



trusted to deliver™



**Vision and**

**Precision**





trusted to deliver™



## **Babcock is the UK's leading engineering support services organisation.**

Operating in the UK and overseas, we are trusted to deliver complex and critical support to the defence, energy, emergency services, transport and education sectors. We pride ourselves on our long-term customer focused relationships and engineering excellence.

## **Celebrating 125 years of Babcock.**

Babcock's long and distinguished heritage reaches a new landmark in 2016, celebrating 125 years of service excellence.

Established in 1891, with our foundation in heavy engineering, the business has gone through a major transformation, creating the market-leading, engineering support services, FTSE 100 company we are today.

In 2016, Babcock employs over 35,000 skilled people worldwide who design, build, manage, operate, maintain and decommission complex and critical infrastructure and assets that are vital to both our public and private sector customers.

[www.babcockinternational.com](http://www.babcockinternational.com)

### **Forward-looking statements**

Certain statements in this Annual Report and Accounts are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 64 to 74 which set out some of these risks and uncertainties. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this Annual Report and Accounts regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the time of preparation of this Annual Report and Accounts and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

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# Our journey so far

## Celebrating 125 years of Babcock

We've been at the forefront of industry for 125 years and our market leading reputation is based upon one key fact: Babcock is a partner that is trusted to deliver. Yesterday, today and tomorrow.

The timeline shows our beginnings in 1891, through our transition to the UK's leading engineering support services company. Through a selection of key contracts and strategic business acquisitions, the timeline demonstrates our breadth and expertise in delivering long-term, complex and critical contracts and programmes.



### Royal School of Military Engineers

Training future military engineers for 30 years with the Royal School of Military Engineers



Maintenance of RAF Hawk Fast Jets

Established in 1891 with our foundation in heavy engineering, the business has gone through a major transformation, creating the market-leading, engineering support services, FTSE 100 company we are today.



1891 >>> 2002 2003 2004 2005 2006 2007 2008

### Management of HMNB Clyde

Trusted partner for the Royal Navy



Began building what is now Cavendish Nuclear, the UK's largest nuclear engineer

### Acquired Devonport Dockyard

Providing complex through-life support to the UK submarine and surface fleets

Through-life submarine support contract for the Royal Canadian Navy



Revenue  
**£4,842m**



**Acquisition of VT**

Providing increased engineering and training capabilities in core markets



**Dounreay decommissioning contract**

Cavendish Nuclear, in a consortium, wins the first major long-term nuclear site decommissioning contract for the Nuclear Decommissioning Authority



**Mission Critical Services**

World's number one provider of aviation emergency services

Revenue  
**£1,915m**



**Maritime Support Delivery Framework (within ToBA)**

A 5-year contract confirming complex through-life support at HMNBs Clyde and Devonport until 2020



2009      2010      2011      2012      2013      2014      2015      2016 >>>

**Babcock now trains all three of the UK's Armed Forces**



**15-year Terms of Business Agreement (ToBA) with MOD**

Signed an agreement with MOD to provide through-life support to the entire UK submarine and 75% of surface fleets at Rosyth and HMNBs Clyde and Devonport

**Long-term partnership training the London Fire Brigade**

Providing critical technical training in a 25-year contract



**ANZAC frigate support**

Provide through-life support for Australia's ANZAC frigate fleet

**Complex and critical airport fleet management at Heathrow**



**Magnox and RSRL**

Cavendish Nuclear, in a consortium, wins contract to manage and decommission 12 nuclear licensed sites across the UK over 13.5 years

**Defence Support Group**

Providing bespoke through-life support to the UK's armoured vehicle fleets, with critical equipment procurement

# Strategy delivers good results



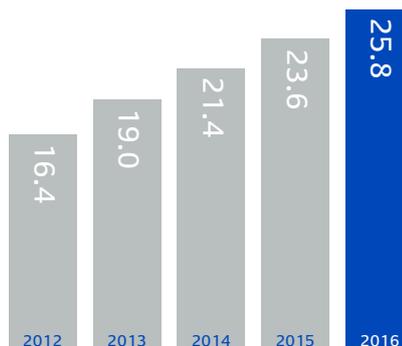
Mike Turner CBE  
Chairman

“2016 was another good year for Babcock. We have delivered solid growth in revenue, operating profit and earnings per share, and continue to provide consistent and sustainable value for our shareholders. I’m particularly pleased with how the business has continued to perform in a year which saw some uncertainties: a general election in the UK, the much-anticipated publication of a new five-year Strategic Defence and Security Review, a global downturn in commodity markets and currency headwinds.”

## Full year dividend

**25.8p**

↑ **9%**



Our performance reaffirms the Board's confidence in the effectiveness of our strategy and business model as we continue to grow the business in the UK and further develop our international presence, building on our existing footprint in both established markets and in newer territories to which our Mission Critical Services business has given us access. This year we created an International Committee to ensure that we are able to identify and capture opportunities where our unique capabilities, track record of delivery and focus on the customer are ideally suited to meet the increasing demand for skilled and reliable outsourcing partners.

The Group achieved 8% growth in total underlying revenue to £4,842.1 million, equivalent to an 8% growth in organic revenue. Total underlying operating profit including acquisitions increased by 4% to £539.7 million or 6% organically at constant exchange rates. Underlying profit before tax increased by 10%. This resulted in an increase in underlying basic earnings per share of 8% to 74.2 pence (2015: 68.5 pence).

Our order book has been maintained at £20 billion and our bidding pipeline has been replenished to remain at £10.5 billion. Combined with the Group's robust financial results and consistent focus on cash, the Board continues to believe in the long-term future of our business. We are delighted therefore to recommend a 9% increase in the final dividend for 2016 of 19.75 pence per share (2015: 18.1 pence per share). This will give a total dividend for the year of 25.8 pence per share (2015: 23.6 pence per share), an increase of 9%. The final dividend will be paid on 12 August 2016 to shareholders on the register at 1 July 2016.

In this Babcock's 125th anniversary year, our focus remains on using our deep technical and engineering skills, expertise in complex programme management and partnership approach to meet and exceed the expectations of our customers. Our long history of being trusted to deliver makes us an attractive partner as we seek to expand our footprint, whilst our record of careful evaluation of risk and reward allows us to protect shareholder value. Our strategy has been central to our long-term success, and the Board

regularly reviews and develops the Group's strategic approach to ensure all options for sustainable growth, including acquisitions, are properly considered.

### Governance and the Board

Last year saw a number of significant changes to the Board. Most significantly Peter Rogers, who has been an outstanding Chief Executive of the Group for the past 13 years, announced that he would be retiring at the end of August 2016. Since he took up the role in 2003, Babcock has grown from a small cap business to a FTSE 100 company, and has delivered an increase of 1,204 per cent in total shareholder return over the period of his tenure.

I am delighted to say that Archie Bethel, formerly Chief Executive of the Marine and Technology division, will be taking over from Peter on 1 September 2016. To ensure a smooth handover, Archie is spending the first five months of the financial year working alongside Peter in the interim role of Chief Operating Officer. John Howie, formerly Managing Director of Naval Marine, was appointed to take over as Chief Executive of the Marine and Technology division.

Archie is exceptionally well-qualified to lead the business. He has overseen the successful growth of the Group's largest division, taking it from a £273 million business in 2004 to a £1,696 million business today. His performance since joining the business in 2003 has reinforced our reputation of being trusted to deliver complex and critical engineering programmes and has strengthened relationships with our key customers. The Board looks forward to working with him in his new role.

As Chairman, I conducted a thorough process to find a new Chief Executive Officer which considered both internal and external candidates, but confirmed that Archie was the right person, with the right skills and experience to lead the Group as it continues to develop and achieve its strategy over the coming years.

Earlier in the year Kevin Thomas, Chief Executive of the Support Services division, also announced his retirement. Kevin made a significant contribution to Babcock's success over the last 13 years,

and will maintain his relationship with Babcock through his roles on the Parent Body Organisation boards of our nuclear joint ventures at Dounreay and Magnox. We were pleased to confirm that his position was taken over by John Davies, formerly Chief Executive of our Defence and Security division, from 1 November 2015 and that, in turn, John was succeeded by Roger Hardy, formerly Managing Director of our wholly-owned subsidiary, Cavendish Nuclear.

It is a measure of the importance the Board places on effective succession management, and on supporting career progression, that we were able to fill all of these key positions from a field of very strong internal candidates. Continuing and sustainable growth is dependent on a number of elements, not least of which is the commitment of the leadership of a company to develop its people.

We believe that this is particularly important for Babcock which provides complex and critical services which depend not only on technical knowledge but on a deep understanding of the needs of the customer. The Board will continue to regularly review and discuss succession management plans, so that we will continue to be able to draw on a pool of highly experienced, able people to progress through the business in future years.

There was also a change to our Non-Executive Directors. After four years on the Board, Kate Swann retired as an independent Non-Executive at the end of 2015. I would like to thank Kate for her valuable contribution to Babcock over her years of service.

I am delighted that Professor Victoire de Margerie joined the Board in February 2016. Victoire has extensive experience as a Non-Executive Director in a number of UK and European publicly quoted companies and, in her earlier executive career, held senior management positions in several leading industrial businesses in France, Germany and the USA. Her background, experience and outlook will prove invaluable in our continued development, particularly internationally.

### Our people

It gives me great pleasure each year to take this opportunity to thank all those who work for Babcock for their continued hard work and dedication. Without their efforts we would not have achieved so much.

Our commitment to talent management is visible throughout the business. We continue to safeguard our future by taking on young people as apprentices, trainees and graduates, and train them in vital engineering and business skills. Not only are we encouraging the development of engineering skills within our business, we continue to lend active support to a variety of initiatives to promote Science, Technology, Engineering and Maths (STEM) careers to young people, with a particular focus on encouraging women to enter into the field. Our aim is to encourage more people into STEM careers so that we are able to recruit from the broadest possible talent pool. We also launched a Group Higher Level Apprenticeship in Management programme to offer an alternative route to employment for graduate calibre individuals who choose not to go to university. The new programme is another method of enabling the recruitment of a diverse mix of talented individuals into our business.

### Looking forward

Throughout this year the Board has overseen the continuing growth and development of the Group and has ensured an orderly transition process at Chief Executive level. We remain confident in the long-term prospects of the Group based on the strength of our businesses, our excellent visibility of future revenues and our view of the continuing opportunities for growth both in the UK and internationally.

We therefore believe the outlook remains positive and we look forward to making further good progress in the 2016/17 financial year.



Mike Turner CBE  
Chairman

# Consistent strategy

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## coherent business

Our strategic focus has remained consistent for over a decade, when the Company began its transformation to become the UK's leading engineering support services company. Our objective is to grow from this position both in the UK and overseas, whilst delivering superior and sustainable value for our shareholders.

We seek to achieve this by creating and growing a balanced portfolio of businesses based on our strategy.



