for the purpose of basic EPS	504,571,769	503,165,719
Effect of dilutive potential ordinary shares: share options	737,251	1,072,736
Weighted average number of ordinary shares for the purpose of diluted EPS	505,309,020	504,238,455

Earnings

	2017 Earnings £m	2017 Basic per share Pence	2017 Diluted per share Pence	2016 Earnings £m	2016 Basic per share Pence	2016 Diluted per share Pence
Earnings from continuing operations	311.8	61.8	61.7	286.6	57.0	56.8
Add back:						
Amortisation of acquired intangible assets, net of tax	92.1	18.2	18.2	94.8	18.8	18.8
Impact of change in statutory tax rates	0.5	0.1	0.1	(8.1)	(1.6)	(1.6)
Earnings before amortisation, exceptional items and other	404.4	80.1	80.0	373.3	74.2	74.0

10. Goodwill

	2017 £m	2016 £m
Cost		
At 1 April	2,555.4	2,510.8
On acquisition of subsidiaries (note 28)	1.7	–
Exchange adjustments	58.8	44.6
At 31 March	2,615.9	2,555.4
Accumulated impairment		
At 1 April	4.8	4.8
Impairment	2.3	–
At 31 March	7.1	4.8
Net book value at 31 March	2,608.8	2,550.6

During the year, the goodwill was tested for impairment in accordance with IAS 36. The recoverable amount for all the cash-generating units (CGUs) has been measured based on a value-in-use calculation derived from Board approved three year budgeted cash flows and extrapolated cash flows thereafter based on an estimated growth rate of 3%. A pre-tax discount rate in the range 8.5% to 9.8% was used in the value-in-use calculation for the CGUs within each segment. The Group's weighted average cost of capital post-tax is approximately 7.0% to 8.0% (2016: 7.0% to 8.0%).

As part of the year end process, the Group has undertaken a comprehensive review of its goodwill and identified a £2.3 million impairment in WRN Broadcast Limited in respect of milestones not reached.

Goodwill is allocated to the Group's CGUs based on value in use, identified according to the business segment. A segment level summary of goodwill allocation is presented below:

	2017 £m	2016 £m
Marine and Technology	429.8	429.5
Defence and Security	630.9	627.6
Support Services	591.1	590.3
International	957.0	903.2
	2,608.8	2,550.6

The MCS CGU within the International segment is the CGU with the lowest percentage headroom of £0.5 billion (24%). In the MCS CGU an increase of 1.4% in the discount rate or a 1.9% decrease in the terminal year growth rate would cause an impairment.

11. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	IFRIC 12 intangibles £m	Software development costs and licences £m	Development costs and other £m	Total £m
Cost							
At 1 April 2016	1,147.4	22.9	1,170.3	5.9	93.8	3.9	1,273.9
Acquisition of subsidiaries (note 28)	5.0	–	5.0	–	–	–	5.0
Additions	–	–	–	–	30.5	2.0	32.5
Disposals at cost	–	–	–	–	(0.8)	–	(0.8)
Reclassification	–	–	–	(5.9)	–	–	(5.9)
Capitalised interest	–	–	–	–	0.1	–	0.1
Exchange adjustments	22.9	1.0	23.9	–	(0.2)	0.3	24.0
At 31 March 2017	1,175.3	23.9	1,199.2	–	123.4	6.2	1,328.8
Accumulated amortisation and impairment							
At 1 April 2016	542.6	12.5	555.1	3.2	39.2	0.2	597.7
Amortisation charge	106.7	6.0	112.7	–	7.3	0.3	120.3
Amortisation on disposals	–	–	–	–	(0.5)	–	(0.5)
Reclassification	–	–	–	(3.2)	–	–	(3.2)
Exchange adjustments	6.0	0.7	6.7	–	(0.2)	–	6.5
At 31 March 2017	655.3	19.2	674.5	–	45.8	0.5	720.8
Net book value at 31 March 2017	520.0	4.7	524.7	–	77.6	5.7	608.0
Cost							
At 1 April 2015	1,128.4	22.0	1,150.4	5.9	66.4	3.2	1,225.9
Additions	–	–	–	–	27.7	0.4	28.1
Disposals at cost	–	–	–	–	(0.4)	–	(0.4)
Capitalised interest	–	–	–	–	0.1	–	0.1
Exchange adjustments	19.0	0.9	19.9	–	–	0.3	20.2
At 31 March 2016	1,147.4	22.9	1,170.3	5.9	93.8	3.9	1,273.9
Accumulated amortisation and impairment							
At 1 April 2015	428.9	5.7	434.6	3.0	32.0	0.1	469.7
Amortisation charge	109.9	5.9	115.8	0.2	7.6	0.1	123.7
Amortisation on disposals	–	–	–	–	(0.4)	–	(0.4)
Exchange adjustments	3.8	0.9	4.7	–	–	–	4.7
At 31 March 2016	542.6	12.5	555.1	3.2	39.2	0.2	597.7
Net book value at 31 March 2016	604.8	10.4	615.2	2.7	54.6	3.7	676.2

All amortisation charges for the year have been charged through cost of revenue.

Acquired intangibles are in part the estimated fair value of customer relationships which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range of one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years. Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range of one year to fifteen years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis up to five years.

The reclassification of IFRIC 12 assets to financial assets follows a review of those contracts and the certainty of revenue regulations.

12. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2016	112.2	14.9	501.6	547.6	97.0	1,273.3
On acquisition of subsidiaries (note 28)	–	3.5	0.3	3.2	–	7.0
Additions	2.9	13.3	59.8	62.0	37.7	175.7
Disposals	(0.7)	(0.4)	(16.4)	(58.3)	(18.3)	(94.1)
Reclassification	1.4	–	1.9	8.8	(12.1)	–
Capitalised borrowing costs	–	0.3	1.0	–	–	1.3
Exchange adjustments	1.6	0.8	20.1	34.8	8.5	65.8
At 31 March 2017	117.4	32.4	568.3	598.1	112.8	1,429.0
Accumulated depreciation						
At 1 April 2016	45.2	5.4	234.5	37.4	–	322.5
Charge for the year	4.4	1.7	51.6	24.7	–	82.4
Disposals	(0.6)	(0.1)	(12.1)	(12.3)	–	(25.1)
Exchange adjustments	1.1	0.2	8.1	2.9	–	12.3
At 31 March 2017	50.1	7.2	282.1	52.7	–	392.1
Net book value at 31 March 2017	67.3	25.2	286.2	545.4	112.8	1,036.9
Cost						
At 1 April 2015	103.8	12.9	432.0	489.5	90.1	1,128.3
On acquisition of subsidiaries (note 28)	–	–	(0.4)	(0.3)	–	(0.7)
Additions	8.9	2.2	85.7	64.3	18.8	179.9
Disposals	(1.5)	(0.3)	(9.5)	(48.8)	(11.6)	(71.7)
Reclassification	–	–	0.4	7.3	(7.7)	–
Capitalised borrowing costs	–	–	0.9	–	–	0.9
Exchange adjustments	1.0	0.1	(7.5)	35.6	7.4	36.6
At 31 March 2016	112.2	14.9	501.6	547.6	97.0	1,273.3
Accumulated depreciation						
At 1 April 2015	39.7	4.5	191.3	16.7	–	252.2
On disposal of subsidiaries (note 29)	–	–	(0.2)	(0.1)	–	(0.3)
Charge for the year	6.5	0.9	48.2	22.5	–	78.1
Disposals	(1.1)	–	(2.7)	(4.3)	–	(8.1)
Exchange adjustments	0.1	–	(2.1)	2.6	–	0.6
At 31 March 2016	45.2	5.4	234.5	37.4	–	322.5
Net book value at 31 March 2016	67.0	9.5	267.1	510.2	97.0	950.8

A capitalisation rate of 3% (2016: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

Assets held under finance leases have the following net book value within plant and equipment:

	2017 £m	2016 £m
Cost	227.5	231.6
Aggregate depreciation	(33.6)	(22.1)
Net book value	193.9	209.5

13. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
At 1 April	39.9	36.3	32.6	38.6	72.5	74.9
Disposal of joint ventures and associates (note 29)	–	3.2	–	(6.5)	–	(3.3)
Joint ventures: loans and reclassifications	–	0.9	–	(1.5)	–	(0.6)
Investment in joint ventures and associates	(1.0)	0.1	–	–	(1.0)	0.1
Share of profits	56.7	34.6	–	–	56.7	34.6
Interest accrued	–	–	1.1	2.9	1.1	2.9
Interest received	–	–	(1.4)	(0.9)	(1.4)	(0.9)
Dividends received	(26.7)	(23.0)	–	–	(26.7)	(23.0)
Fair value adjustment of derivatives	2.6	(16.4)	–	–	2.6	(16.4)
Tax on fair value adjustment of derivatives	(0.5)	3.3	–	–	(0.5)	3.3
Foreign exchange	0.9	0.9	–	–	0.9	0.9
At 31 March	71.9	39.9	32.3	32.6	104.2	72.5

Included within investment in joint ventures and associates is goodwill of £1.2 million (2015: £1.2 million).

The total investment in joint ventures is attributable to the following segments:

	2017 £m	2016 £m
Marine and Technology	1.2	0.6
Defence and Security	63.3	49.7
Support Services	30.6	14.3
International	9.1	7.9
Net book value	104.2	72.5

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2017							
Holdfast Training Services Limited	United Kingdom	44.9	(29.9)	–	12.6	9.9	74%
ALC (Superholdco) Limited	United Kingdom	20.0	(2.7)	18.5	9.3	6.0	50%
AirTanker Limited	United Kingdom	334.6	(341.1)	30.4	1.5	1.9	13%
AirTanker Services Limited	United Kingdom	27.1	–	35.5	4.3	2.5	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	86.2	(77.5)	6.4	2.5	1.7	50%
Naval Ship Management (Australia) Pty Limited	Australia	9.3	(8.0)	27.8	6.9	4.8	50%
Helidax S.A.S	France	29.7	(25.6)	8.7	3.3	1.5	50%
Cavendish Dounreay Partnership Limited	United Kingdom	31.2	(18.9)	103.6	7.6	6.1	50%
Cavendish Fluor Partnership Limited	United Kingdom	95.4	(85.1)	314.6	21.7	17.4	65%
ABC Electrification Limited	United Kingdom	2.7	–	94.0	2.2	2.2	33%
Other		16.2	(4.3)	30.0	0.9	2.7	
		697.3	(593.1)	669.5	72.8	56.7	

13. Investment in and loans to joint ventures and associates (continued)

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2016							
Holdfast Training Services Limited	United Kingdom	33.4	(27.5)	–	1.4	1.1	74%
ALC (Superholdco) Limited	United Kingdom	25.6	(9.9)	17.2	7.5	5.1	50%
AirTanker Limited	United Kingdom	322.3	(329.3)	35.1	1.9	7.1	13%
AirTanker Services Limited	United Kingdom	25.3	(0.7)	15.8	3.3	1.7	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	71.1	(61.9)	20.5	1.7	1.3	50%
Naval Ship Management (Australia) Pty Limited	Australia	8.6	(7.9)	21.6	3.0	2.1	50%
Helidax S.A.S	France	31.9	(24.6)	6.6	2.2	0.8	50%
Cavendish Dounreay Partnership Limited	United Kingdom	31.4	(23.7)	97.1	7.7	6.1	50%
Cavendish Fluor Partnership Limited	United Kingdom	121.7	(120.1)	384.4	11.8	9.1	65%
ABC Electrification Limited	United Kingdom	0.5	–	62.1	(1.1)	(1.1)	33%
Other		11.9	(5.6)	23.3	1.4	1.3	
		683.7	(611.2)	683.7	40.8	34.6	

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed.