Advanced pilot training with UK MFTS



### 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.

**#1** UK engineering support services

**#1** UK maritime support business

**#1** UK civil nuclear engineer (Cavendish Nuclear)

**#1** Provider of support services to Royal Navy

**#1** World provider of aviation emergency service



### 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 our objectives are aligned.

### Contract duration ranges

**TOBA 25 years**  
**Magnox 13 years**  
**LFB 25 years**  
**MFTS 25 years**  
**SASEMAR 26 years**



### 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.

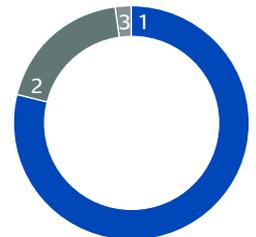
Complex expert  
 Trusted to deliver skilled civil  
**Critical** Defence technical  
 Safe High barriers to entry  
 Strong track record Engineering



### Public bodies and blue chip customers

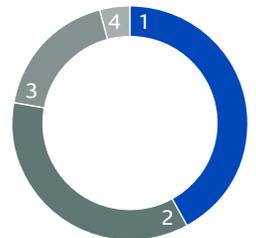
Our customers tend to be government departments, public bodies, regulated industries or blue chip companies that own or utilise large, strategically important assets or infrastructure. We encourage our customers to partner with us and to build long-term relationships.

### Customer split



1. Public 79%  
 2. Private 19%  
 3. Regulated 2%

### Category split



1. UK Defence 42%  
 2. UK Civil 36%  
 3. International Civil 18%  
 4. International Defence 4%



### Balancing risk and reward

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



### Excellent health and safety record

We never compromise on health and safety and expect all our divisions to deliver a sector 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.

↓ **14%**

Reduced total injuries per 100,000hrs worked (2015: 12%)

↓ **1.92**

Reduced total injuries rate per 100,000hrs worked (2015: 2.23)

↑ **0.19**

RIDDOR rate per 100,000hrs worked (2015: 0.18)

# Big picture

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## sharp focus

### DELIVERING COMPLEX, INTEGRATED OUTPUT CONTRACTS



#### Complex infrastructure

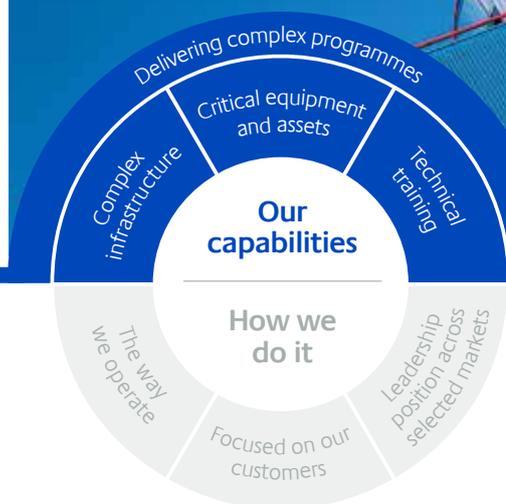
At Babcock, we design, build, operate, maintain and manage complex infrastructure and programmes to meet the critical requirements of our customers around the world.

We aim to ensure the availability, reliability and efficiency of complex infrastructure and support services.



#### Critical equipment and assets

Babcock supports the critical equipment and assets of our customers. We aim to ensure that this critical equipment is available to meet our customers' needs.



Decommissioning Dounreay

### Our business model

Underpinning everything we do is our breadth and depth of knowledge, the experience of our workforce and the unique infrastructures we own or operate.

## Our capabilities

Babcock thrives in complex environments. We specialise in delivering services, operating or managing assets and programmes that are complex, critical and bespoke. We look to combine technical and engineering

capabilities to provide a single integrated solution. We deliver this through long-term, output-based contracts that are designed so our customers achieve the efficiency and value they require.



Through-life support of RN T23 fleets



### Technical training

We train all three Armed Forces, pilots, engineers, apprentices, drivers, fire fighters, scientists and motor mechanics.

We give them the technical skills they need in order to perform in their duties, often in testing circumstances or environments.



Training future pilots with UK MFTS

## Our divisions

We deliver these capabilities and report through our four divisions

### Marine and Technology

[Read more on page 36](#)

### Defence and Security

[Read more on page 42](#)

### Support Services

[Read more on page 46](#)

### International

[Read more on page 50](#)

Please turn the page to find more details about how we do it

## How we do it

Underpinning everything we do are our market-leading positions, the breadth and depth of knowledge and experience of our workforce and the unique infrastructures we own or operate. We continue to deliver value on targeted contracts, selected to fit our strategy and match our capabilities.



### The way we operate

We believe our 'trusted to deliver' reputation is key to our success and sets us apart from others in our sector. We manage successful, long-term partnering relationships with our customers by delegating responsibility to customer-facing contract managers within the business units so we can be responsive to their needs. This is balanced by strict central financial controls.

### Focused on our customers

Our financial performance and ability to deliver value relies on meeting or exceeding our customers' needs. To do this we aim to develop long-term embedded relationships built on openness and transparency, creating opportunities to draw on the breadth and depth of knowledge and experience across the Babcock Group.

### Leading positions across selected markets

We have, or seek to build, leading positions in our market sectors. We own unique strategic infrastructures and, in an environment where engineering knowledge and skills are scarce, we believe we have an unrivalled workforce with significant scale and depth of expertise. Many of our customers no longer have this depth of knowledge available within their own organisations.

## Trusted to deliver

Babcock is the UK's leading engineering support services company. We believe our business model and strategy, built around our 'trusted to deliver' reputation, set us apart from others in our markets. They have been a strong foundation for our success in recent years and are vital to ensuring we continue to deliver value in the future.

### Employees

We seek to create value for our employees by

- creating a safe working environment
- providing continuous professional development
- providing equal opportunities for all
- creating a rewarding place to work.

Our skilled workforce 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
- providing 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 to them through dividends
- investing in, and growing, our business
- growing the value of their investment over time.



HMS Albion  
refit package  
well underway

## Through-life support with MSDF

MSDF is a £2.6 billion contract with the MOD to deliver complex and critical through-life support services at HMNB Clyde and Devonport to 2020. It encompasses major infrastructure to support surface ship and submarine projects, and design management activities. 18 months on, the enhanced KPI measures have consistently been achieved as we have worked with the customer to deliver savings required for contract years one and two.

Importantly MSDF cements Babcock's long-term collaborative relationship with the MOD and Royal Navy and reinforces Babcock's position as the UK's leading naval support provider.



# Complex

# infrastructure

At Babcock, we design, build, operate, maintain and manage complex infrastructure and programmes to meet the critical requirements of our customers around the world. We aim to ensure the availability, reliability and efficiency of complex infrastructure and programmes.



## Bespoke fleet management in the airports sector

One year on from winning a major contract to deliver critical services at São Paulo's international airport, a further significant international contract has been won. Based at Rome's Fiumicino Airport, the five-year contract for Alitalia provides critical support, management and maintenance for the airport ground fleet of c 2,000 assets.

Airport fleet management in the UK for Heathrow



## Managing Dounreay's major decommissioning

Located in the far north of Scotland, Dounreay aims to be recognised as the pre-eminent reference site for decommissioning in Europe. Babcock, through the Cavendish Dounreay partnership, is continuing to make good progress managing the large scale infrastructure decommissioning programme, with key milestones met on or ahead of schedule. Significant additional scope growth has also been introduced for the safe transfer of materials to Sellafield, in line with the UK Government's national strategy.

Dounreay, the UK's first complex major decommissioning programme

## Surface fleet through-life support

Our class management of the Royal Navy's Type 23 frigates and the life extension (LIFEX) programme of capability and equipment upgrades are not only critical to ensuring the Type 23 will continue to meet the Royal Navy's operational needs but also de-risk the systems and technology for the forthcoming T26 frigates. With our long-term strategic focus firmly on supporting our customer's needs, Babcock continues to invest in Devonport's Frigate Support Centre. With up to four vessels in simultaneous refit, HMS Northumberland and HMS Kent will commence upkeep later in the year as HMS Argyll and HMS Montrose move into the latter stages in preparation for return to service.

Frigate refit complex at Devonport

# Critical equipment

# and assets

Babcock supports the critical equipment and assets of our customers. We aim to ensure that this critical equipment is available to meet our customers' needs.

## World leader in emergency services

With over 50 years' experience saving lives, Mission Critical Services (MCS) has flown around 62,000 emergency medical missions. Covering eight countries, MCS ranks first for delivering emergency medical services across the countries it operates in, more than any other provider.

Helicopter emergency medical services in Australia



## Strategic supply partner with Defence Support Group

Babcock's delivery of end-to-end equipment support services enables the UK's Armed Forces to respond to demanding operational commitments. At the Defence Support Group (DSG), we maintain, repair and overhaul military vehicles and equipment, and assemble and test new vehicles entering service for the British Army. Our services have expanded to include inventory management and equipment storage, with DSG stocking and managing 95,000 parts worth £431 million as well as 210,000 spare lines. Babcock has a long-standing reputation for providing equipment support to complex through-life platforms. We safeguard the availability of key assets to ensure our customers meet their operational requirements.

DSG: providing critical through-life fleet support



## International through-life support

In Canada, Babcock is delivering an integrated approach to provide in-service support for four Royal Canadian Navy submarines, including interim, short and deep maintenance docking periods (DMP). HMCS Corner Brook is currently the second Victoria Class vessel to undergo a DMP, with HMCS Chicoutimi successfully returning to service.

In Australia, Babcock, in partnership with UGL, developed a logical, scalable and proven complex project management process and established an effective supply chain, to bring HMAS Stuart back in active service. This enabled the project to be completed on schedule and to budget. A new alliance has also started to support the entire Australian fleet of ANZAC Class frigates.

© Department of Defence



### Training future military engineers

Performance at the Royal School of Military Engineering has remained consistently high: the contract has seen no KPI failures in the last three years against 147 performance indicators. The RSME also won two City & Guilds Lions awards during the year for tutor and centre of the year, and the Happold Brilliant Award for excellence in training.

# Technical

# training

We train all three Armed Forces, pilots, engineers, apprentices, drivers, fire fighters, scientists and motor mechanics. We give them the technical skills they need in order to perform in their duties, often in testing circumstances or environments.



### Award winning apprentice programmes

From aspiring engineers across multiple disciplines to future firefighters and leaders, Babcock has had another successful year in its training and apprenticeship business.

Science, Technology, Engineering and Maths is a core part of everything Babcock does and in March we were delighted to win SEMTA Skills award for Training Partner of the Year. Our clients look to us to deliver innovation and excellence in the provision of automotive, engineering, nuclear and rail apprenticeships.

Award winning apprenticeship programme



## Advanced technical pilot training

In March 2016, the MOD announced the award of a £1.1 billion contract to deliver the fixed wing element of the UK Military Flying Training System (UKMFTS) to Ascent Flight Training Ltd (Ascent).

In partnership with Lockheed Martin, Babcock is responsible for delivering the UKMFTS with the MOD. The aircrew training will take place at several military sites and comprises the delivery of three aircraft types, together with the provision of instruction, infrastructure and full life support through to 2033. This contract represents a significant investment in future military flying training outlined in the UK Government's commitment to air power in the SDSR.

Critical pilot training with UK MFTS



## Long-term efficiency in training the London Fire Brigade

As part of our ongoing 25-year partnership with London Fire Brigade, Babcock launched its prototype blue light driver simulator. Mapped with 167 miles of multi terrain routes including urban, inner city and rural scenarios, the simulator provides a fully immersive, true to life experience for blue light drivers. Efficiencies on course training time will be significant and are estimated to reduce the current programme by 50%.

Training the LFB until 2033

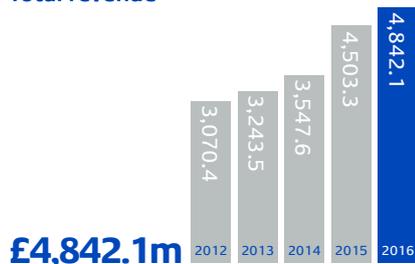
# Financial highlights

## The year in focus

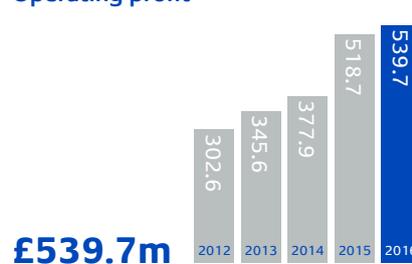
### Financial highlights

Babcock had another good year in 2016, continuing our track record of delivery. Our financial results show sustained underlying growth in revenue, operating profit and earnings per share, demonstrating the effectiveness of our strategy and the quality of our operations.

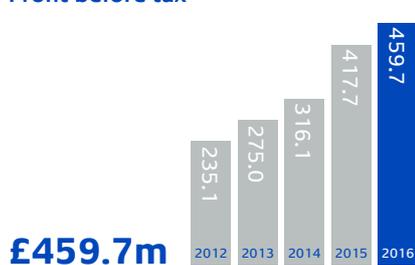
#### Total revenue\*



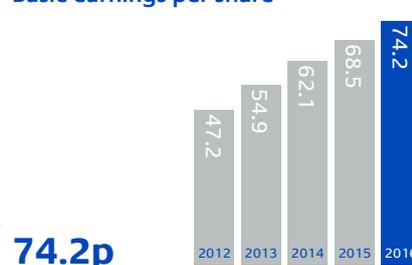
#### Operating profit\*



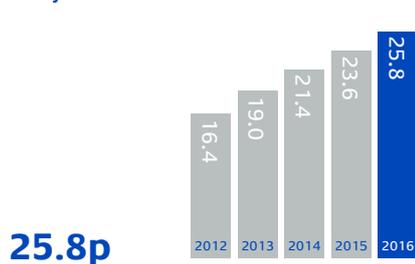
#### Profit before tax\*



#### Basic earnings per share\*



#### Full year dividend\*



#### \*Underlying results

Throughout the overview and strategic report, unless otherwise stated, revenue, operating profit, operating return on revenue, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items and include the Group's share of joint ventures (jv) and investment income arising from IFRIC 12 (Accounting for Service Concession Arrangements). Collectively these adjustments are made to derive the underlying operating results of the business. A reconciliation of statutory to underlying results is set out on page 30. The underlying figures provide a consistent measure of business performance year-to-year thereby enabling comparison and understanding of Group financial performance.

### Statutory results

Group revenue **+4%**  
**£4,158.4m**  
 2015: £3,996.6m

Operating profit **-**  
**£352.5m**  
 2015: £352.3m

Profit before tax **+5%**  
**£330.1m**  
 2015: £313.1m

Basic earnings per share **+8%**  
**57.0p**  
 2015: 52.9p

## Group organic growth at constant exchange rates

This organic growth demonstrates the strength and stability of our portfolio and our ability to create value for our shareholders.



## Good progress on long-term contracts

We place great emphasis on doing the right thing for our customers; we listen and seek to be flexible and responsive to their needs. This year, we are making good progress in each of our divisions' long-term contracts; working collaboratively to ensure we understand our customers' priorities, and aligning our objectives.



Warship and submarine refits performing well (HMS Vengeance, HMS Talent, HMS Albion)

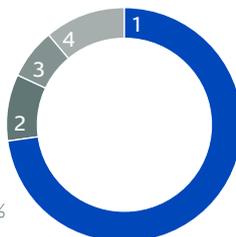


Increasing efficiencies in our 33-year partnership with the London Fire Brigade

## Order book and pipeline

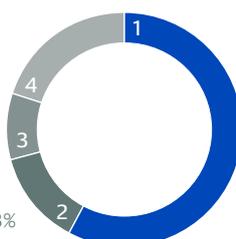
Over the year, the order book was maintained at £20 billion, having been replenished with £4.8 billion of contracts; the bid pipeline, maintained at £10.5 billion, had £5.8 billion of opportunities added, providing clear visibility of future revenues.

### Order book



1. >£100m 73%
2. £100m-£50m 9%
3. £50m-£25m 7%
4. <£25m 11%

### Bid pipeline



1. >£100m 58%
2. £100m-£50m 13%
3. £50m-£25m 9%
4. <£25m 20%

## Good progress across markets

We believe the market dynamics remain positive for outsourcing, both in the UK and internationally, with many customers seeking increased operational and cost efficiencies in the delivery of critical services, together with enhanced performance and availability and a proven ability to deliver. More information can be found on pages 24-25.



Dounreay decommissioning scope growth

## New contracts

Good progress has been made on new contracts within the divisions, notably: maritime equipment contracts; fixed and rotary wing training for the UK's Armed Forces; international airport fleet management; civil training contracts, and new country entries. Read the divisions' operational reviews for more detail.



New training contracts awarded in Defence and Security and Support Services

# Sustained growth

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## clear visibility

“Babcock had another successful year in 2016, continuing our track record of delivery. Our financial results show sustained growth in underlying revenue, operating profit and earnings per share, demonstrating the effectiveness of our strategy and the quality of our operations.”



Peter Rogers CBE  
Chief Executive

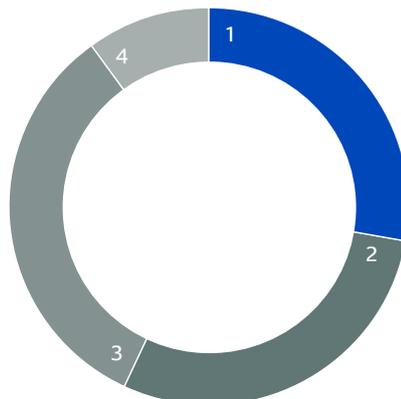
With no acquisitions made during the year, our growth was primarily organic, reflecting new contract awards, the expansion of scope within existing contracts and the renewal of contracts with enhanced scope and capability.

This organic growth demonstrates the strength and stability of our portfolio and our ability to create value for our shareholders. We have continued to build upon our track record of consistently delivering growth through strong underlying performance, and have demonstrated our resilience to the macro risk created by political uncertainties, global austerity and commodity headwinds. Our deep technical expertise and focus on building long-term relationships with our customers has enabled us to provide additional support and services to meet their developing needs. We ended the year well positioned for future growth in our markets both in the UK and internationally and with clear visibility of our future revenue streams provided by our £20 billion order book of signed contracts and £10.5 billion bidding pipeline, which we have this year replenished with £5.8 billion of new entries.

In addition to delivering for our customers and shareholders, this year has also been one of positioning for the future. This is the second year following our acquisition

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### Order book



- 1. Marine and Technology 28%
- 2. Defence and Security 29%
- 3. Support Services 33%
- 4. International 10%

of Avincis – now Mission Critical Services (MCS). The business has now become fully integrated into the Group and is contributing skills and expertise that we believe will help us capture future opportunities internationally. The rebranding of MCS' local business, which is now underway, is a visible sign of that integration, demonstrating that MCS is part of a Group with the strength and stability of a FTSE 100 organisation with a long history of being trusted to deliver the complex and critical services on which our customers rely.

We have created an International Committee, chaired by the CEO of our International division, Bill Tame, and attended by all our divisional CEOs and our Group Finance Director, which meets every month to discuss and review the opportunities we see in each targeted country and the resources that are needed to win them. We want to make sure that each opportunity is properly coordinated across the Group, leveraging the knowledge and experience of each of the divisions to support our local teams in building new Babcock business overseas.

I said at the time of the acquisition that it would take us around three years to gain traction in new territories, particularly with governments and the public sector, before we were able to announce new contracts. Our new international business development managers have been diligently working to identify opportunities which draw upon our existing expertise, and I am delighted to be able to announce a few early successes including a five-year contract to provide airport support services for Alitalia at Rome Fiumicino Airport. And the additional capability MCS brought to the Group has proved valuable in the UK, helping our Defence and Security division to secure a contract to provide forward maintenance and engineering support for the Royal Navy's helicopter fleet.

In addition, in Oman, we have agreed a Memorandum of Understanding which should lead to a joint venture with the Oman Drydock Company to develop a support facility in Duqm which would be able to support the UK, Omani and other international navies, and in Australia



### Babcock and STEM

In the last year, we have campaigned for Science, Technology, Engineering and Maths (STEM) engagement with schools and colleges local to the divisions, facilitated by volunteer Babcock STEM ambassadors who deliver innovative outreach activities including after-school clubs and workshops designed to encourage and enthuse young people.

We have received a number of accolades and recognition for our work from bodies such as Women in Science and Engineering (WISE), STEMNET and EEF Manufacturer's Organisation. To date, the programme has identified more than 300 Babcock STEM ambassadors and delivered more than 200 outreach events, with plans to increase these numbers significantly in 2016.

In addition to our commitment to STEM we are proud to sponsor the UK Armed Forces and our reservists. We are committed to the Total Support Force and have signed the Corporate Covenant, a voluntary pledge from organisations who wish to demonstrate their support for the Armed Forces community. We actively recruit service leavers and reservists. We support our employees, including providing paid time off for training, through our SaBRE recognised Reserve Forces policy. The commitment, signed in 2013, is reinforced with a reservists conference, held every year to further explain the support available to both employees and their managers to fulfil their important role.

 [Read more about Sustainability on page 56](#)

our 50/50 joint venture NSM has entered a new alliance which will extend our role in supporting the ANZAC Class frigates for up to 16 years. Finally, in Japan, Cavendish Nuclear signed an agreement with Hitachi-GE to collaborate on nuclear decommissioning.

### A trusted partner

Overall our major markets remain positive, as our customers continue to look for alternative ways of delivering the critical services for which they are responsible more efficiently. However, whilst cost remains a key factor in any decision to outsource, for many of our customers in both the public and private sectors, availability and reliability of service is even more important. The services our customers are responsible for – whether it is fighting fires, or providing a continuous-at-sea defence, or the safe decommissioning of nuclear sites, or training the next generation of engineers – are vitally important. We believe it is equally important, therefore, that our customers work with a partner they can trust to deliver.

Ensuring we fully understand and are focused on delivery is central to our strategy, business model and corporate culture. Our record of operating in partnership with our customers to achieve operational efficiencies without compromising on performance provides an excellent reference point for new customers. This approach is critical to our ongoing business success and we believe market conditions are positive for the technical, complex and engineering based outsourcing solutions we provide. We believe that the benefits delivered through our business model, the depth and breadth of our technical knowledge and expertise and our focus on meeting performance criteria which have made us a trusted partner in the UK are increasingly understood internationally.

In the UK, our expectation of future opportunities in the defence sector was reinforced by the publication of the Strategic Defence and Security Review 2015 (SDSR) in November. Entitled 'A Secure and Prosperous United Kingdom', the SDSR set out the National Security Strategy for the coming five years and confirmed the



Government's commitment to meet the NATO pledge to spend 2% of Gross Domestic Product on defence annually. It also guaranteed a real increase in the defence budget every year, and increased investment in the UK's security and intelligence agencies and counter-terrorism. In fact Babcock was one of only three private sector companies named in the report, along with our two partners in the Successor submarine programme. You will see more detail on the SDSR and its implications for us on pages 24 and 25, but we believe there is no doubt that the review has improved our visibility of the requirement for through-life engineering support and training requirements for all three Armed Forces.