Holdfast Training Services Limited and Cavendish Fluor Partnership Limited are shown as joint ventures as the Group does not have management control. Airtanker Limited is shown as an associate due to the level of management input and the relative share ownership.

The Cavendish Fluor Partnership Limited is deemed material to the Group. All the assets and liabilities are current. Of the assets shown above £8.2 million (2016: £7.7 million) was cash and cash equivalents. During the year dividends of £8.7 million (2016: £8.9 million) were received. The retained profit is after income tax expense of £13.1 million (2016: £2.8 million).

14. Deferred tax

	2017 £m	2016 £m
Deferred tax asset	113.1	125.5
Deferred tax liability	(134.6)	(151.9)
	(21.5)	(26.4)

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2016	(8.5)	36.7	24.8	(79.4)	(26.4)
Income statement credit	–	9.0	12.9	18.5	40.4
Tax credit to equity	–	(13.4)	–	(1.7)	(15.1)
Transfer to corporation tax	–	(15.4)	–	(1.9)	(17.3)
Acquisition of subsidiaries (note 28)	–	–	–	(1.5)	(1.5)
Effect of change in UK tax rate					
– income statement	0.5	–	–	(1.0)	(0.5)
– equity	–	0.9	–	0.2	1.1
Effect of change in Italian tax rate					
– income statement	–	–	–	–	–
Exchange differences	–	–	–	(2.2)	(2.2)
At 31 March 2017	(8.0)	17.8	37.7	(69.0)	(21.5)
At 1 April 2015	(10.6)	33.9	20.2	(98.0)	(54.5)
Income statement credit	–	10.0	4.9	20.7	35.6
Tax credit to equity	–	13.1	–	(5.1)	8.0
Transfer to corporation tax	–	(16.2)	–	(1.6)	(17.8)
Effect of change in UK tax rate					
– income statement	1.0	–	(0.1)	3.4	4.3
– equity	–	(4.1)	–	(0.6)	(4.7)
Effect of change in UK tax rate					
– income statement	1.1	–	(0.2)	2.9	3.8
Exchange differences	–	–	–	(1.1)	(1.1)
At 31 March 2016	(8.5)	36.7	24.8	(79.4)	(26.4)

The net deferred tax liability of £21.5 million includes a deferred tax asset of £55.2 million and a deferred tax liability of £75.9 million in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017 £m	2016 £m
Deferred tax asset	112.6	124.9
Deferred tax liability	(134.4)	(151.8)
	(21.8)	(26.9)

Deferred tax expected to be recovered within 12 months:

	2017 £m	2016 £m
Deferred tax liability	(21.2)	(23.2)
	(21.2)	(23.2)

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses and advance corporation tax) of £70.0 million (2016: £101.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2016: £nil) of such losses, which may be carried forward.

15. Inventories

	2017 £m	2016 £m
Raw materials and spares	67.4	63.7
Work-in-progress and long-term contracts	15.1	8.2
Finished goods and goods for resale	76.7	67.2
Total	159.2	139.1

16. Trade and other receivables

	2017 £m	2016 £m
Current assets		
Trade receivables	356.0	294.2
Less: provision for impairment of receivables	(6.1)	(3.9)
Trade receivables – net	349.9	290.3
Amounts due from customers for contract work	222.4	212.2
Retentions	8.9	5.6
Amounts due by related parties (note 34)	17.2	17.4
Other debtors	85.9	69.0
Prepayments	76.7	66.4
Accrued income	124.4	106.0
	885.4	766.9
Non-current assets		
Other debtors	29.4	29.2

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

As of 31 March 2017, trade receivables with gross value of £6.7 million (2016: £4.9 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £6.1 million (2016: £3.9 million). The individually impaired receivables mainly relate to receivables in the International division. It was assessed that a portion of these receivables is expected to be recovered.

The ageing of the net impaired receivables is as follows:

	2017 £m	2016 £m
Less than three months	–	–
Three to six months	–	–
Over six months	0.6	0.9
	0.6	0.9

16. Trade and other receivables (continued)

As of 31 March 2017, trade receivables of £38.6 million (2016: £34.5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and no indication that the receivable may be impaired. The ageing analysis of these trade receivables is as follows:

	2017 £m	2016 £m
Less than three months	20.3	21.3
Three to six months	2.3	3.4
Over six months	16.0	9.8
	38.6	34.5

Movements on the provision for impairment of trade receivables are as follows:

	2017 £m	2016 £m
Balance at 1 April	(3.9)	–
Provision for receivables impairment	(2.4)	(4.0)
Receivables written off during the year as uncollectable	0.1	–
Unused amounts reversed	1.4	–
Exchange differences	(1.3)	0.1
Balance at 31 March	(6.1)	(3.9)

The creation and release of provisions for impairment of receivables have been included in cost of sales in the income statement. Amounts charged to the impairment provision are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business (note 20).

17. Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	182.8	179.3
Short-term bank deposits (overnight)	8.6	6.6
	191.4	185.9

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2017		2016	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	31.4	31.4	69.3	69.3
Euro	28.2	28.2	31.1	31.1
US Dollar	26.7	26.7	3.3	3.3
South African Rand	48.0	48.0	22.2	22.2
Canadian Dollar	23.9	23.9	13.3	13.3
Omani Rial	7.2	7.2	9.9	9.9
Australian Dollar	9.7	9.7	13.5	13.5
Swedish Krone	2.0	2.0	10.6	10.6
New Zealand Dollar	4.2	4.2	3.6	3.6
Brazilian Real	3.4	3.4	0.9	0.9
Other currencies	6.7	6.7	8.2	8.2
	191.4	191.4	185.9	185.9

The above balances are typically invested at short-term, floating rates linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

18. Trade and other payables

	2017 £m	2016 £m
Current liabilities		
Contract cost accruals	186.0	179.6
Amounts due to customers for contract work	180.4	219.2
Trade creditors	433.1	302.1
Amounts due to related parties (note 34)	1.6	2.2
Other creditors	60.6	57.7
Other taxes and social security	128.0	105.7
Accruals	241.0	243.5
Deferred income	66.9	75.6
	1,297.6	1,185.6
Non-current liabilities		
Other creditors	3.7	4.4

Included in trade creditors is £17.3 million (2016: £14.4 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

19. Bank and other borrowings

	2017 £m	2016 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	2.0	2.9
Unsecured	125.7	103.9
	127.7	106.8
Finance lease obligations*	26.6	24.8
	154.3	131.6
Non-current liabilities		
Bank and other borrowings		
Secured	27.2	40.7
Unsecured	1,279.3	1,248.2
	1,306.5	1,288.9
Finance lease obligations*	91.6	112.4
	1,398.1	1,401.3

* Finance leases are secured against the assets to which they relate.

The Group has entered into interest rate and currency swaps, details of which are included in note 20.

19. Bank and other borrowings (continued)

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2017		
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	458.0	126.4	331.6
Euro	544.3	49.3	495.0
US Dollar*	526.7	243.1	283.6
South African Rand	23.4	23.4	–
	1,552.4	442.2	1,110.2

	2016		
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	386.4	240.4	146.0
Euro	637.2	170.1	467.1
US Dollar*	470.7	217.2	253.5
South African Rand	15.7	15.7	–
Swedish Krone	22.5	–	22.5
Australian Dollar	0.4	0.4	–
	1,532.9	643.8	889.1

* US$650 million have been swapped into Sterling, with US$300 million equivalent into floating rates and US$350 million equivalent into fixed rates.

The weighted average interest rates of Sterling fixed rate borrowings are 5.3%. The weighted average period for which these interest rates are fixed is four years.

The floating rate for borrowings is linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The exposure of the Group to interest rate changes when borrowings re-price is as follows:

Total borrowings	1 year £m	1–5 years £m	>5 years £m	Total £m
As at 31 March 2017	578.2	242.1	732.1	1,552.4
As at 31 March 2016	640.9	386.1	505.9	1,532.9

The effective interest rates at the balance sheet dates were as follows:

	2017 %	2016 %
UK bank overdraft	1.3	1.5
UK bank borrowings	1.8	2.0
US private placement – fixed	5.7	5.7
US private placement – floating	2.6	2.3
Eurobond	1.8	1.8
£250 million bond	1.9	–
Other borrowings	4.8 – 5.5	4.8 – 9.3
Finance leases	0.8 – 10.5	0.9 – 10.0

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2017		2016	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	127.7	26.6	106.8	24.8
Between one and two years	–	15.8	–	25.6
Between two and five years	584.8	50.9	849.8	50.9
Greater than five years	721.7	24.9	439.1	35.9
	1,434.2	118.2	1,395.7	137.2

19. Bank and other borrowings (continued)

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2017 £m	2016 £m
Expiring in less than one year	75.0	32.7
Expiring in more than one year but not more than five years	683.7	503.8
	758.7	536.5

The minimum lease payments under finance leases fall due as follows:

	2017 £m	2016 £m
Not later than one year	32.1	31.3
Later than one year but not more than five years	78.0	91.4
More than five years	26.2	38.1
	136.3	160.8
Future finance charges on finance leases	(18.1)	(23.6)
Present value of finance lease liabilities	118.2	137.2

20. Other financial assets and liabilities

Financial instruments and finance leases granted

	Fair value			
	Assets		Liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current				
US private placement – currency and interest rate swaps	127.6	71.7	–	–
Interest rate hedges	6.5	2.6	1.2	–
Other currency hedges	1.7	0.3	3.3	1.3
Non-controlling interest put option	–	–	5.2	5.0
Financial instruments	135.8	74.6	9.7	6.3
Finance leases granted	16.8	9.7	–	–
Total non-current other financial assets and liabilities	152.6	84.3	9.7	6.3
Current				
Interest rate hedges	–	–	0.2	1.5
Other currency hedges	1.1	5.6	4.1	9.1
Financial instruments	1.1	5.6	4.3	10.6
Finance leases granted	10.8	4.5	–	–
Total current other financial assets and liabilities	11.9	10.1	4.3	10.6

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales, purchases, deposits and borrowings denominated in foreign currencies, as the transactions occur.

The Group enters into interest rate hedges against interest rate exposure and to create a balance between fixed and floating interest rates.

The fair values of the financial instruments, excluding the non-controlling interest put option, are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

The fair value of the non-controlling interest put option is based on valuation techniques (level 3) using a multiple of EBITDA as defined in the Sale and Purchase Agreement.

20. Other financial assets and liabilities (continued)

Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2017 included £8.1 million of UK interest rate swaps and interest rate swaps in relation to the US$650 million US$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2017:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	3.2	5.45	Six month LIBOR	31/3/2019
Interest rate swap	4.9	4.745	Six month LIBOR	31/3/2029
Total interest rate swaps	8.1			

	Amount US$m	Amount at swapped rates £m	Swap %	Maturity
Hedged				
Cross currency and interest rate swap	150.0	92.1	Fixed 4.94% US$ to fixed 5.4% GBP	19/3/2018
Cross currency and interest rate swap	200.0	122.9	Fixed 5.64% US$ to fixed 5.95% GBP	17/3/2021
Cross currency and interest rate swap	300.0	184.3	Fixed 5.64% US$ to floating three-month LIBOR + margin GBP	17/3/2021
Total cross currency and interest rate swap	650.0	399.3		

Finance leases granted

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the year end the present value of the minimum lease receivable amounted to £27.6 million (2016: £14.3 million), these were split as £10.8 million (2016: £4.6 million) due within one year and £16.8 million (2016: £9.7 million) between one and five years.

Fair values of financial assets and financial liabilities

The fair values of financial assets and liabilities at the balance sheet date were:

	2017		2016	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	(1,398.1)	(1,455.0)	(1,401.3)	(1,465.2)
Loan to joint venture	32.3	32.3	32.6	32.6
	(1,365.8)	(1,422.7)	(1,368.7)	(1,432.6)
Fair value of other financial assets and financial liabilities				
Short-term borrowings	(154.3)	(154.3)	(131.6)	(131.6)
Trade and other payables*	(1,282.3)	(1,281.9)	(1,132.1)	(1,131.5)
Trade and other receivables	914.8	914.8	796.1	796.1
Other financial assets – IFRIC 12	20.0	20.0	17.7	17.7
Short-term deposits	8.6	8.6	6.6	6.6
Cash at bank and in hand	182.8	182.8	179.3	179.3
Income tax receivable	16.5	16.5	24.8	24.8
Income tax payable	(11.1)	(11.1)	(11.6)	(11.6)
Other financial assets and liabilities	150.5	150.5	77.5	77.5
	(154.5)	(154.1)	(173.3)	(172.7)

* Does not include other taxes and social security.

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4% to 5% (2016: 4% to 5%).

21. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Acquisition/ deferred consideration (d) £m	Property and other (e) £m	Total provisions £m
At 1 April 2016	1.4	29.4	17.2	24.7	98.2	170.9
On acquisition of subsidiaries (note 28)	–	–	0.7	(19.0)	0.5	(17.8)
(Released)/charged to income statement	(0.4)	(3.2)	12.4	(3.4)	(2.9)	2.5
Utilised in year	–	(4.0)	(16.2)	(2.3)	(8.7)	(31.2)
Foreign exchange	–	0.1	0.3	–	2.5	2.9
At 31 March 2017	1.0	22.3	14.4	–	89.6	127.3

Provisions have been analysed between current and non-current as follows:

	2017 £m	2016 £m
Current	37.0	33.1
Non-current	90.3	137.8
	127.3	170.9

(a) The insurance provisions arise in the Group's captive insurance companies, Chepstow Insurance Limited, Peterhouse Insurance Limited and VT Insurance Services Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

(b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.

(c) The employee benefits and reorganisation costs arise mainly in relation to acquired businesses personnel related costs and payroll taxes.

(d) Acquisition/deferred consideration arises from acquisitions.

(e) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure.

Included within provisions is £30 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

22. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2016	504,196,597	302.5
Shares issued	1,400,000	0.9
At 31 March 2017	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2015	502,196,597	301.3
Shares issued	2,000,000	1.2
At 31 March 2016	504,196,597	302.5

22. Share capital (continued)

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2017 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied either by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 7,366,007 shares (2016: 7,299,826 shares) – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of 58,658 shares (2016: 114,336 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise price Pence	Exercise period	2017 Number	2016 Number
14 June 2012	PSP[2] – vested	–	14/06/2015 – 13/06/2016	–	98,901
14 June 2012	CSOP[3] – vested	–	14/06/2015 – 13/06/2016	–	9,996
24 January 2013	PSP[2] – vested	–	24/01/2016 – 24/01/2017	–	4,716
13 June 2013	PSP[2] – vested in year	–	13/06/2016 – 13/06/2017	87,562	1,348,837
13 June 2013	CSOP[3] – vested in year	–	13/06/2016 – 13/06/2017	29,192	103,409
13 June 2013	DBMP[4] – vested in year	–	13/06/2016 – 13/06/2017	70,907	1,009,626
14 June 2014	PSP[2]	–	12/06/2017 – 12/06/2018	1,318,972	1,369,760
29 January 2015	PSP[2]	–	29/01/2018 – 29/01/2019	14,196	14,196
14 June 2014	DBMP[4]	–	12/06/2017 – 12/06/2018	841,071	847,382
14 June 2014	DBMP[5]	–	12/06/2016 – 12/06/2017	–	8,736
11 June 2015	PSP[2]	–	11/06/2018 – 11/06/2019	1,539,462	1,644,321
2 November 2015	PSP[2]	–	11/06/2018 – 11/06/2019	27,388	27,388
11 June 2015	DBMP[4]	–	11/06/2018 – 11/06/2019	903,310	923,031
11 June 2015	DBMP[5]	–	11/06/2018 – 11/06/2019	3,863	3,863
15 June 2016	DBMP[6]		15/06/2019 – 15/06/2020	62,845	–
15 June 2016	DBMP[5]		15/06/2019 – 15/06/2020	14,714	–
15 June 2016	PSP[2]		15/06/2019 – 15/06/2020	2,008,906	–
12 October 2016	PSP[2]		15/06/2019 – 15/06/2020	27,578	–
15 June 2016	DBMP[4]		15/06/2019 – 15/06/2020	474,699	–
				7,424,665	7,414,162

Options granted to Directors are summarised in the Remuneration report on pages 98 to 133 and are included in the outstanding options set out above.

1. 2003 Long Term Incentive Plan.
2. 2009 Performance Share Plan.
3. 2009 Company Share Option Plan.
4. 2012 Deferred Bonus Matching Plan.
5. Award issued without matching shares, has two year vesting period.
6. Award issued without matching shares, has three year vesting period.

22. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these awards.

	2017		2016	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	442,491	791,114	277,747	–
PEST	20,842	15,000	3,543	–
Total	463,333	806,114	281,290	–

Share awards granted under the 2009 Deferred Bonus Plan are required by the rules of that plan to be satisfied with already issued shares purchased in the market.

A reconciliation of LTIP, PSP, CSOP and DBMP movements is shown below:

	2017 Number '000	2016 Number '000
Outstanding at 1 April	7,414	7,284
Granted	2,670	2,661
Exercised	(1,224)	(1,973)
Forfeited/lapsed	(1,435)	(558)
Outstanding at 31 March	7,425	7,414
Exercisable at 31 March	188	114

The weighted average share price for awards exercised during the year was 984.8p per share (2016: 1,087.50p per share).

During the year 2,206,114 ordinary shares (2016: 2,000,000 shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts'). The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2017, 1,217,957 shares (2016: 1,998,629 shares) were disposed of by the Trusts resulting from options exercised. At 31 March 2017, the Trusts held between them a total of 1,269,447 ordinary shares (2016: 281,290 ordinary shares) at a total market value of £11,196,523 (2016: £2,670,849) representing 0.25% (2016: 0.06%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year, though full dividends were paid in respect of shares held by the Peterhouse Employee Share Trust. The Company meets the operating expenses of the Trusts.

The Trusts enable shares in the Company to be held or purchased and made available to employees through the exercise of rights or pursuant to awards made under the Company's employee share schemes. The Trusts are discretionary settlements for the benefit of employees within the Group. The Company is excluded from benefiting under them. They are controlled and managed outside the UK and each has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company, but the trustee of the Peterhouse Employee Share Trust does not have the power to waive dividends due on Babcock ordinary shares and therefore receives the full amount of any dividends declared.

23. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £15.0 million (2016: £16.2 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £12.0 million (2016: £13.0 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs, DBP and CSOP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2016 DBMP Matching	479,065	974.5	14.0%	4.0	30%	379.1	974.5	46%	15/06/16
2016 PSP	2,085,427	974.5	14.0%	4.0	30%	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	30%	396.4	991.0	46%	12/10/16
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	13%	364.0	1,121.0	46%	11/06/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	20%	374.0	1,121.0	46%	11/06/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	–	1,121.0	46%	11/06/15
2014 PSP	14,196	1,007.0	12.0%	3.5	27%	165.0	1,007.0	46%	29/01/15
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	18%	536.0	1,218.0	46%	12/06/14
2014 PSP	1,550,135	1,218.0	15.0%	4.0	27%	547.0	1,218.0	46%	12/06/14
2014 DBP	8,736	1,218.0	15.0%	4.0	100%	–	1,218.0	46%	12/06/14

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years, but for the DBP it is two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 61,292 matching shares (2016: 58,036 matching shares) at a cost of £0.6 million (2016: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year the Group bought 1,000 matching shares (2016: nil matching shares) to be used when vesting is due to begin in 2019.

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan, DBP = 2012 Deferred Bonus Plan and CSOP = 2009 Company Share Option Plan.

24. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2017 £m	2016 £m
Defined contribution schemes	62.6	60.8

Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2017 £m	2016 £m
Retirement benefits – funds in surplus	193.5	45.0
Retirement benefits – funds in deficit	(298.0)	(248.1)
	(104.5)	(203.1)

The Group provides a number of pension schemes for its employees. The principal defined benefit pension schemes for employees in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes). The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees who are advised by an independent, qualified actuary.

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses at the time, through a common investment strategy which has significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes in 2014 and 2015 impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of members' contributions.

The Group also participates in the Babcock Rail Shared Cost Section of the Railways Pension Scheme (the Railways scheme). This scheme is a multi-employer shared cost scheme with the contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments agreed with the trustees who are advised by an independent, qualified actuary. The costs are, in the first instance, shared such that the active employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. However the assumption is that as the active membership reduces, the liability will ultimately revert to the Group. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in this scheme.