### Order book and pipeline

The order book has been maintained at £20 billion since reaching that level at the end of last financial year, having been replenished by around £4.8 billion of contracts awarded during 2015/16. This provides clear visibility of future revenues in the short and medium term, with 78% of revenue already secured for 2016/17 and 53% for 2017/18.

We continue to make good progress on the contracts already in our order book, including successfully completing the first full year of activity under the £2.6 billion Maritime Support Delivery Framework, starting the first full life extension programmes for the Vanguard Class of submarines and the Type 23 Frigates, and celebrating 100,000 flight hours at our Helidax joint venture, a long-term contract with the French Defence Ministry for army pilot training and equipment support.



This year saw us maintain high standards of service in our Army training contracts, including winning two City & Guilds Lions awards for our performance at the Royal School of Military Engineering, complete the largest electrification project on the Great Western Mainline for 40 years and successfully begin the provision of helicopter emergency services to Ambulance Victoria for the Australian Victorian Government. A further milestone was achieved when the Cavendish Fluor Partnership submitted the consolidation phase of the Magnox decommissioning project.

We have also benefited from significant growth within existing contracts. The integration of the Defence Support Group (DSG) has progressed very well and, as a result of all milestones being met in the first six months, our scope has been increased to encompass additional responsibility for the procurement of spares and repairs earlier than initially expected. Our decommissioning contract at Dounreay has also expanded, with around £250 million (Babcock share) of new work awarded during the period. We have maintained a high contract win rate of 70%, including rebids, in our Mission Critical Services (MCS) business, winning 66 contracts and extensions, several of which include an increase of capability, for example an upgrade of helicopter types.

During the year, we maintained our win rate, achieving success in around over 40% of our bids for new contracts, and over 90% for renewals. New contracts awarded include a five-year contract to deliver information and knowledge management services in our Marine business; a £120 million work package on Canadian submarine HMCS Corner Brook; a contract to engineer and construct an offshore substation for the Rampion wind farm; a c £0.5 billion contract (Babcock share) to provide fixed wing flight training and a c £0.4 billion contract (Babcock share) to provide rotary wing flight training, for the Royal Air Force with our partner Lockheed Martin; oil and gas crew change services in the new geographies of Ghana and Mozambique and three major contracts for new line build won by our Transmission business in South Africa. We have won a number of competitively tendered contract renewals, most notably the Phoenix II contract to provide global fleet management services to the MOD's white (non-armoured) fleet of vehicles.

Our bid pipeline has also remained stable at around £10.5 billion (2015: £10.5 billion). Successful contract awards totalling around £3.9 billion which have moved into the order book have been replaced with new opportunities which are currently in process. The majority of bids in the pipeline continue to be new business, with rebids representing only 30%. The majority, 58%, represent contracts with a total value of over £100 million, reflecting the complexity of the contracts for which we compete.

The bid pipeline continues to be supported by a healthy tracking pipeline. The tracking pipeline comprises prospects that have yet to 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.

### Management changes

The Chairman has outlined a number of changes to our executive team in his statement on page 4, including my retirement at the end of August 2016. This is a unique company staffed by great people and I am very proud of what we

have achieved together. I am delighted to be succeeded by Archie Bethel, who has been an important member of our senior management team since joining the Group and has contributed immeasurably to our success to date.

Archie has overseen the growth of our Marine and Technology division whilst reinforcing our reputation of being trusted to deliver increasingly complex and critical engineering programmes. His skills, expertise and deep understanding of the business make him the ideal person to drive Babcock's future growth in the UK and internationally. Archie will be very well supported by his colleagues, including new members of the Executive Committee – although not new to the Group – Roger Hardy and John Howie.

### Outlook

We believe we will continue to benefit from high demand for our technical expertise and our ability to deliver complex and critical programmes and projects efficiently. Our track record as a trusted partner continues to support our move into new markets and geographies.

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 further good progress this year and beyond.



Peter Rogers CBE  
Chief Executive



Archie Bethel  
Chief Operating Officer

### Introducing our Chief Operating Officer

Archie joined Babcock at Rosyth Dockyard in 2004 having spent much of his earlier career in the oil and gas sector, both in the UK and internationally. He also spent five years in economic development for Scottish Enterprise.

He became CEO of the newly created Marine business (now Marine and Technology) in 2007, overseeing its development into the UK's leading naval engineering support services business. He led the division's expansion into Canada, Australia and New Zealand and its participation in major programmes in Spain and South Korea, and the successful expansion into adjacent sectors including oil and gas, offshore renewables and commercial marine.

Archie served on the Council of CBI Scotland, is a past President of Scottish Engineering and is currently President of the Society of Maritime Industries. He is a keen supporter of the engineering profession and is a past Vice President of the Institution of Mechanical Engineers, a Fellow of the Royal Academy of Engineering and a Fellow of the Royal Society of Edinburgh. Archie is an alumni of the University of Strathclyde where he serves as a Lay Member of Court. He was awarded an OBE in 1996 and a CBE in 2008.

Archie will assume position of Chief Executive after a full transition in September 2016, following Peter's retirement.

# Positive outlook

## clear visibility

### Key market trends and outlook

During the year there have been some positive steps in selected key markets:

#### Defence markets

Key defence markets saw significant change this year. In the UK, the Government committed, in both the SDSR and the CSR, to an increase in defence spending over the next five years, expanding the budget to £220 billion. The SDSR also secured the programmes of key strategic defence equipment and assets and pledged to increase personnel in all three Armed Forces.

Internationally, in Canada, the newly-elected government has expressed a strong commitment to support defence procurement and the national ship building strategy to develop and sustain their global reach. In Australia, the Defence White Paper confirmed the intention to increase defence spending to 2% of GDP. In New Zealand, we expect the delayed 2015 Defence White Paper to reinforce the capital investment and support programme for the Navy.

**2% GDP**  
UK defence spending

[Read more on pages 37 & 43](#)

#### Nuclear markets

In the UK, the civil nuclear market remains resilient, with opportunities for Cavendish Nuclear in both decommissioning and new build services providing scope for growth, albeit the timing of new build activity remains affected by uncertainty on funding routes. The CSR sets out a commitment to continue vital work cleaning up historic sites; this indicated an acceleration of work at Sellafield, whilst seeking value for money from the NDA's £11 billion funding. Further UK opportunities may emerge from funding of an ambitious nuclear research and development programme to revive the UK's nuclear expertise.

**£2.3bn**  
Annually addressable revenue

[Read more on page 47](#)

#### Training markets

The UK training market saw the announcement of the Apprenticeship Levy being introduced in 2017, which will help to deliver new apprenticeships and support quality training by putting employers at the centre of the system. We expect to see significant demand in the short to medium term for outsourcing the schemes, and with recent awards for our Nuclear, Rail and Automotive apprentice schemes, we believe we are well-positioned to pursue opportunities.

**3 million**  
UK Government commitment  
of additional apprenticeship  
starts in England by 2020

[Read more on page 47](#)

Refit underway on HMS Albion

## Strategic Defence and Security Review

In November, the UK Government published the SDSR, which shifted defence fiscal posture from one of reduced funding and downsizing to one of investment and growth including a future policy of drawing more heavily on people and skills from the private sector in line with the enterprise approach model. A substantial programme of investment is planned for new equipment across defence and we believe the SDSR will provide opportunities to drive further technical activities towards industry which is underpinned by a government policy of outsourcing where it makes sense to do so. A number of areas immediately exist for greater utilisation

of our capabilities across a range of complex and technically difficult activities in defence where for instance our customer presently employs more than 5,000 civilian personnel in a range of industrial related roles.

The SDSR UK growth opportunities on existing contracts include military flying training and support to military equipment through increased training output and increased equipment utilisation. New opportunities are emerging through the UK Government's policy of continual defence reform to make the MOD leaner and more efficient. Customers across defence are looking for more innovative ways of working with industry, including more innovative ways of working in partnership with industry to drive further operational benefits and

greater savings. The MOD continues to develop the Whole Force approach, ensuring that it makes best use of industry to support the front line, deploying forward when required.

**2%**  
GDP on overall defence spending over next decade

**£39.6bn**  
MOD budget by 2020

**£178bn**  
Spend on defence equipment and equipment support over next decade

**19%**  
MOD budget spent on equipment support in 2015

### UK SDSR Key outcomes

	Babcock capability			UK spend on equipment and equipment support over next decade
	Infrastructure programmes	Equipment and assets	Technical training	
<b>Sea</b>				
Successor (V-LIFEX)		✓	✓	c £62bn
Astute (T-boats transitioning)		✓	✓	
QEC (2 in-service)		✓	✓	
T26 programme (T23-LIFEX)		✓	✓	
<b>Air</b>				
F35 Lightning Squadrons (2 squadrons, 1 new)		✓	✓	c £44bn
Typhoon Squadrons (7 squadrons, 2 new)		✓	✓	
Maritime patrol aircraft x9		✓	✓	
Voyager aircraft x14		✓	✓	
Apache upgrades		✓	✓	
Wildcat (6 squadrons overall)		✓	✓	
Merlin (6 squadrons overall)		✓	✓	
<b>Land</b>				
2 x New Strike Infantry Brigades (1,500 vehicles)		✓	✓	c £30bn
Warrior capability upgrades		✓	✓	
Armoured Brigades x 2 (with upgrades)		✓	✓	
Challenger II LIFEX		✓	✓	
<b>Staff</b>				
Increase in Navy, RAF, Army (training)		✓	✓	c 2,000 Staff increase over 5 years
Increased outsourcing of frontline services		✓	✓	
Increase in Navy, RAF, Army reserves		✓	✓	
Optimised structure		✓	✓	

# Strong performance

## 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.

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

#### Operating Return on Revenue (ORR)

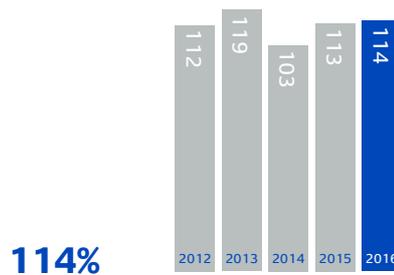
Operating profit before amortisation of acquired intangibles and exceptional items expressed as a percentage of revenue.

#### Revenue growth

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

Operating Cash Flows (OCF) conversion rates (%)

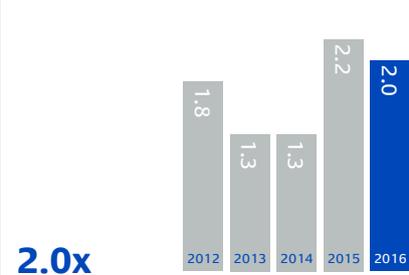
KPI



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 (X)

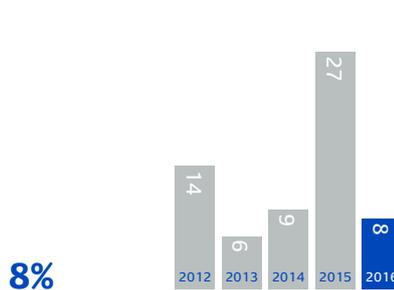
KPI



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

Revenue growth (%)

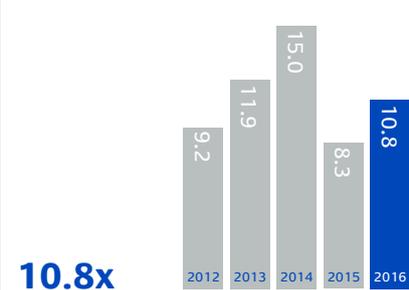
KPI



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 (X)

KPI

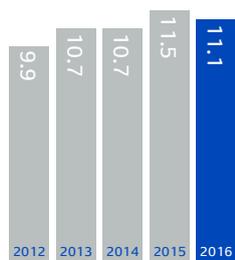


Interest cover is profit before interest, tax, depreciation, amortisation, joint ventures and exceptionals divided by net Group interest payable.

### Operating return on revenue (%)

KPI

11.1%

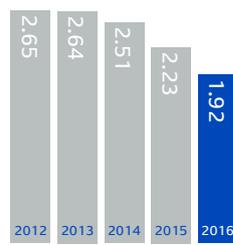


Operating Return on Revenue (ORR) is defined as underlying operating profit expressed as a percentage of revenue.

### Total injuries rate per 100,000 hours worked

KPI

1.92



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

## Non-financial statistics and measures

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

599

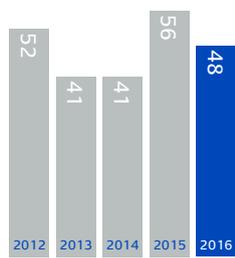
### Number of graduates

Number of graduates currently on a graduate programme across the Group.

### Gearing ratio (%)

KPI

48%

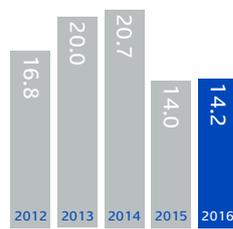


Gearing ratio measures the extent to which a company is funded by debt. Calculated as net debt divided by shareholder funds excluding retirement benefit deficits or surpluses.

### Return on Invested Capital (ROIC) (%)

KPI

14.2%



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

714

### Number of apprentices

Number of apprentices currently on apprenticeships across the Group.

# Continuing to deliver



Franco Martinelli  
Group Finance Director

## Overview

Babcock had another successful year in 2016, continuing our track record of delivery. Our financial results show sustained underlying growth in revenue, operating profit and earnings per share, demonstrating the effectiveness of our strategy and the quality of our operations. With no acquisitions made during the year, our growth was primarily organic; reflecting new contract awards, the expansion of scope within existing contracts, and the renewal of contracts with enhanced scope and capability.

This organic growth demonstrates the strength and stability of our portfolio and our ability to create value for our shareholders. Our deep technical expertise and focus on building long-term relationships with our customers has enabled us to provide additional support and services to meet their developing needs. We believe we are well positioned for growth in our markets both in the UK and internationally and with clear visibility of future revenue streams.

We believe the market dynamics remain positive for outsourcing, both in the UK and internationally, with many customers seeking increased operational and cost efficiencies in the delivery of critical services, together with enhanced performance and availability and a proven ability to deliver. During the year the UK Government published its five-year Strategic Defence and Security Review which included a commitment to an increase in defence spending over five years, and further defence equipment and equipment support over the next decade.

These commitments underpin a range of opportunities across the Armed Forces in training and equipment support. The UK Government also published its annual Comprehensive Spending Review for 2016/17 which confirmed the Nuclear Decommissioning Authority's budget.

In addition to delivering for our customers and shareholders, this year has been one of positioning for the future. In the second year following our acquisition of Avincis – now Mission Critical Services (MCS) – the business has become fully integrated into the Group and is contributing skills and expertise to help us capture future opportunities internationally. We said at the time of the acquisition that it would take us around three years to gain traction in new territories, particularly with governments and the public sector, before we were able to announce new contracts. Our new international business development managers have been working to identify opportunities which draw upon our existing expertise and have had some early successes: a five year contract to provide airport fleet management support services for Alitalia at Rome Fiumicino Airport, successful country entries for MCS in Ghana and Mozambique, together with an infrastructure development agreement with Mozambique's national oil company ENH. The additional capability MCS brought to the Group has proved valuable in the UK, helping our Defence and Security division to secure a contract to provide forward maintenance and engineering support for the Royal Navy's helicopter fleet.

In Oman, we have agreed a Heads of Terms for a joint venture with the Oman Drydock Company to develop a naval support facility in Duqm, and in Australia our joint venture's contract supporting ANZAC Class frigates has transitioned into the Warship Asset Management Alliance, securing our position for up to 16 years. In Japan, Cavendish Nuclear has signed an agreement with Hitachi-GE Nuclear Energy for collaboration on nuclear decommissioning in Japan.

We continue to focus on maintaining a secure financial base to support our future growth. We have reduced our net debt to £1,228.5 million (2015: £1,325.6 million) during the year and expect to continue reducing the ratio of net debt to EBITDA over the coming years. Delivery of cash remains an important focus for each of the Group's businesses and this year we have once again achieved our target of cash conversion, before capital expenditure, of over 100%. The order book and pipeline have been maintained at £20 billion and £10.5 billion respectively, providing clear visibility of future revenue streams.

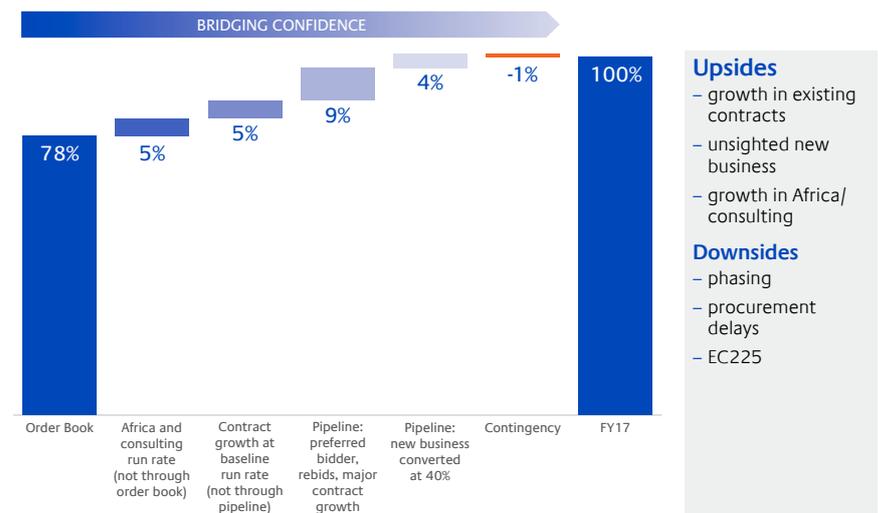
### Income statement

Total revenue for the year was £4,842.1 million (2015: £4,503.3 million), an increase of 8%.

The Babcock businesses, excluding acquisitions, delivered underlying revenue growth at constant exchange rates of 8% (2015: 12%). The largest contributor to this growth was the Support Services division which reported organic revenue growth of 13%, primarily due to the full year contribution from the Magnox civil nuclear decommissioning contract within its subsidiary Cavendish Nuclear. The Marine and Technology division achieved organic revenue growth of 9% at constant exchange rates, driven by increased volumes in both the Naval Marine and Technology businesses.

The Defence and Security division reported underlying revenue growth of 4%, benefiting from the early start of the procurement phase of the DSG business, combined with the award of the Aviation and Engineering Support and Airfield Services (AESAS) contract and the start of the UK Military Flying Training System (UKMFTS) fixed wing contract. In the

## Visibility of FY17 revenue growth



THE TABLE ABOVE SEEKS TO UNDERLINE CONFIDENCE IN 2016/17 REVENUE

International division, growth in Power (South Africa) and Emergency Services (MCS) was offset by headwinds in the commodity (South Africa) and oil sectors (MCS), giving a flat total International organic revenue at constant exchange rates.

Total underlying operating profit increased by 4% to £539.7 million (2015: £518.7 million). At constant exchange rates, Babcock achieved organic growth in operating profit of 6%, with the Group's operating margin slightly lower at 11.1% (2015: 11.5%), primarily reflecting the low margin recognition in the early stages of the Magnox decommissioning project.

In the Marine and Technology division, operating profit increased by 14%, with margins marginally ahead of last year before the additional effect of adding Research & Development tax credits, which from this year are reported within operating profit. The Defence and Security division achieved a 2% increase in operating profit, with slightly lower margins associated with the additional DSG procurement work awarded during the year.

For the Support Services division, operating profit grew by 7% with margins diluted by the effect of low profit recognition in the

early stage of the Magnox decommissioning contract.

The Group benefited from £7.5 million profit on disposal of the Lewisham Building Schools for the Future (BSF) joint venture Private Finance Initiative (PFI), reported within the Support Services division.

The International division's operating profit was flat at constant exchange rates, reflecting the revenue headwinds. On a reported basis, the division saw an 8% reduction in profit due to currency changes. The total Group reduction in revenue due to the year-on-year change in average foreign currency rates was £99.0 million with a corresponding £12.0 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 £5.7 million change in operating profit and a £3.6 million change in profit before tax. A 10% movement in the South African Rand equates to a £1.7 million change in operating profit and a £1.5 million change in profit before tax. The average rates used for translation of 2015/16 underlying revenue and profit were £/€1.37 and £/ZAR20.6.

During the year a net £1.5 million of provisions were released to the income statement. Over the last six financial years

the cumulative net provision charge averaged less than 1.0% of underlying operating profit excluding joint ventures. Provision cash outflow in the period was £25.1 million, relating to contracts (primarily pain share/gain share and warranties), personnel (taxation and reorganisation) and property.

Total net finance costs were £80.0 million (2015: £101.0 million) reflecting the decrease in total Group debt over the year and reduced charges for both IAS19 and joint venture interest. The Group net finance costs reduced to £53.0 million (2015: £59.0 million) and we expect this 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 2%. The Group's share of joint venture net interest expense decreased to £21.9 million (2015: £31.0 million), largely reflecting the disposals of the Lewisham (in 2015/16) and Greenwich (in 2014/15) BSF joint ventures. The IAS 19 pension finance charge was £5.1 million (2015: £11.0 million).

Profit before tax, amortisation of acquired intangibles and exceptional charges increased by 10% to £459.7 million (2015: £417.7 million). The associated tax charge, including the Group's share of joint venture tax of £8.0 million (2015: £5.0 million), totalled £81.9 million (2015: £74.3 million), representing an effective underlying rate of tax of 17.8% (2015: 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.

From 2015/16 Research and Development tax credits will be included within operating profit, in line with industry practice. The 2015/16 Research and Development tax credits effect on operating profit (post customer gain share) was £7 million.

Amortisation of acquired intangibles was £121.6 million (2015: £99.6 million). The increase in amortisation is as a principal result of a full year of acquired intangible amortisation for the MCS

and DSG businesses. This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands. The value is amortised over its estimated useful life, which in the case of relationships currently does not exceed 15 years, by reference to the duration of contracts in hand at the time of acquisition and for non-contractual customer relationships, the risk adjusted value of potential future orders from existing customers with an average estimated duration. In relation to brands, the asset life is dependent on the market characteristics of the business acquired.