The schemes are funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The detail of the latest formal actuarial valuation of the scheme is as follows. The valuation of the Babcock International Group Scheme is currently being finalised. The valuations of the Railways scheme and the Devonport Royal Dockyard scheme are currently being undertaken:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/14	31/03/13	31/03/15	31/12/13
Number of active members at above date	2,955	1,827	829	426
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£1,218.0m	£1,051.0m	£714.0m	£213.7m
Level of funding	85%	89%	74%	95%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme for which the MOD fully reimburses the contributions payable.

24. Retirement benefits and liabilities (continued)

The Group's cash contribution rates payable to the schemes are as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	14.4%	32.0%	24.0%	11.1%	–	–
Future service cash contributions	£13.0m	£10.3m	£6.3m	£0.9m	£1.3m	£31.8m
Deficit contributions	£18.6m	£3.0m	£17.5m	£1.8m	£1.3m	£42.2m
Longevity swap payments	£2.8m	£3.6m	£4.3m	–	–	£10.7m
Expected employer cash costs for 2017/18	£34.4m	£16.9m	£28.1m	£2.7m	£2.6m	£84.7m
Expected salary sacrifice contributions	£4.8m	£1.6m	£1.6m	–	–	£8.0m
Expected total employer contributions	£39.2m	£18.5m	£29.7m	£2.7m	£2.6m	£92.7m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme; valuations are carried out every three years.

The expected payments from the schemes are primarily pension payments, most of which increase at a fixed rate or in line with RPI or CPI inflation when in payment and lump sums. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of the schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met.

The latest full actuarial valuation of the Group's defined benefit pension schemes have been updated to 31 March 2017 by independent qualified actuaries for IAS 19 purposes using the following assumptions:

March 2017	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Rate of increase in pensionable salaries	2.3%	2.3%	2.3%	2.3%
Rate of increase in pensions (past service)	2.2%	3.0%	3.3%	2.2%
Discount rate	2.6%	2.6%	2.6%	2.6%
Inflation rate (RPI)	3.2%	3.2%	3.2%	3.2%
Inflation rate (CPI)	2.1%	2.1%	2.1%	2.1%
Weighted average duration of cashflows (years)	16	15	17	18
Total life expectancy for current pensioners aged 65 (years)	86.2	87.6	85.3	86.2
Total life expectancy for future pensioners currently aged 45 (years)	87.4	88.7	86.5	87.5

24. Retirement benefits and liabilities (continued)

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2017				2016			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	1,044.9	20.8	60.5	1,126.2	895.2	22.4	79.2	996.8
Property	252.2	11.6	7.4	271.2	252.0	11.8	8.6	272.4
Absolute return and multi-strategy funds	16.0	128.0	20.2	164.2	9.8	103.7	19.0	132.5
Low risk assets								
Bonds	1,012.8	80.9	82.5	1,176.2	962.7	83.4	85.3	1,131.4
Matching assets*	1,916.9	0.1	175.3	2,092.3	1,298.4	0.9	104.4	1,403.7
Active position on longevity swaps	(153.9)	–	–	(153.9)	(112.0)	–	–	(112.0)
Fair value of assets	4,088.9	241.4	345.9	4,676.2	3,306.1	222.2	296.5	3,824.8
Percentage of assets quoted	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of assets unquoted	–	–	–	–	–	–	–	–
Present value of defined benefit obligations								
Active members	1,325.0	93.3	191.0	1,609.3	1,092.6	75.2	167.6	1,335.4
Deferred pensioners	932.9	87.0	87.0	1,106.9	739.2	70.4	70.5	880.1
Pensioners	1,855.2	122.7	86.4	2,064.3	1,637.8	109.9	64.5	1,812.2
Total liabilities	4,113.1	303.0	364.4	4,780.5	3,469.6	255.5	302.6	4,027.7
Deficit	24.2	61.6	18.5	104.3	163.5	33.3	6.1	202.9
Present value of unfunded obligations	–	–	0.2	0.2	–	–	0.2	0.2
Net liabilities recognised in the balance sheet	24.2	61.6	18.7	104.5	163.5	33.3	6.3	203.1

* Included within matching assets are government bonds, which are shown net of repurchase obligations of £2,091 million (2016: £2,179 million).

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13, the valuation of which is equal to the amount of collateral posted by the schemes as at balance sheet date. This is a level 3 derivative and the key inputs to the valuation are the discount rate and mortality assumptions.

The amounts recognised in the Group income statement are as follows:

	2017				2016			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	31.1	1.6	2.2	34.9	36.3	1.7	2.4	40.4
Incurred expenses	3.6	0.2	0.1	3.9	4.0	0.1	0.2	4.3
Total included within operating profit	34.7	1.8	2.3	38.8	40.3	1.8	2.6	44.7
Net interest cost	5.1	1.2	0.1	6.4	4.2	0.8	0.1	5.1
Total included within profit	39.8	3.0	2.4	45.2	44.5	2.6	2.7	49.8

24. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2017				2016			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	757.6	16.9	47.2	821.7	(147.7)	3.3	(6.3)	(150.7)
Experience losses arising on scheme liabilities	12.7	(0.5)	1.0	13.2	26.9	(0.1)	–	26.8
Changes in assumptions on scheme liabilities	(662.1)	(43.8)	(62.2)	(768.1)	71.0	(12.3)	1.1	59.8
At 31 March	108.2	(27.4)	(14.0)	66.8	(49.8)	(9.1)	(5.2)	(64.1)

Analysis of movement in the Group balance sheet

	2017				2016			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	3,306.1	222.2	296.5	3,824.8	3,418.2	219.9	299.9	3,938.0
Interest on assets	114.5	7.7	4.9	127.1	114.2	4.4	4.9	123.5
Actuarial gain/(loss) on assets	757.6	16.9	47.2	821.7	(147.7)	3.3	(6.3)	(150.7)
Employer contributions	70.9	2.1	4.0	77.0	74.5	1.6	4.7	80.8
Employee contributions	0.4	1.1	0.3	1.8	0.5	0.8	0.4	1.7
Benefits paid	(160.6)	(8.6)	(7.0)	(176.2)	(153.6)	(7.8)	(7.1)	(168.5)
At 31 March	4,088.9	241.4	345.9	4,676.2	3,306.1	222.2	296.5	3,824.8
Present value of benefit obligations								
At 1 April	3,469.6	255.5	302.6	4,027.7	3,560.6	243.1	302.9	4,106.6
Service cost	31.1	1.6	2.2	34.9	36.3	1.7	2.4	40.4
Incurred expenses	3.6	0.2	0.1	3.9	4.0	0.1	0.2	4.3
Interest cost	119.6	8.9	5.0	133.5	119.7	5.2	4.9	129.8
Employee contributions	0.4	1.1	0.3	1.8	0.5	0.8	0.4	1.7
Experience (gain)/losses	(12.7)	0.5	(1.0)	(13.2)	(26.9)	0.1	–	(26.8)
Actuarial (gain)/loss – demographics	(10.2)	(12.7)	(6.7)	(29.6)	(37.3)	16.0	(0.1)	(21.4)
Actuarial loss/(gain) – financial	672.3	56.5	68.9	797.7	(33.7)	(3.7)	(1.0)	(38.4)
Benefits paid	(160.6)	(8.6)	(7.0)	(176.2)	(153.6)	(7.8)	(7.1)	(168.5)
At 31 March	4,113.1	303.0	364.4	4,780.5	3,469.6	255.5	302.6	4,027.7
Present value of unfunded obligations	–	–	(0.2)	(0.2)	–	–	(0.2)	(0.2)
Net deficit at 31 March	(24.2)	(61.6)	(18.7)	(104.5)	(163.5)	(33.3)	(6.3)	(203.1)

The movement in net deficits for the year ending 31 March 2017 is as a result of the movement in assets and liabilities shown above.

24. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2017 and the charges to the Group income statement for the year to March 2018, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2017 £m	Income statement 2018 £m
Initial assumptions	4,780.5	49.9
Discount rate assumptions increased by 0.5%	(381.3)	(16.2)
Discount rate assumptions decreased by 0.5%	381.3	12.5
Inflation rate assumptions increased by 0.5%	302.5	10.9
Inflation rate assumptions decreased by 0.5%	(277.7)	(10.1)
Total life expectancy increased by half a year	89.0	3.0
Total life expectancy decreased by half a year	(89.0)	(2.9)
Salary increase assumptions increased by 0.5%	58.1	3.0
Salary increase assumptions decreased by 0.5%	(57.6)	(2.8)

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets (including reimbursement rights) are assumed not to be affected by any sensitivity changes shown and so the balance sheet values would increase or decrease by the same amount as the change in the defined benefit obligations.

25. Reconciliation of operating profit to cash generated from operations

	2017 £m	2016 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible and exceptional items	472.3	468.3
Amortisation of acquired intangible and exceptional items	(112.7)	(115.8)
Operating profit before share of results of joint ventures and associates	359.6	352.5
Depreciation of property, plant and equipment	82.4	78.1
Amortisation and impairment of intangible assets	122.6	123.7
Investment income	1.2	1.2
Equity share-based payments	15.0	16.2
Profit on disposal of joint ventures and associates	–	(7.5)
Profit on disposal of property, plant and equipment	(2.8)	(2.4)
Loss on disposal of intangible assets	0.3	–
Operating cash flows before movement in working capital	578.3	561.8
(Increase)/decrease in inventories	(0.4)	6.8
Increase in receivables	(78.3)	(33.4)
Increase in payables	71.0	15.1
Decrease in provisions	(28.4)	(25.1)
Retirement benefit contributions in excess of income statement	(38.2)	(34.9)
Cash generated from operations	504.0	490.3

26. Movement in net debt

	2017 £m	2016 £m
Increase in cash in the year	11.1	52.9
Cash flow from the decrease in debt and lease financing	91.0	112.4
Change in net funds resulting from cash flows	102.1	165.3
Loans and finance leases acquired with subsidiaries	(5.2)	–
New finance leases – received	–	(19.7)
New finance leases – granted	14.8	7.2
Movement in joint venture and associate loans	(0.3)	(6.0)
Foreign currency translation differences and other	(56.4)	(49.7)
Movement in net debt in the year	55.0	97.1
Net debt at the beginning of the year	(1,228.5)	(1,325.6)
Net debt at the end of the year	(1,173.5)	(1,228.5)

27. Changes in net debt

	31 March 2016 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	31 March 2017 £m
Cash and bank balances	185.9	4.6	(5.5)	–	6.4	191.4
Bank overdrafts	(17.1)	12.2	(0.2)	–	(0.7)	(5.8)
Cash, cash equivalents and bank overdrafts	168.8	16.8	(5.7)	–	5.7	185.6
Debt	(1,378.6)	69.8	(5.2)	–	(114.4)	(1,428.4)
Finance leases – received	(137.2)	26.4	–	–	(7.4)	(118.2)
Finance leases – granted	14.2	(5.2)	–	14.8	3.8	27.6
	(1,501.6)	91.0	(5.2)	14.8	(118.0)	(1,519.0)
Net debt before derivatives and joint ventures and associates loans	(1,332.8)	107.8	(10.9)	14.8	(112.3)	(1,333.4)
Net debt derivative	71.7	–	–	–	55.9	127.6
Joint ventures and associates loans	32.6	(0.3)	–	–	–	32.3
Net debt	(1,228.5)	107.5	(10.9)	14.8	(56.4)	(1,173.5)

28. Acquisitions

2017

In April 2016 the Group acquired 100% of Heli Aviation GmbH for £5.7 million plus acquired loans of £5.2 million giving a total cost of £10.9 million. Heli Aviation GmbH provides helicopter services in mission critical operations.

Deferred consideration of £7.6 million in respect of the Defence Support Group, £7.2 million in respect of Scandinavian AirAmbulance AB, £4.0 million in respect of Context Information Services Limited and £0.2 million in respect of Skills2Learn Limited was paid during the year.

The goodwill arising on the acquisitions derives from the market position of the entities involved and the value of the workforce acquired.

Details of the final fair value of assets acquired and the final goodwill are as follows:

2017	Heli Aviation £m
Cost of acquisition	
Cash paid	5.7
Fair value of assets acquired (see below)	(4.0)
Goodwill	1.7

28. Acquisitions (continued)

Net assets and liabilities arising from the acquisition are as follows:

2017	Heli Aviation Fair value acquired £m
Acquired intangibles*	5.0
Property, plant and equipment	7.0
Deferred tax	(1.5)
Income tax	(0.1)
Bank loan	(5.2)
Inventory	0.8
Current assets	2.5
Current and non-current liabilities	(3.3)
Provisions	(1.2)
Net assets acquired	4.0

* Acquired intangibles are: customer relationships, both contracted and non-contracted plus brand valuations (see note 11).

Cash outflow to acquire businesses net of cash acquired:

2017	Heli Aviation £m	Other £m	Total £m
Purchase consideration paid in cash	5.7	–	5.7
Deferred consideration paid in cash	–	19.0	19.0
Cash, cash equivalents and bank overdrafts	–	–	–
Cash outflow in period	5.7	19.0	24.7

The revenue and operating loss of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2016 are:

	Heli Aviation	
2017	Since date of acquisition £m	For full year £m
Group revenue	6.0	6.1
Group operating loss	1.5	1.7
Underlying operating loss	1.5	1.7

2016

There were no acquisitions in the previous year.

The deferred consideration of £1.3 million in respect of S. MacNeillie and Son Limited was paid during the year as well as an additional £0.5 million in respect of Skills2Learn Limited.

During the previous year the completion accounts for the Defence Support Group (DSG) were finalised. The final consideration of £7.6 million was paid in April 2016.

29. Disposals

There have been no disposals during the year.

During both the current and previous years the Group paid certain accrued costs on previously disposed of businesses.

In the previous year on 17 April 2015 the Group sold its investments in Lewisham Schools for the Future joint venture for £14.3 million at a profit on disposal of £7.5 million.

In the previous year on 5 July 2015 the Group disposed of its investment in Norsk Helikopterservice AS (Norsk) for NOK100.

We are currently in the process of completing the disposal of the Infrastructure business unit. Its revenue in the year to 31 March 2017 was c £30.0 million.

Details of the final assets disposed of are:

	2017		2016			
	Previously disposed of business £m	Total £m	Lewisham £m	Norsk £m	Previously disposed of business £m	Total £m
Goodwill	–	–	–	–	–	–
Investments in and loans to joint ventures and associates	–	–	3.3	–	–	3.3
Property, plant and equipment	–	–	–	0.4	–	0.4
Cash, cash equivalents and bank overdraft	–	–	–	1.0	–	1.0
Inventory	–	–	–	0.3	–	0.3
Current assets	–	–	–	1.5	–	1.5
Current and non-current liabilities	–	–	–	(2.5)	–	(2.5)
Provisions	–	–	–	(2.1)	–	(2.1)
Deferred tax	–	–	–	0.4	–	0.4
Mark to market amortisation recycled from hedging reserve	–	–	0.7	–	–	0.7
Net assets disposed	–	–	4.0	(1.0)	–	3.0
Profit on disposal of joint ventures and associates	–	–	7.5	–	–	7.5
Disposal costs	–	–	2.8	1.0	–	3.8
Sale proceeds	–	–	14.3	–	–	14.3
Sale proceeds less cash disposed of	–	–	14.3	(1.0)	–	13.3
Less costs paid in the year	(0.6)	(0.6)	–	(1.1)	(1.9)	(3.0)
Net cash inflow/(outflow)	(0.6)	(0.6)	14.3	(2.1)	(1.9)	10.3

30. Transactions with non-controlling interests

In December 2016 the Group acquired the remaining 25% of Babcock Mission Critical Services Portugal, LDA for £2.1 million.

In the previous year on 5 July 2015 the non-controlling interest in Norsk Helikopterservice AS of £0.7 million was disposed of for no consideration.

The following were the transactions with non-controlling interests in the current year:

2017	Decrease in retained earnings £m	Decrease in non-controlling interests £m	Cash outflow £m
Babcock Mission Critical Services Portugal, LDA	1.5	0.6	2.1
Transactions with non-controlling interests – 2017	1.5	0.6	2.1

31. Operating lease commitments – minimum lease payments

	2017		2016	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:				
Within one year	31.5	110.7	26.0	84.4
Later than one year and less than five years	78.6	293.0	69.9	203.9
After five years	49.1	110.3	41.6	71.9
	159.2	514.0	137.5	360.2

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating leases.

Included within the above are £389.4 million (2016: £358.6 million) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

32. Contingent liabilities

(a) Pursuant to the Rosyth Dockyard privatisation agreement, the MOD will share in the net proceeds of sale or development of the dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MOD dated 30 January 1997. By way of security for the MOD's rights to such share, the Company has granted a fixed charge (standard security) over the dockyard in favour of the Authority.

(b) The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.

(c) The Group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

(d) As part of its role in the Submarine Enterprise Performance Program, the Group has provided a £9 million financial guarantee for a supplier to ensure continuity of supply.

33. Capital and other financial commitments

	2017 £m	2016 £m
Contracts placed for future capital expenditure not provided in the financial statements	29.4	26.2

34. Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 13.

	2017 Revenue to £m	2017 Purchases from £m	2017 Year end debtor balance £m	2017 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	73.9	(0.1)	7.3	(0.1)
ABC Electrification Limited	28.2	–	3.2	–
First Swietelsky Operation and Maintenance	10.6	–	2.2	(1.5)
FSP (2004) Limited	–	(0.6)	–	–
Ascent Flight Training (Management) Limited	1.9	–	–	–
Ascent Flight Training Holdings Limited	0.7	–	–	–
Advanced Jet Training Limited	1.8	–	0.1	–
Rear Crew Training Limited	2.9	–	0.5	–
AirTanker Services Limited	8.9	–	0.5	–
ALC (Superholdco) Limited	2.2	–	–	–
Naval Ship Management (Australia) Pty Limited	3.8	–	0.4	–
Cura Classis (UK) Limited	5.3	–	–	–
Cura Classis (US) LLC	5.6	–	–	–
Cura Classis Canada (Hold Co) Inc.	11.3	–	–	–
Cavendish Dounreay Partnership Limited	4.3	(0.1)	0.3	–
Cavendish Fluor Partnership Limited	22.1	(0.1)	2.3	–
Cavendish Boccard Nuclear Limited	1.4	–	0.4	–
	184.9	(0.9)	17.2	(1.6)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 24 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 6 and in the Remuneration report.

(d) Transactions in employee benefits trusts are shown in note 22.

34. Related party transactions (continued)

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 13.

	2016 Revenue to £m	2016 Purchases from £m	2016 Year end debtor balance £m	2016 Year end creditor balance £m
Joint ventures and associates				
Debut Services (South West) Limited	11.4	–	–	–
Holdfast Training Services Limited	69.7	(0.1)	7.5	–
ABC Electrification Limited	25.0	–	2.2	–
First Swietelsky Operation and Maintenance	11.1	–	1.9	(2.2)
FSP (2004) Limited	–	(0.6)	–	–
Ascent Flight Training (Management) Limited	0.9	–	0.4	–
Ascent Flight Training Holdings Limited	1.1	–	–	–
Advanced Jet Training Limited	1.6	–	0.2	–
Rear Crew Training Limited	0.8	–	0.1	–
Airtanker Services Limited	8.1	–	1.1	–
ALC (Superholdco) Limited	2.3	–	0.5	–
Naval Ship Management (Australia) Pty Limited	2.5	–	0.2	–
Cura Classis (UK) Limited	5.7	–	(0.4)	–
Cura Classis (US) LLC	5.2	–	–	–
Cura Classis Canada (Hold Co) Inc.	11.9	–	0.3	–
Cavendish Dounreay Partnership Limited	0.2	–	–	–
Cavendish Fluor Partnership Limited	24.5	(0.3)	3.2	–
Cavendish Boccard Nuclear Limited	2.0	–	0.2	–
	184.0	(1.0)	17.4	(2.2)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 24 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 6.

(d) Transactions in employee benefits trusts are shown in note 22.

35. Post balance sheet events

(a) Dividends

Details on dividends are given in note 8. There are no further material events subsequent to 31 March 2017 that require disclosure.

36. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2017 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries: Incorporated in the United Kingdom, wholly owned.