As a result of the visibility afforded by our order book and pipeline of opportunities, we expect to achieve revenue growth of around 7% in 2016/17 with margins remaining broadly stable.

### Statutory to underlying reconciliation

	Statutory £m	Joint ventures and associates			IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	Underlying £m
		Revenue and operating profit £m	Finance costs £m	Tax £m				
<b>31 March 2016</b>								
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
<b>31 March 2015</b>								
Revenue	3,996.6	506.7						4,503.3
Operating profit	352.3	35.2			37.6	93.6		518.7
Share of profit from jv	29.4	(35.2)	31.0	5.0	(36.2)	6.0		-
Investment income	1.4				(1.4)			-
Net finance costs	(70.0)		(31.0)					(101.0)
Profit before tax	313.1	-	-	5.0	-	99.6	-	417.7
Tax	(46.7)			(5.0)		(23.2)	0.6	(74.3)
Profit after tax	266.4	-	-	-	-	76.4	0.6	343.4

There are no exceptional items.

### Earnings per share

Basic underlying earnings per share for the year was 74.2 pence (2015: 68.5 pence), an increase of 8%. Basic earnings per share as defined by IAS 33 was 57.0 pence (2015: 52.9 pence), an increase of 8%.

### Dividend

This year underlying basic earnings per share increased by 8%; the Group has once again achieved its target of delivering pre-capital expenditure cash conversion of over 100% and the combined order book and pipeline over £30 billion provides clear visibility of future revenue streams.

The Board remains confident in the long-term future of our business and it is therefore recommending a 9% increase in the final dividend per share for 2016 of 19.75 pence (2015: 18.1 pence). If approved by shareholders at the AGM on 21 July 2016, this will give a total dividend per share for the year of 25.8 pence (2015: 23.6 pence), an increase of 9%. The final dividend will be paid on 12 August 2016 to shareholders on the register at 1 July 2016.

### Acquisitions and disposals

The Group made no acquisitions during 2015/16 (2015: £2,023.6 million). On 15 April 2016 the Group acquired German mission critical services company Heli Aviation GmbH for around €14 million including net debt (c £11 million). The business specialises in emergency services, including relief missions to remote locations for non-governmental organisations and government agencies as well as helicopter emergency medical services, aerial work and aircraft maintenance. During the year the Group disposed of the Lewisham BSF PFI for £14.3 million with a profit on disposal of £7.5 million. In the prior year its underlying operating profit was £4.7 million.

### Cash flow and net debt

	2016 £m	2015 £m
Operating profit before amortisation of acquired intangibles	468.3	445.9
Amortisation and depreciation	86.0	78.5
Other non-cash items	15.0	16.7
Working capital (excluding retirement benefits and provisions)	(11.5)	(23.4)
Provisions	(25.1)	(14.3)
<b>Operating cash flow</b>	<b>532.7</b>	<b>503.4</b>
Cash conversion %	114%	113%
Capital expenditure (net)	(145.1)	(135.0)
<b>Operating cash flow after capital expenditure</b>	<b>387.6</b>	<b>368.4</b>
Cash conversion after capital expenditure %	83%	83%
Interest paid (net)	(53.4)	(73.8)
Taxation	(46.6)	(46.1)
Dividends from jvs	23.0	19.5
<b>Free cash flow before pension contribution in excess of income statement</b>	<b>310.6</b>	<b>268.0</b>
Pensions contributions in excess of income statement	(34.9)	(43.9)
<b>Free cash flow after pension contribution in excess of income statement</b>	<b>275.7</b>	<b>224.1</b>
Acquisitions and disposals net of cash/debt acquired	1.0	(2,023.6)
Issue of shares	1.2	1,077.4
Exceptional items – working capital	–	(24.2)
Investments in joint ventures	(4.8)	(1.7)
Movement in own shares	(0.7)	(3.5)
Dividends paid	(125.6)	(117.0)
Exchange difference/other	(49.7)	76.6
Net cash (inflow/outflow)	97.1	(791.9)
Opening net debt	(1,325.6)	(533.7)
Closing net debt	(1,228.5)	(1,325.6)

The table below provides the reconciliation between the statutory cash flow (page 145) and trading cash flow table above.

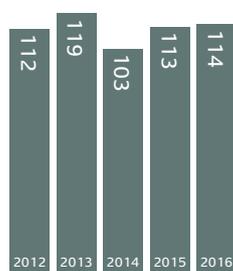
	2016 £m	2015 £m
Cash generated from operations	490.3	426.8
Retirement benefit contributions in excess of income statement	34.9	43.9
Exceptional items – acquisition costs working capital	–	24.2
Profit on disposals of jv/exceptional loss	7.5	8.5
<b>Operating cash flow</b>	<b>532.7</b>	<b>503.4</b>

### Cash flow and net debt

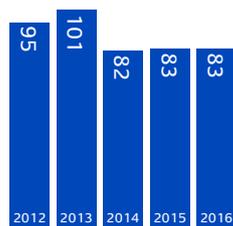
We continue to focus on the generation of cash and cash conversion remains an important key performance indicator (KPI) for the Group. The analysis on page 31 reflects the management KPI for cash conversion.

Working capital cash outflows during the period, excluding excess retirement benefits, were £36.6 million (2015: £37.7 million), slightly better than expected. The cash outflow includes £25.1 million which represents provision movements. Cash generated from operations was £490.3 million (2015: £426.8 million) from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was up 6% to £532.7 million (2015: £503.4 million) and represents a conversion rate of underlying operating profit to cash of 114% (2015: 113%).

#### Cash conversion pre-capex (%)



#### Cash conversion post-capex (%)



Net capital expenditure, including new finance leases, during the year was £145.1 million (2015: £135.0 million). MCS net capital spend was £43 million, lower than anticipated but consistent with reduced growth during the year. The Group also spent £20 million on the new SAP back office ERP system which is being implemented over the coming years,

as well as ongoing investment in upgrades to our dockyard facilities in the Marine and Technology division to support future work streams. The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to underlying operating profit of 83% (2015: 83%). Capital expenditure for the year was 1.7 times the Group's depreciation and amortisation charge of £86 million. For the 2016/17 financial year we expect capital expenditure to be in the region of 1.5 times depreciation.

Net Group cash interest paid, excluding that paid by joint ventures, was £53.4 million (2015: £73.8 million), the decrease reflecting the reduction in the Group's debt levels since the acquisition of Avincis in May 2014 and the absence of major refinancing.

After taxation payments of £46.6 million (2015: £46.1 million), free cash flow pre-excess pension payments improved to £310.6 million (2015: £268.0 million), up 16%, representing a free cash flow yield on 31 March 2016 of 6.5% (2015: 5.4%). We expect the cash tax payments as a percentage of operating profit for 2016/17 to be maintained at 2015/16 levels. Free cashflow post excess pension payments increased to £275.7 million (2015: £224.1 million), up 23%.

Acquisitions and disposals during the year totalled £1.0 million (2015: £2,023.6 million) and represent the disposal of the Group's share in the Lewisham BSF joint venture offset by deferred consideration on acquisitions and costs on prior disposals.

During the year the Group received £23.0 million in dividends from its joint ventures (2015: £19.5 million). Cash dividends (including to minorities of £4.1 million) paid out in the year totalled £125.6 million (2015: £117.0 million).

Group net cash inflow was £97.1 million (2015: £791.9 million outflow), decreasing total net debt at 31 March 2016 to £1,228.5 million (31 March 2015: £1,325.6 million). At constant exchange rates the net cash inflow would have been around £30m million higher. This gives a net debt to EBITDA ratio of 2.0 times (31 March 2015: 2.2 times). We would expect to see this reduce to 1.7 times by the end of the 2016/17 financial year.

### Return on Invested Capital (ROIC)

We define ROIC as earnings before financing costs and tax excluding exceptional charges, divided by the average of opening and closing equity plus net debt, excluding retirement benefit deficits. Following the significant acquisition made at the beginning of the prior year, ROIC was 14.2% compared with the Group's current weighted average, pre-tax, cost of capital of c 9.2%. Return on capital continues to be a key focus; driving our choices regarding which options to pursue, whether it be tenders, capital expenditure, acquisitions or returns to shareholders.

#### 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 the current market and against the current economic backdrop. This is not to rule out acquisition spikes above 2.5 times, as illustrated by the recent acquisition of Avincis or previous acquisitions in the past, 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.

## Available financial capital performance

	Covenant	2016	2015	
Debt service cover	EBITDA/net interest	>4	10.8x	8.3x
Debt cover	Net debt/EBITDA	<3.5	2.0x	2.2x
Gearing	Net debt/shareholders' funds	n/a	48%	56%

### Performance

The Group's gearing and debt cover ratios, used by the Group to evaluate capital, saw an improvement to 2 times net debt to EBITDA in 2015/16 (2015: 2.2 times), demonstrating further progress in bringing gearing back towards a steady state level, both in the pay down of debt and through increasing profits attributable to shareholders.

Debt ratios are below covenanted levels and gearing has continued to reduce since the MCS acquisition, when net debt to EBITDA ratio spiked at 2.5 times. Current levels leave 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 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 of 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, the Group obtained a further one-year extension to its £750m Revolving Credit Facility, with the facility now expiring in December 2020.

The revised Group capital structure of committed facilities and headroom are thought to be sufficient to meet the Group's ongoing commitments. The following is a summary of the Group's main debt facilities: £100 million of loan notes issued in January 2010, US\$650 million US private placement notes issued in March 2011, €550 million Eurobond issued October 2014 and a £750m Revolving Credit Facility (RCF) signed in December 2014. The aforementioned debt provides the Group with total available committed banking facilities and loan notes of £1.77 billion.

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 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 is the responsibility of the treasury department and is subject to the policy and guidelines set by the Board.

### Performance

As at 31 March 2016, the Group had 61% fixed rate debt (31 March 2015: 55%) and 39% floating rate debt (31 March 2015: 45%) based on gross debt of £1,461.2 million (31 March 2015: £1,507.9 million).

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

### Liquidity

#### Objective

- to maintain adequate undrawn committed borrowing facilities
- to monitor and manage bank credit risk, and credit capacity utilisation
- 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

- all the Group's material borrowings are arranged by the treasury department and funds raised are lent onwards to operating subsidiaries as required
- 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 objective. During the year, the Group obtained a further one-year extension to its £750m Revolving Credit Facility, with the facility now expiring in December 2020
- ii. the Group had cash and cash equivalents as at 31 March 2016 of £185.9 million (2015: £130.6 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 Euro, US Dollar and South African Rand.

#### 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 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.

#### Performance

There was a net foreign exchange gain of £4.6 million in the income statement for the year ending 31 March 2016 (2015: £2.5 million gain).

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

#### Pensions

The Group provides a number of occupational defined benefit and defined contribution 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 of £3.3 billion represent 86% of the total assets of all the Group's defined benefit schemes. During the year changes were made to cap pensionable salaries, cap pension increases and to increase normal retirement age to be in line with changes to the state pension age as well as to increase employee contributions on the Rosyth Royal Dockyard Pension Scheme and the Devonport Royal Dockyard Pension Scheme from June 2015, in line with the changes made to the Babcock International Group Pension Scheme from October 2014.

It also has employees in two industry-wide occupational schemes, the Railways Pension Scheme and 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 are closed to new members.