Active Management Limited

Air Power International Limited
110 Queen Street, Glasgow, G1 3HD, Scotland

Airwork Limited

Alstec Automation Limited

Alstec Defence Limited

Alstec Limited

Appledore Shipbuilders (2004) Limited [c]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Armstrong Technology Associates Limited

Babcock (UK) Holdings Limited [a i]

Babcock 1234 Limited

Babcock 2010 Limited

Babcock Aerospace Limited

Babcock Airports Limited

Babcock Assessments Limited

Babcock Aviation Services (Holdings) Limited [a i]

Babcock Brazil Investments Limited

Babcock Brisco Limited

Babcock Career Progressions Limited

Babcock Careers Guidance (South) Limited [c]

Babcock Careers Guidance Limited [m]

Babcock Civil Infrastructure Limited

Babcock Communications Limited

Babcock Contractors Limited

Babcock Corporate Secretaries Limited

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

Babcock Critical Services Limited
110 Queen Street, Glasgow, G1 3HD, Scotland

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments Limited

Babcock Defence Systems Limited

Babcock Design & Technology Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock DSG Limited

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Emergency Services Limited

Babcock Engine Controls Limited

Babcock Engineering Assessments Limited [d]

Babcock Engineering Limited

Babcock Environmental Services Limited

Babcock Finance Limited

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Flagship Limited [c]

Babcock Group (US Investments) Limited

Babcock Group International Limited

Babcock Group Limited

Babcock Holdings Limited [i]

Babcock HSPS Trustees Limited

Babcock Information Analytics and Security Holdings Limited
Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ

Babcock Information Analytics and Security Limited [f]
Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ

Babcock Infrastructure Holdings LLP

Babcock Integrated Technology (Korea) Limited

Babcock Integrated Technology Limited

Babcock Integration LLP

Babcock International Guarantee Company

Babcock International Limited [f]

Babcock International Middle East Limited

Babcock International Support Services Limited

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Eight) Limited

Babcock Investments (Number Four) Limited

Babcock Investments (Number Three) Limited

Babcock Investments Limited

Babcock IP Management (Number One) Limited

Babcock IP Management (Number Two) Limited

Babcock Land (Whitefleet Management) Limited

Babcock Land Limited

Babcock Leaseco Limited

Babcock Lifeskills Limited

Babcock Managed Security Services Limited [m]

Babcock Management Limited

Babcock Marine & Technology Holdings Limited

Babcock Marine (Clyde) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock Marine (Devonport) Limited [c]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Babcock Marine (Rosyth) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

36. Group entities (continued)

Subsidiaries: Incorporated in the United Kingdom, wholly owned – continued

Babcock Marine Holdings (UK) Limited [f]

Babcock Marine Limited

Babcock Marine Products Limited

Babcock Mission Critical Services Design and Completions Limited

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Limited

Babcock Mission Critical Services Offshore Limited

Babcock Mission Critical Services Onshore Limited

Babcock Mission Critical Services Topco Limited [(i) b]

Babcock Mission Critical Services UK Limited

Babcock Money Purchase Trustees Limited

Babcock MSS Limited

Babcock Networks Limited

Babcock Nominees Limited

Babcock Nuclear Limited

Babcock Overseas Investments Limited

Babcock Partner No 6 Limited

Babcock Partner No 7 Limited

Babcock Partners No 2010 Limited

Babcock Porchester Limited

Babcock Power Maintenance Limited

Babcock Project Investments Limited

Babcock Project Services Limited [c]

Babcock Rail Limited

Babcock Services Group Limited

Babcock Services Limited [g]

Babcock Skills Development and Training Limited

Babcock Southern Careers Limited [d]

Babcock Southern Holdings Limited [m]

Babcock SSD Services Limited

Babcock Support Services (Investments) Limited

Babcock Support Services Limited [j]
110 Queen Street, Glasgow, G1 3HD, Scotland

Babcock Systems Limited

Babcock Technical Services Limited

Babcock Training Limited

Babcock Transmission Limited [c]

Babcock Trustees Limited

Babcock UK Finance

Babcock US Investments Limited

Babcock Welbeck Limited

Babcock Woodall-Duckham (Overseas) Limited [l]

Babcock2 Limited

Babcock-Moxey Limited

BCRA Chesterfield Limited [l]

BIL Solutions Limited

Birchill Investment Co. Limited

BMH (2002) Limited

BNS Nuclear Services Limited

BNS Pension Trustees Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

BNS Pensions Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Bond Aviation Holdings II Limited

Bond Aviation Holdings Limited

Bond Aviation Leasing Limited

Bond Aviation Topco Limited [f]

Bond European Aviation Leasing Limited

Bond Mission Critical Services PLC

British Nuclear Services Limited

Brooke Marine Shipbuilders Limited

Cavendish Nuclear (Overseas) Limited

Cavendish Nuclear Limited [f]

Cavendish Nuclear Manufacturing Limited

Certas Limited

Chart Distribution Services Limited

Chart Services Limited
110 Queen Street, Glasgow, G1 3HD, Scotland

Chart Storage & Transportation Limited

Context Information Security Limited
11 Westferry Circus, London, E14 4HD

Costpool Limited

Defence SCS Limited
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Devonport Management Limited

Devonport Royal Dockyard Limited [b]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Devonport Royal Dockyard Pension Trustees Limited
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Eve Construction Limited

Eve Developments Limited

Eve Group Limited

Eve NCI Limited

Eve Power Limited

Eve Transmission Limited

FBM Babcock Marine Holdings (UK) Limited

FBM Babcock Marine Limited

FBM Marine International (UK) Limited

First Engineering Holdings Limited
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

First Engineering Limited

First Fire and Rescue Service Limited

First Fire and Rescue Service No 2 Limited

First Projects Limited

Flagship Fire Fighting Training Limited

FN Consultancy Limited
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

FNC Group Limited
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

FNC Limited
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Form Land Support Limited

36. Group entities (continued)

Subsidiaries: Incorporated in the United Kingdom, wholly owned – continued

Frazer-Nash Consultancy Group Limited [c]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Frazer-Nash Consultancy Limited [h]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

FW 1B SPV Limited [m]

Gaycrete Limited

Gibraltar Investments (No. 7) Limited [c]

Global Broadcast Telecommunication Services Limited

Guidance Services Limited

HCTC Limited

Hiberna Contract Services Limited

Hiberna FM Limited

Hiberna Limited

Hiberna Network Solutions Limited

INS Innovation Limited

Integrated Safety Services Group Limited

International Channel Europe Limited

Jackson (EBP) Limited

Jackson Management Services Limited

KML (UK) Limited

Learning21 Limited

Liquid Gas Equipment Limited
Young House, 42 Discovery Terrace, Heriot-Watt University Research Park, Edinburgh, EH14 4AP, Scotland

Locam Limited
Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ

Marine Engineering & Fabrications (Holdings) Limited

Marine Engineering & Fabrications Limited

Merlin Communications Group Limited [h]

Merlin Orfordness Limited

Municipal Vehicle Hire Limited

Northern Cable Installations Limited

Pearson & Raby Limited

Peterhouse Group Limited

Peterhouse5 (Shorco) Limited [c]

Peterhouse6 (IETG) Limited

Port Babcock Rosyth Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Limited [n]
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Pension Trustees Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

S.MacNeillie & Son Limited [e]

SBRail Limited

Scimco Limited

Skills2Learn Limited

St Helen's Securities Limited

Strachan & Henshaw Limited

The Stirling Boiler Company Limited
110 Queen Street, Glasgow, G1 3HD, Scotland

Touchstone Learning & Skills Limited

Transfleet Distribution Limited

Transfleet Truck Rentals Limited

Tyneham Investments Limited

UKAEA Limited

Vosper ManTech Limited [c]

Vosper Thornycroft (UK) Limited

Westminster Education Consultants Limited

WRN Broadcast Limited

WRN Facilities Limited

Subsidiaries: Incorporated overseas, wholly owned:

AUH-Bidco Pty Limited
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock (NZ) Limited
Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Babcock Africa (Pty) Limited [k]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd [(ii) f]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Investments (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Investments BV
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Australia Holdings Pty Limited
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Aviation Services (Holdings) SL
Plaza Pablo Ruiz, Picasso 1, Torre Picasso, 28020, Madrid, Spain

Babcock B.V.
Bezuidenhoutseweg 1, 2594AB,'s-Gravenhage, Netherlands

Babcock Canada Inc
45 O'Connor Street, Suite 1500, Ottawa ON K1P 1A4, Canada

Babcock Communications Cyprus Limited
199 Mariakos III Ave, Neoclous House, CY 3030 Limassol, Cyprus

Babcock Defence & Security Pty Limited
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Education and Training (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Financial Services (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Holdings (USA) Incorporated [k]
S32 Loockerman Square, Ste. L-100 Dover Delaware, United States

Babcock International France SAS
4 rue Lord Byron, 75008 Paris, France

Babcock International Holdings BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock International Italy S.p.A.
Piazza Castello no.26 - 20121 Milan, Italy

Babcock International Spain S.L.U.
Mutxamel, Alicante, Aeródromo de Mutxamel, 03110, Partida la Almaina 92, Spain

Babcock International US Inc
21001 Great Mills Road, Lexington Park, Maryland DE 20653, United States

Babcock Ireland Finance Limited
44 Esplanade, St Helier, Jersey, JE4 9WG

Babcock Luxembourg Investments I S.a.r.l.
12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg

Babcock Luxembourg Finance S.a.r.l.
12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg

Babcock Luxembourg Investments S.a.r.l.
12F rue Guillaume Kroll, L - 1882 Luxembourg, Luxembourg

Babcock Luxembourg S.a.r.l.
12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg

Babcock Malta (Number Two) Limited
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

36. Group entities (continued)

Subsidiaries: Incorporated overseas, wholly owned: – continued

Babcock Malta Finance (Number Two) Limited [d]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Finance Limited [d]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings (Number Two) Limited [d]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings Limited
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Limited
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock MCS Fleet Management S.p.A.
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Asset Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Australasia Pty Ltd
Level 10, 70 Franklin Street, Adelaide, SA 5000, Australia

Babcock Mission Critical Services España SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Fleet Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services France SA
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock Mission Critical Services Germany GmbH
Augsburg Airport, Flughafenstrasse 19, 86169 Augsburg, Germany

Babcock Mission Critical Services Group, Sociedad Anonima
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Holdings, Sociedad Limitada
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services International S.A.U.
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Ireland Limited
24/26 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services Italia S.p.A
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Portugal, Unipessoal, LDA
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Mission Critical Services, S.A.U.
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Mozambique Limitada
Av. Samora Machel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd
2nd Floor, Unit 3 La Chambers, Dr Agostinho Neto Road, Ausspannplatz, Windhoek, Namibia

Babcock Networks Ireland Limited
Unit 2, Red Cow Interchange Estate, Ballymounth, Dublin, 22, Ireland

Babcock Offshore Services Australasia Pty Ltd
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Oman LLC
Al Raid Business Centre, Qurum, PO Box 2315, Muscat, PC130, Oman

Babcock Pty Limited
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Support Services (Canada) Inc.
44, Chipman Hill Suite 1000, Saint John NB NB E2L 2A9, Canada

Babcock Support Services (USA) LLC
2711 Centerville Road, Suite 400, Wilmington, County of New Castle DE 19808, United States

Babcock Support Services GmbH
Berliner Platz 12, 41061, Monchengladbach, Germany

Babcock Support Services s.r.l.
Via Foro Buonaparte, 70 20121, Milano, Italy

Babcock TCM (Proprietary) Limited [k]
Plot 67978, Mokolwane House, Phakalane Industrial, Phakalane, Gaborone, Botswana

Babcock US Investments (Number Two) LLC [c]
160 Greentree Drive, Suite 101, Dover DE 19904, United States

Babcock US Investments Inc.
160 Greentree Drive, Suite 101, Dover, Kent County DE 19904, United States

Babcock Zambia Limited
PO Box 28037, Kitwe, Copperbelt Province, 101010, Zambia

BMH Technologies (Holdings) GmbH [c]
Berliner Platz 12, 41061, Monchengladbach, Germany

Chepstow Insurance Limited
St Martin's House, Le Bordage, St Peter Port, GY1 4AU

Cognac Formation Aero
Lieu dit le Portaret, 83340, Le Cannet des Maures, France

Conbras Servicos Tecnicos de Suporte Limiteda
Rua Nilo Pecanha no 50, Suites 314 & 315, Centro, Rio de Janeiro, 20020.100, Brazil

Context Information Security LLC [c]
2711 Centerville Road, Suite 400, Wilmington DE 19808, United States

Frazer-Nash Consultancy (Australia) Pty Limited
689-695 Mersey Road, Osborne SA 5017, Australia

Heli Aviation (Tianjin) Helicopter Sales Co., Ltd.
Room 514/515, The Aviation Industry Support Center, Comprehensive Free Trade Zone, Airport Industrial Park, 1 Boahang Riad, Tianjin, China

Heli Aviation China Ltd
World Finance Centre, Kowloon Hong Kong/ Room 1102-1103 11/F, Kowloon Building, 555 Nathan Road, Mongkok, Kowloon, Hong Kong

INAER Aviation Mozambique Lda
Avenida Zedequais Manganhela, No 267 1 Andar Direito, Maputo, 1100, Mozambique

INAER Congo SA
Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, The Democratic Republic of the Congo

INAER Helicopter Australia Pty Limited
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

INAER Helicopter Chile S.A.
2880 Americo Vespucio Norte Avenue, Suite 1102, Conchali, Santiago, Chile

INAER Helicopter Peru S.A.C. [(iii)]
Av. De La Floresta No 497 Int., Lima, Peru

INAER Ireland Finance Limited
Custom House Plaza, Block 6, IFSC, Dublin, DUBLIN 1, Ireland

Marine Industrial Design Limited
Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Naiad Marine B.V
Prins Bernhardplein 200, 1097 JB, Amsterdam Netherlands

National Training Institute LLC [(iv)]
PO Box 267, Madinat Qaboos, Sultanate of Oman, 115, Oman

Peterhouse GmbH
Berliner Platz 12, 41061, Monchengladbach, Germany

PHG Insurance Limited
St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey

Strachan & Henshaw Canada Inc
45 O'Connor Street, Suite 1500, Ottawa, ON, K1P 1A4, Canada

Strachan & Henshaw, Inc
155 Federal Street, Suite 700, Boston MA 02110, United States

36. Group entities (continued)

Subsidiaries: Incorporated overseas, wholly owned: – continued

VT Communications GmbH
Mainzer Landstrasse 16, 60325, Frankfurt Am Main, Germany

VT Insurance Services Limited
St Martins House, Le Bordage, St Peter Port, Guernsey

World Helicopters Norway AS
Norske Helikopterservice Flyplassvegen 214, Sola, 4055, Norway

Subsidiaries: partly owned:

Airwork Technical Services & Partners LLC (51%)
PO Box 248 (located at Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock 4S Limited (80.1%) [c]

Babcock Communications & Partners LLC (99%) [(v) c]
PO Box 248 (located at Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Dyncorp Limited (56%) [c]

Babcock Learning and Development Partnership LLP (80.1%)

Babcock Mission Critical Services Galicia SL (91%)
Lugar Lavacolla-Aeropuerto Santiago, S/N, C.P., 15820, Santiago de Compostela, A Coruna, Spain

Babcock Mission Critical Services, Scandinavia AB (84.6%) [b]
Ashurst Advokatbyra AB, PO Box 7124 10387, Stockholm, Sweden

Babcock Ntuthuko Aviation (Pty) Limited (74.2%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Proprietary) Limited (75%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Proprietary) Limited (75.3%)
1st Floor, Acacia House, Plot 54358, Prime Plaza, New CBD, Gaborone

Babcock Plant Services (Pty) Limited (72%) [f]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock SAA FW AB (84.6%)
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavia Holding AB (84.6%)
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavian AirAmbulance AB (84.6%)
Lägervägen 3, 832 56, Frösön, Sweden

Babcock West Sussex Careers Limited (80.1%) [c]
The French Quarter, 114 High Street, Southampton, SO14 2AA

Capital Careers Limited (88.3%)

Inaer Ghana Limited (90%)
2nd Floor, Opeibea House, 37 Liberation Road, P.O. Box CT 9347, Cantonments, Accra, Ghana

S.O.S. Helikoptern Gotland AB (84.6%)
Frösö Park byggnad 89, 832 96, Frösön, Sweden

Scandinavian Air Ambulance Norge A/S (84.6%)
Nerstranda 55, 9008 Troms, Norway

Surrey Careers Services Limited (94.1%) [f]

Svensk Flygambulans AB (84.6%)
Säve Flygplatsväg 16, 423 73, Säve, Sweden

Joint ventures and associates (equity accounted)

ABC Electrification Limited (33.3%) [b]
8th Floor, The Place, High Holborn, London, WC1V 7AA

Advanced Jet Training Holdings Limited (50%)

Advanced Jet Training Limited (50%)

AirTanker Finance Limited (13.3%)*
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Holdings Limited (13.3%)*
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Limited (13.3%)*
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Services Limited (22.3%)*
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, OX18 3LX

ALC (FMC) Limited (50%)*
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

ALC (Holdco) Limited (50%)*
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

ALC (SPC) Limited (50%)*
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

ALC (Superholdco) Limited (50%)*
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

Alert Communications (2006) Limited (20%) [f]

Alert Communications (Holdings) Limited (20%)

Alert Communications Group Holdings Limited (20%)

Alert Communications Limited (20%)

Ascent Flight Training (Holdings) Limited (50%)

Ascent Flight Training (Management) Limited (50%)

Ascent Flight Training (Services) Limited (50%)

Babcock Middle East LLC (49%)
Suite 702, Tower A, Al Jazira Sports Club, Muroor Road, Abu Dhabi, PO BOX 114851, United Arab Emirates

Cavendish Boccard Nuclear Limited (51%)

Cavendish Dounreay Partnership Limited (50%) [b]

Cavendish Fluor Partnership Limited (65%)

Cura Classis (Canada) Inc. (48%)
44 Chipman Hill, Suite 1000, PO Box 7289, Stn. "A", Saint John, NB E2L 2A9, Canada

Cura Classis (UK) Limited (48%)

Cura Classis (US) Hold Co LLC (48%)
2711 Centreville Rd, Suite 400, Wilmington, Newcastle DE 19808, United States

Cura Classis (US) LLC (48%)
2711 Centreville Rd, Suite 400, Wilmington, Newcastle DE 19808, United States

Cura Classis Canada (Hold Co) Inc. (48%) [n]
44 Chipman Hill, Suite 1000, PO Box 7289, Stn. "A", Saint John, NB E2L 2A9, Canada

Cura Classis UK (Hold Co) Limited (48%)

Debut Services (South West) Limited (50%)
20 Triton Street, Regent's Place, London, NW1 3BF

Debut Services Limited (15%)
20 Triton Street, Regent's Place, London, NW1 3BF

Dounreay Site Restoration Limited (50%) [c]
Building D2003, Dounreay, Thurso, Caithness, KW14 7TZ, Scotland

European Air-Crane S.p.A. (49%)
Via Duca D'Aosta no. 20, 50129, Florence, Italy

Falck Air Ambulance A/S (36.8%)
Polititorvet 1, 1569, Copenhagen, Denmark

FBV Designs Limited (50%) [b]

Fixed Wing Training Holdings Limited (50%)

Fixed Wing Training Limited (50%)

FSP (2004) Limited (50%) [c]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

36. Group entities (continued)

Joint ventures and associates (equity accounted) – continued

Hackney Schools for the Future Limited (40%)
Tempsford Hall, Sandy, Bedfordshire, SG19 2BD

Helidax S.A.S. (50%)*
Route de Tercis, 40100, Dax, France

Holdfast Training Services Limited (74%)

Magnox Limited (32.5%)
Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RG

Mouchel Babcock Education Investments Limited (50%)
Tempsford Hall, Sandy, Bedfordshire, SG19 2BD

Mouchel Babcock Education Services Limited (50%)
Tempsford Hall, Sandy, Bedfordshire, SG19 2BD

Naval Ship Management (Australia) Pty Limited (50%)
Level 10, 40 Miller Street, North Sydney NSW 2060, Australia

Rear Crew Training Holdings Limited (50%)

Rear Crew Training Limited (50%)

Research Sites Restoration Limited (65%) [c]
Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RG

Rotary Wing Training Limited (50%)

S.I.M.A. Societa Italiana de Manutenzioni Aeronautiche SpA (22%)
Via Duca D'Aosta no. 20, 50129, Florence, Italy

Notes

(i) The Group's interest in Babcock Mission Critical Services Topco Limited carries 75% of the voting rights, and the right to substantially all of the distributable profits.
(ii) The Group's interest in Babcock Africa Holdings (Pty) Limited carries 90% of the voting rights, and the right to substantially all of the distributable profits.
(iii) The Group's interest in INAER Helicopter Peru S.A.C. carries 70% of the voting rights, and the rights to substantially all distributable profits.
(iv) The Group's interest in National Training Institute LLC carries over 70% of the voting rights, and the rights to substantially all distributable profits.
(v) The Group's interest in Babcock Communication & Partners LLC carries over 70% of the voting rights, and the rights to 99% of the distributable profits.
a Babcock International Group PLC has direct holdings in Babcock (UK) Holdings Limited, and preference share class A and B in Babcock Aviation Services (Holdings) Limited.
b Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
c Holding of two types of ordinary shares.
d Holding of three types of ordinary shares.
e Holding of six types of ordinary shares.
f Holding of ordinary and preference shares.
g Holding of two types of ordinary and preference shares.
h Holding of ordinary and two types of preference shares.
i Holding of ordinary and three types of preference shares.
j Holding of ordinary and five types of preference shares.
k Holding of ordinary and redeemable preference shares.
l Holding of two ordinary and redeemable preference shares.
m Holding of ordinary and deferred shares.
n Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
* Year end 31 December.

Independent auditors' report to the members of Babcock International Group PLC

Report on the Company financial statements

Our opinion

In our opinion, Babcock International Group PLC's company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:

- the Company balance sheet as at 31 March 2017;
- the Company statement of changes in equity for the year then ended: and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and,
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibility statement set out on page 140, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Babcock International Group PLC for the year ended 31 March 2017.

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 May 2017

Company balance sheet

As at 31 March 2017	Note	2017 £m	2016 £m
Fixed assets			
Investment in subsidiaries	5	2,359.5	2,359.5
Current assets			
Trade and other receivables	6	3,049.2	2,572.1
Trade and other payables	7	(1,820.4)	(1,437.5)
Net current assets		1,228.8	1,134.6
Total assets less current liabilities		3,588.3	3,494.1
Trade and other payables	7	(1,281.9)	(1,249.4)
Net assets		2,306.4	2,244.7
Equity			
Called up share capital	9	303.4	302.5
Share premium account		873.0	873.0
Capital redemption reserve		30.6	30.6
Other reserve		768.8	768.8
Retained earnings		330.6	269.8
Total shareholders' funds		2,306.4	2,244.7

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £146.8 million (2016: loss £35.1 million).