The Group operates an occupational defined contribution scheme open to all new employees across the Group and this was used to comply with the automatic

enrolment legislation from 1 April 2013. The Group pays contributions to an independently administered fund, such contributions being based on a percentage of employees' pay. It has no legal or constructive obligations to pay further contributions once the agreed contributions have been paid. Any investment risk is borne by the employees.

#### Investment strategy

The Group works constructively with an investment sub-committee, which operates across the three largest schemes. It has implemented a single consistent investment strategy designed to systematically derisk the schemes as funding levels improve and to operate within a risk budget. It has been agreed that the schemes will target having sufficient assets by 2037 to be fully self-sufficient.

To implement the strategy to achieve self-sufficiency, the schemes' assets are divided into growth assets, low risk assets and matching assets reflecting the duration of the liabilities. The growth funds are systematically derisked as funding levels increase (on the basis used for self-sufficiency). In addition, the matching assets are used to hedge adverse movements in interest rates and expected inflation based on the expected cash flows from the scheme. The level of hedging is increased in line with funding levels to reduce the risk of volatility in the schemes' funding positions and IAS deficit, thereby creating a more stable financial position.

#### Funding valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contribution commitments to the schemes. The valuation dates for the three largest schemes are set such that only one scheme is undertaking an actuarial valuation in any one year in order to spread the financial impact of market movements in both assets and liabilities. Work has commenced on the valuation of the Rosyth scheme as at 31 March 2015 and is currently under discussion. A valuation of the Railways Pension scheme is being undertaken at 31 December 2013 and is currently under discussion.

### Cash contributions

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

#### Cash contributions

	2016 £m	2015 £m
Future service contributions	46.0	44.7
Deficit recovery	30.5	39.2
Longevity swap	5.0	4.2
Total cash contributions – employer	81.5	88.1

In the 2016/17 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £78.1 million. £6.9 million of this is for salary sacrifice contributions, £29.0 million is in respect of the cost of future service accrual, £36.2 million is to recover deficits over periods of time agreed with the Trustee and £6.0 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.

#### Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,824.8 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,027.9 million representing a 95% 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 impact of increasing allowance for longevity since 2009.

### Accounting valuations

	Devonport		Babcock		Rosyth	
	2016	2015	2016	2015	2016	2015
Discount rate %	3.5	3.4	3.5	3.4	3.5	3.4
Rate of increase in pensionable salaries %	2.2	2.2	2.2	2.2	2.2	2.2
Rate of increase in pensions in payment %	2.1	2.1	2.8	2.8	3.0	3.0
Life expectancy of male currently aged 65 years	21.4	21.7	22.9	23.0	19.2	19.3

The total net accounting deficit, pre deferred tax, at 31 March 2016, was £203.1 million (2015: £168.8 million) and the expected IAS 19 net periodic benefit cost in 2016/17 is £47.5 million (2015/16: 49.8 million).

The continued hedging of inflation and interest rate changes has helped to mitigate volatility in the value of assets and liabilities. The benefits accruing to members of the Babcock International Group Scheme have been adjusted from 1 October 2014, and for the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme from 1 June 2015, to reduce future costs (by capping pensionable salaries and related inflation and increasing retirement ages) and in addition employee contribution rates are gradually increasing to a minimum level of 6% up to the cap over the next three years.

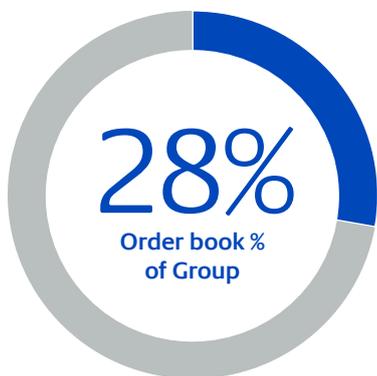
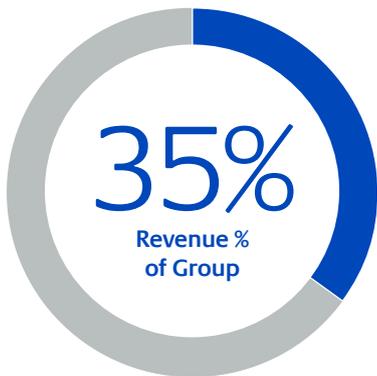
#### Governance

Professional and effective pension scheme management is paramount to enable members and sponsors to be confident in the trustees' stewardship of the schemes. The Group and the cross scheme Governance Committee have continued to work constructively to improve the effectiveness of the trustee boards of the three largest schemes and their sub-committees, as well as enhancing trustees' knowledge through training and decision-making. All trustees are required to sign a trustee charter regarding their duties.

# Building on long-term relationships and experience

The division's focus remains on delivering through-life support to the UK Royal Navy's Submarines, Naval Ships and Infrastructure, whilst building its naval support capabilities. It is also applying its expertise in complex engineering, equipment management, consultancy, information and knowledge management in adjacent energy and commercial marine markets. The division has grown from a strong UK base and is increasingly looking to grow internationally.

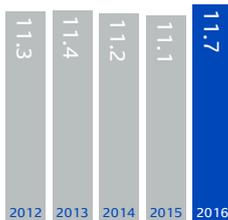
## 2016 performance highlights



### Strategy in action

- Start of the Type 23 frigate LIFEX programme
- Start of the Vanguard Class LIFEX programme
- Completed a three-year refuel and refit of HMS Vengeance
- Secured over 50% of all competed MOD Maritime Equipment Management contracts
- Delivered the second of three Offshore Patrol Vessels for the Irish Naval Service
- Won a five-year contract to deliver information and knowledge management services to the MOD
- Start of Canada's HMCS Corner Brook refit as part of the Victoria Class in-service support contract
- JV supporting Australian ANZAC Class frigates enters new alliance
- Delivered 73 subsea structures for the BP Quad 204 Programme
- Agreed JV terms with Oman Drydock Company to develop naval support in Duqm, Oman

### Operating margin (%)



11.7%

### Revenue growth

+9%



Critical Vanguard fleet support at HMNB Devonport

## Market overview

The markets in which the Marine and Technology division operate have remained positive during the year. The UK MOD continues with its strategy of managing and supporting critical naval infrastructure and assets through long-term partnership agreements, underpinned by the 2015 SDSR which reaffirmed the UK's investment in maritime capability by securing continued investment in the Queen Elizabeth Class (QEC), Frigates (Type 26), Astute and Successor submarine programmes, as well as announcements regarding the development of a general purpose Light Frigate (Type 31), additional Offshore Patrol Vessels (OPVs) and three new logistic support ships. The 2015 Strategic Defence and Security Review (SDSR) stated increased investment in Cyber and Intelligence, Surveillance and Target Acquisition (ISTAR) capabilities which we believe will present significant opportunities for our Technology and Consultancy businesses.

The MOD's Equipment Plan 2015-2025 saw a £3.5 billion increase compared with Equipment Plan 2014. Over the next ten years £19 billion is planned for a surface ship procurement and support programme. The Surface Ship Support Alliance (SSSA) continues to evolve the best and most cost-effective delivery solutions for Royal Navy complex warship support activity while maintaining fleet availability. The next phase of the SSSA development will see the transition to the common support model which is expected to include further outsourcing of delegated technical authority roles.

We continue to consolidate our leading position in submarine support by working with the MOD, BAE Systems and Rolls Royce as part of the Submarine Enterprise Performance Programme (SEPP) to drive availability and support efficiencies across the submarine enterprise, which forecasts spending £43 billion for procurement and support over the next decade. This includes the programme to develop the replacement for the Vanguard Class submarines which is scheduled to progress through Government approval during 2016.

The liquefied gas handling market remains very strong, with a growing demand from international markets well suited to our capabilities. We continue to develop our understanding of the potential future UK offshore decommissioning market which Oil & Gas UK currently estimates to be worth between £40 billion and £70 billion over the next 40 years.

The market for cyber security services remains strong with global compound annual growth projected to continue at around 10% over the next five years. We have experienced growing demand for our services driven by recent high-profile cyber security incidents and General Data Protection Regulation and disclosure legislation that will come into force during 2016/17 across Europe.

In Canada, the newly-elected Liberal Government has expressed a strong commitment to support the Royal Canadian Navy procurement and support programmes in order to develop and sustain their global capability and reach.

The publication of the Australian Defence White Paper in February 2016 confirmed the intention to increase defence spending to 2% of GDP. In New Zealand, the delayed 2015 Defence White Paper is expected to reinforce the capital investment and support programme for the Navy.

## Strategy

As the UK's leading naval support provider we maintain excellent visibility of the MOD's equipment procurement and support programme and continue to work closely with the MOD under our 15-year Terms of Business Agreement (ToBA) which provides a strong basis for growth of our through-life naval support capabilities. The Maritime Support Delivery Framework (MSDF) contract secures our position as the MoD's strategic support partner at both HMNB Devonport and Clyde to 2020. Under the MSDF we work with the MOD to identify savings and efficiencies as well as constantly seeking to improve and expand the scope of our services.

Our unique strategic infrastructure at Devonport and Rosyth forms an essential component of the UK naval support capability. We continue to deliver our MSDF contract within the backdrop of MOD's strategy to establish HMNB Clyde as the base port for the entire UK submarine fleet and the increase in engineering support we expect this to require.

Additionally, we believe our integral role within the SSSA and SEPP positions us well to continue to progress our capabilities and capacity in support of new naval platforms including the QEC, Astute, Type 26, Successor and Type 31 programmes.



## V-Class LIFEX programme

2015 marked the beginning of the Vanguard fleet life extension programme. The arrival of HMS Vanguard signalled the start of the single largest submarine refit ever carried out in the UK. Babcock's commitment to the Vanguard Class Availability Sustainment Programme and to the long-term support of the Royal Navy remains as solid as ever.

Following the completion of a three-year £350 million refuel and refit programme on HMS Vengeance, she continues her return to operational duties with post-refit work at HMNB Clyde. The waterfront teams at the Naval Base continue to deliver a short and focused Base Maintenance Period for HMS Vigilant.

The delivery of these challenging and complex programmes, using the skills and expertise of Babcock's workforce across the UK, underlines our long-term commitment to meet the exacting high standards and expectations of our customer.

Building on our leading position in the design, manufacture and support of Weapon Handling and Launch Systems (WHLS) and complex equipment for naval platforms we continue to target a strong pipeline of international Naval Ship and Submarine programmes.

Our established naval support businesses in Canada, Australia and New Zealand continue to identify and develop future naval support opportunities as well as targeting emerging commercial opportunities in the energy and marine sectors.

We believe our developing relationship with Oman Drydock Company in Duqm represents an opportunity to support not only the UK's Royal Navy in the Middle East but potentially other international navies.

Given the increasing importance of cyber security, data analytics and information/knowledge management to our customers, we have invested in developing capability and capacity in our Context IS, Analytical Solutions and Managed Security Services consultancy businesses to meet what we believe are growing opportunities in these areas.

We continue to identify global opportunities where we can work with offshore energy operators to reduce cost and manage their assets through-life, despite the challenges of the downturn in oil prices. Building on the success of our work with BP and E.ON, we will continue to focus on opportunities to provide integrated engineering, design and specialised manufacturing services for major offshore energy and nuclear operators which balance our risk and reward. We believe our unique facilities and expertise present opportunities in future growth markets including offshore decommissioning, offshore renewables, liquid petroleum gas (LPG) and liquefied natural gas (LNG) handling systems.