The financial statements on pages 205 to 211 were approved by the Board of Directors on 23 May 2017 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

Company statement of changes in equity

For the year ended 31 March 2017	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 1 April 2015	301.3	873.0	851.3	30.6	285.2	2,341.4
Loss for the year	–	–	–	–	(35.1)	(35.1)
Other comprehensive income	–	–	–	–	45.1	45.1
Shares issued in the year	1.2	–	–	–	–	1.2
Dividends	–	–	–	–	(121.5)	(121.5)
Share-based payments	–	–	–	–	15.5	15.5
Tax on share-based payments	–	–	–	–	(1.9)	(1.9)
Other reserves released	–	–	(82.5)	–	82.5	–
Net movement in equity	1.2	–	(82.5)	–	(15.4)	(96.7)
At 31 March 2016	302.5	873.0	768.8	30.6	269.8	2,244.7
At 1 April 2016						
Profit for the year	–	–	–	–	146.8	146.8
Other comprehensive income	–	–	–	–	40.1	40.1
Shares issued in the year	0.9	–	–	–	–	0.9
Dividends	–	–	–	–	(132.5)	(132.5)
Share-based payments	–	–	–	–	7.2	7.2
Tax on share-based payments	–	–	–	–	(0.8)	(0.8)
Net movement in equity	0.9	–	–	–	60.8	61.7
At 31 March 2017	303.4	873.0	768.8	30.6	330.6	2,306.4

1. General information

Babcock International PLC is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments on a going concern basis. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £ million.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1, 'Share capital and reserves';
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Taxation

Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. Significant accounting policies (continued)

Taxation (continued)

Deferred income tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 23 of the Group financial statements.

(b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. See note 22 to the Group financial statements for further details.

(c) Pension arrangement

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 24 to the Group financial statements for further details.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in the profit and loss account immediately.

Financial risk management

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are approved and in the case of interims, when paid.

Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimate and judgement for the Company relate to the valuation of derivative financial instruments.

3. Company profit

The Company has no employees.

The fee payable to the parent auditor and its associates in respect of the audit of the Company's financial statements was £0.4 million (2016: £0.3 million).

4. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors emoluments, excluding Company pension contributions, were £6.7 million (2016: £7.5 million); these amounts are calculated on a different basis to emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for their services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gains made by Directors from the exercise of Long Term Incentive Plans in 2015 as at the date of exercise was £2.8 million (2016: £7.4 million) and the net aggregate value of assets received by Directors in 2015 from Long Term Incentive Plans as calculated at the date of vesting was £2.9 million (2016: £7.6 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

	2017 £m	2016 £m
At 1 April and 31 March	2,359.5	2,359.5

The Directors believe that the carrying value of the investments is supported by the underlying net assets.

6. Trade and other receivables

	2017 £m	2016 £m
Non-current debtors		
Amounts owed by subsidiary undertakings	112.7	69.0
Preference shares in a subsidiary undertaking	1,084.7	988.1
Other debtors	0.9	1.1
	1,198.3	1,058.2
Current debtors		
Amounts owed by subsidiary undertakings	1,835.3	1,497.5
Deferred tax	15.6	16.4
	1,850.9	1,513.9
Total trade and other receivables	3,049.2	2,572.1

Of the preference shares in a subsidiary undertaking, the A preference shares of US$150 million mature on 19 March 2018 and carry interest at 4.94%. The B preference shares of US$500 million mature on 17 March 2021 and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings are Euro denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4%, and with a maturity date of 29 July 2019.

The non-current amount owed by subsidiary undertakings is repayable on demand and £91.0 million (2016: £51.4 million) carries interest at EURIBOR + 4%; £13.6 million (2016: £9.9 million) carries interest at USD LIBOR + 4%; £4.9 million (2016: £7.7 million) carries interest at STIBOR + 4% and £3.2 million (2016: £nil) carries interest at BBSW +4%.

The current amounts owed by subsidiary undertakings are repayable on demand and £140.0 million (2016: £140.0 million) carries interest at LIBOR + 5%; £36.2 million (2016: £36.2 million) carries interest at LIBOR + 4%; £5.0 million (2016: £5.0 million) carries interest at LIBOR + 1%; £63.8 million (2016: £9.3 million) carries interest at EURIBOR + 4%; £nil million (2016: £3.5 million) carries interest at EURIBOR + 2%; £28.0 million (2016: £11.4 million) carries interest at US$ LIBOR + 4%; £100.8 million (2016: £100.8 million) carries interest at 4.5%, £24.4 million (2016: £nil) carries interest at STIBOR + 4% and £0.5 million (2016: £nil) caries interest at BBSW + 4%. The remaining balance is interest free.

7. Trade and other payables

	2017 £m	2016 £m
Amounts due within one year		
Bank loans and overdrafts	162.6	194.6
Amounts owed to subsidiary undertakings	1,650.2	1,237.3
Accruals and deferred income	7.6	5.6
	1,820.4	1,437.5
Amounts due after one year		
Bank loans and other borrowings	1,281.0	1,248.2
Other creditors	0.9	1.2
	1,281.9	1,249.4

The Company has £2,030.2 million (2016: £1,738.3 million) of committed borrowing facilities, of which £1,400.9 million (2016: £1,294.5 million) was drawn at the year end. The interest rate applying to bank loans is 0.6% (2016: 0.7%) and is linked to LIBOR, the Eurobond is at 1.75% (2016: 1.75%) whilst the interest rate applying to overdrafts is 1.5% (2016: 1.5%).

The amounts due to subsidiary undertakings are repayable on demand and £136.3 million (2016: £136.3 million) carries interest at LIBOR + 4%, £9.1 million (2016: £9.1 million) carries interest at LIBOR + 1% and £35.6 million (2016: £35.6 million) carries interest at 4.5%. The remaining balance is interest free.

8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2017 included interest rate swaps in relation to the US$650 million US$ to GBP cross-currency swap.

The fair values of the financial instruments are based on valuation techniques (level 2) using underlying market data and discounted cash flows. There is a net £nil impact on the income statement and equity.

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, as it and its subsidiary undertakings are included by full consolidation in the Group accounts on pages 150 to 202.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2016	504,196,597	302.5
Shares issued	1,400,000	0.9
At 31 March 2017	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2015	502,196,597	301.3
Shares issued	2,000,000	1.2
At 31 March 2016	504,196,597	302.5

10. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities of £5.7 million (2016: £3.6 million) provided to certain Group companies.

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2017 these amounted to £279.2 million (2016: £269.0 million), of which the Company had counter-indemnified £182.5 million (2016: £164.2 million).

(c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

11. Group entities

See note 36 to the Group financial statement for further details.

12. Post balance sheet events

(a) Dividends

The Directors have proposed a final dividend of 21.65p per 60p ordinary share (2016: 19.75p per 60p ordinary share) and it will be paid on 11 August 2017 to shareholders registered on 30 June 2017, subject to approval at the Annual General Meeting on 13 July 2017.

Shareholder information

Financial calendar

Financial year end	31 March 2017
2016/17 full year results announced	24 May 2017
Annual General Meeting	13 July 2017
Final dividend payment date (record date 30 June 2017)*	11 August 2017

* See also 'Results and dividends' on page 134.

Registered office and company number

33 Wigmore Street
London, W1U 1QX

Registered in England
Company number 2342138

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Tel: 0871 664 0300
(Calls cost 12p per minute plus your phone company's access charge, from overseas – call 0371 664 0300, calls outside the UK will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)
Email: shareholderenquiries@capita.co.uk.
www.babcock-shares.com.

Shareholdings can be managed by registering for the Share Portal at www.babcock-shares.com. Alternatively, shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc, can be addressed to Capita Asset Services using their postal or email addresses given above.

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London, WC2N 6RH

Share dealing services

A simple and competitively priced service to buy and sell shares is provided by Capita Asset Services. There is no need to pre-register and there are no complicated application forms to fill in.

For further information on this service, or to buy and sell shares, visit www.capitadeal.com or call 0371 664 0445 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 8.00am and 4.30pm, Monday to Friday excluding public holidays in England and Wales.)

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested, Terms, conditions and risks apply. Capital Asset Services is a trading name of Capital IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

Dividend Reinvestment Plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash, please complete an application form online at www.babcock-shares.com or call Capita IRG Trustees on 0371 664 0381 (Calls are charged at standard geographic rate and vary by provider, calls outside the UK are charged at the applicable international rate. Lines are open from 9.00am to 5.30pm Monday to Friday.) Alternatively, email shares@capita.co.uk.

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations.

The relevant stock transfer form can be obtained from Capita Asset Services. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org.

Five-year financial record

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Continuing revenue	4,547.1	4,158.4	3,996.6	3,321.0	3,029.4
Operating profit from continuing operations	359.6	352.5	352.3	233.1	203.5
Share of profit from joint ventures	56.7	34.6	29.4	20.9	18.0
Profit before interest from continuing operations	416.3	387.1	381.7	254.0	221.5
Net interest and similar charges	(54.2)	(57.0)	(68.6)	(35.2)	(39.7)
Profit before taxation from continuing operations	362.1	330.1	313.1	218.8	181.8
Income tax expense	(46.5)	(39.0)	(46.7)	(30.8)	(18.0)
Profit from continuing operations	315.6	291.1	266.4	188.0	163.8
Discontinued operations	–	–	–	–	(15.2)
Profit for the year	315.6	291.1	266.4	188.0	148.6
Non-controlling interest	(3.8)	(4.5)	(6.2)	(7.5)	(5.9)
Profit attributable to owners of parent	311.8	286.6	260.2	180.5	142.7
Non-current assets	4,866.5	4,551.8	4,499.1	2,323.9	2,302.1
Net current liabilities	(239.9)	(245.7)	(221.4)	(246.6)	(240.9)
Non-current liabilities	(1,934.4)	(1,949.8)	(2,079.6)	(1,051.2)	(1,092.3)
Total net assets	2,692.2	2,356.3	2,198.1	1,026.1	968.9
Equity holders of the parent	2,669.8	2,338.5	2,180.1	1,004.4	947.1
Non-controlling interest	22.4	17.8	18.0	21.7	21.8
Total equity	2,692.2	2,356.3	2,198.1	1,026.1	968.9
Total earnings per share – basic	61.8p	57.0p	52.9p	44.3p	35.0p
Dividend per share (proposed)	28.15p	25.8p	23.6p	21.4p	19.0p

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Babcock International Group PLC
33 Wigmore Street
London W1U 1QX
UK

+44 (0)20 7355 5300

www.babcockinternational.com