In addition to pursuing sustainable organic growth in the UK and overseas, we will continue to seek to acquire capabilities and businesses which are consistent with our growth ambitions and to which we can add value.



### Submarine Dismantling Project

Babcock is working closely with the MOD to progress the Submarine Dismantling Project (SDP). The programme's aim is to deliver a safe, environmentally responsible and cost effective solution for the dismantling of 27 of the UK's defueled nuclear powered submarines. Seven defueled submarines will be initially dismantled at Rosyth and a further 20 will be dismantled at Devonport.

Babcock is currently carrying out infrastructure modifications at Rosyth, including the successful delivery of a new caisson, crane and dockside furniture to support the demonstrator phase of the SDP, which is planned to begin in December 2016 following regulatory approvals.

### Financial review

The Marine and Technology division had a successful year and experienced growth in all sectors, reporting a total increase in revenue of 9%, to £1,695.9 million (2015: £1,562.5 million). Organic growth at constant exchange rates was 9% (2015: 14%). The main drivers of growth this year have been the continued increase in activities on the QEC aircraft carrier programme and other warship support activities through both the Naval Marine and Technology business units. Opportunities in our liquefied gas handling, consulting and technology operations were also significant drivers of growth this year, and all three businesses remain buoyant.

Operating profit increased by 14% to £198.9 million (2015: £173.9 million). Organic growth at constant exchange rates was 15%. Operating margins were 0.3% ahead of last year, before the effect of adding research and development tax credits into operating profit, at 11.7% (2015: 11.1%).

### Operational review

Over the past year the division has continued to develop its position as the UK's strategic support partner, providing deep maintenance and in-service support to the Royal Navy's fleet of submarines and warships as well as delivering services at HMNB Clyde and Devonport. We are now well into our five-year MSDF contract which covers a range of complex and critical engineering support services

across both naval bases until March 2020. We are on track to deliver significant MSDF cost savings to the MOD as well as ensuring the increased availability of the fleet and critical infrastructure.

We continue to deliver a range of submarine and warship refit contracts in support of our customer's programme while building additional capability and capacity to support increasing operational demands. We are working with the MOD to secure investment for the development and upgrade of the nuclear infrastructure required to underpin both the current and future submarine support programme across these critical facilities.

We remain focused on underpinning the Continuous At Sea Deterrence, supporting the Vanguard Class submarines and on working with the MOD to maximise platform availability during the transition from the Trafalgar Class to the new Astute Class. As the class enters service we deployed enhanced resources at both HMNBs Clyde and Devonport.

Our operations at HMNB Clyde continue to develop as we put in place the necessary engineering capability and capacity to meet the increasing operational demand. We remain well placed to support the MOD in the creation of the Submarine Centre of Specialisation at Clyde from 2020 and are focused on building our position in submarine training in the UK and overseas based on our successful Astute Class Training Service.

In December, the Long Overhaul Period and Refuel on HMS Vengeance was completed and she successfully departed Devonport. The arrival of HMS Vanguard at Devonport at the end of 2015 signified the start of a long-term deep maintenance programme and the beginning of the Vanguard Class life extension programme, with a contract value of around £200 million for the variable cost.

Preparation continues for the start of the Submarine Dismantling Programme which will develop the solution for the dismantling of redundant submarines at our Rosyth and Devonport facilities. Critical infrastructure projects are already underway and the first submarine is planned to enter the initial dismantling phase at Rosyth during late 2016.

Over the past year we have delivered the refit of two Type 23 Frigates as part of the Type 23 life extension programme. This programme involves the replacement of the primary weapon system, updating marine equipment, addressing equipment obsolescence and extending the life of the hull and superstructure. Amphibious assault ship HMS Albion's complex reactivation programme is progressing on schedule; this will be the largest warship support contract carried out at Devonport for 25 years.

We continue to develop and improve our warship support capability through the implementation of innovative technology and processes and are tracking significant new warship support opportunities supporting the Royal Navy in the UK and overseas.

As a strategic partner within the Aircraft Carrier Alliance (ACA), we continue to play a significant role in the QEC aircraft carrier build programme at Rosyth. HMS Queen Elizabeth has progressed through the commissioning phase, with the diesel generators and gas turbines now powering the propulsion shafts and the activation of mission systems and radars. The first compartments have now been handed over to the Royal Navy and are being prepared for the ship's staff to live on-board from mid-2016. The second carrier, HMS Prince of Wales, is now consolidated to her full length in the dry dock as part of the vessel assembly process at Rosyth. We continue to work with our SSSA partners and the MOD to develop a support solution for the QEC as they enter service.

We were awarded contracts for the design and build of air weapons handling systems for the first three Type 26 global combat ships by BAE Systems.

Additionally, progress has been made over the past year on our positions on WHLS, for UK and international submarine programmes. The Astute programme continues in line with customer expectation with four boat systems delivered and installed, a fifth in customer build and a further two boat systems in manufacture at our facilities for delivery over the next four years. We are approaching the next phase of work on UK Successor and have now commenced production of major long lead items. On the South Korean programme, design is well advanced and key items have been delivered for the first of class submarine. In addition the customer has re-started work on the Spanish S-80 submarine programme, enabling further Babcock equipment deliveries to proceed. Investments have been made to enhance our manufacturing capability in order to support the strong pipeline of future UK and global submarine equipment programmes that we are tracking.

Following a £10 million investment in dedicated facilities at our Rosyth site, we are now manufacturing components for the Common Missile Compartment being developed by our customer Electric Boat Corporation (General Dynamics) for the future deterrent submarine programmes in the UK and USA.

The second of the OPVs built at our Appledore facility for the Irish Naval Service, named LE James Joyce, was commissioned into service in July. The third vessel is scheduled for delivery in July 2016.

Our work to support the Royal Australian Navy's Collins Class submarine is progressing well and provides a strong basis for a longer-term agreement to support the Collins Class fleet until the end of its life. The ANZAC Class support contract (Naval Ship Management – a joint venture with UGL) continues to deliver strongly. At the request of the customer the contract has transitioned into the Warship Asset Management Alliance with BAE Systems and SAAB, securing our position in a long-term asset management solution for the ANZAC Class until its end of life (up to 16 years).

In New Zealand, the first year of our new Dockyard Management Contract has seen successful programme delivery and continued development of our



### Context IS

As one of the first adopters of CBEST, Context IS is one of only nine suppliers of testing services in the UK.

Financial authorities developed an intelligence-led testing framework known as CBEST to assist boards of financial firms and infrastructure providers to improve their understanding of the types of cyber-attack that could undermine financial stability in the UK, and the extent to which the UK financial sector is vulnerable to those attacks.

Context IS have worked closely with both a large number of financial institutions and the Bank of England to deliver more than 50% of CBEST tests to date. These tests are intended to replicate the behaviours of threats, assessed by Government and commercial intelligence providers, as posing a genuine threat to vital financial institutions. Context IS has consistently received positive feedback from their clients and we look forward to building on the delivery of high quality, valuable and market-leading work.

relationship with the customer, including the successful completion on time and to cost of the propulsion upgrade programme on HMNZS Te Mana.

In Canada, the Victoria Class submarine HMCS Corner Brook has started her refit under our long-term Victoria Class In-Service Support Contract. We continue to track several major future naval support opportunities including the 35-year in-service support contract for the Arctic/Offshore Patrol Ships and Joint Support Ships with a final request for proposal expected to be issued in mid-2016. In October 2015 Babcock was awarded a contract for the replacement of High Frequency Monitor Receiver Systems at selected Department of National Defence facilities.

In Oman, we have signed a Memorandum of Understanding with the Oman Drydock Company, with the intention of forming a joint venture for the provision of support services in Duqm, Oman to the Royal Navy, Royal Navy of Oman and other international navies.

Over the past year we have seen sustained growth in our independent technology consultancy businesses, and in particular Context IS, which has doubled in size since its acquisition in December 2013. We continue to develop and enhance our cyber security capabilities by providing our clients with cyber defence capability through our Advanced Security Operations Centre. We continue to develop our analytic solutions capability using new technologies and information management practices and are targeting new customers for our complex information asset management offering.

Despite the challenging oil and gas market conditions, our Energy and Marine businesses have continued to develop their capabilities and market presence, with the successful delivery of 73 subsea structures for BP Quad 204 Programme and by winning an engineering and construction contract for the E.ON Renewables Rampion offshore wind substation. Subsequently, in May 2016, we were awarded a contract for the construction of the world's first reactive compensation station for DONG Energy's Hornsea Project One offshore wind farm.

In our core liquid gas handling markets, contract wins continue to exceed expectations and we are progressing a number of engineering design opportunities for the new generation liquid natural gas (LNG) fuel supply vessels. In April 2016 Babcock was awarded two Queen's Awards for Enterprise for outstanding business achievement in the global liquefied petroleum gas (LPG) sector. The awards, for 'International Trade' and 'Innovation', are given for the highest levels of excellence in each category and represent a major achievement for the rapidly growing business unit.

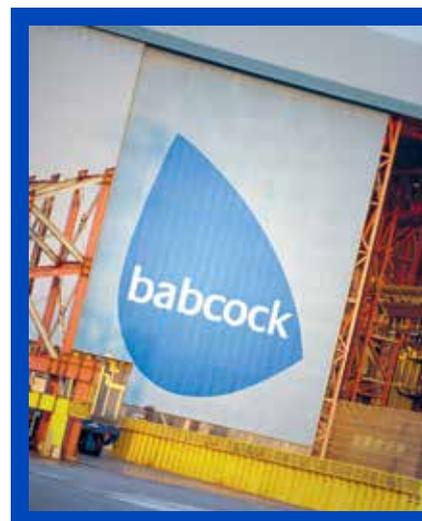
We also continue to develop relationships with commercial marine operators and over the past year have successfully delivered several ship refits and upgrade projects for commercial customers and the UK Border Agency at our Rosyth facility.

### Sustainability

Marine and Technology maintains some of the UK's most critical assets and infrastructure and our first priority is ensuring that the 11,000 people who help us uphold this responsibility work in a safe, fair and respectful environment every day. We insist on the highest levels of safety and security best practice, working in compliance with industry-recognised certification and regulatory authorities to develop our processes and deliver our 'Home Safe Every Day' objective.

With the Safety Improvement Programme now well underway, newly-implemented Health and Safety strategies resulted in a 19% reduction in the All-Accident Frequency rate and a 15% reduction in the number of reported RIDDOR incidents over the past year. This promising move towards the long-term 'all sites incident-free' goal can be credited to initiatives including the sharing of best practice across the division, a sustained focus on Visible Leadership in the workplace and a campaign of safety communications including Best Practice Groups with support and participation from trade union representatives. These measures underpin the Group Corporate Safety Strategy, which places the Safety Lens at its core. This year, Marine and Technology has given particular focus to one of the Safety Lens commitments 'to invest for safety' by developing a model which correlates spend and initiative back to the individual's commitments on the Safety Lens and enables this spending to be viewed at either Group, business unit or site level.

In an effort to lower energy consumption and reduce environmental impact at our sites, we have implemented the systematic renovation of existing lighting and heating systems to be more energy efficient and improved processes around water and waste management. The initial three-year ISO 14001 certification period has been successfully completed at Rosyth and within the Defence Systems Technology

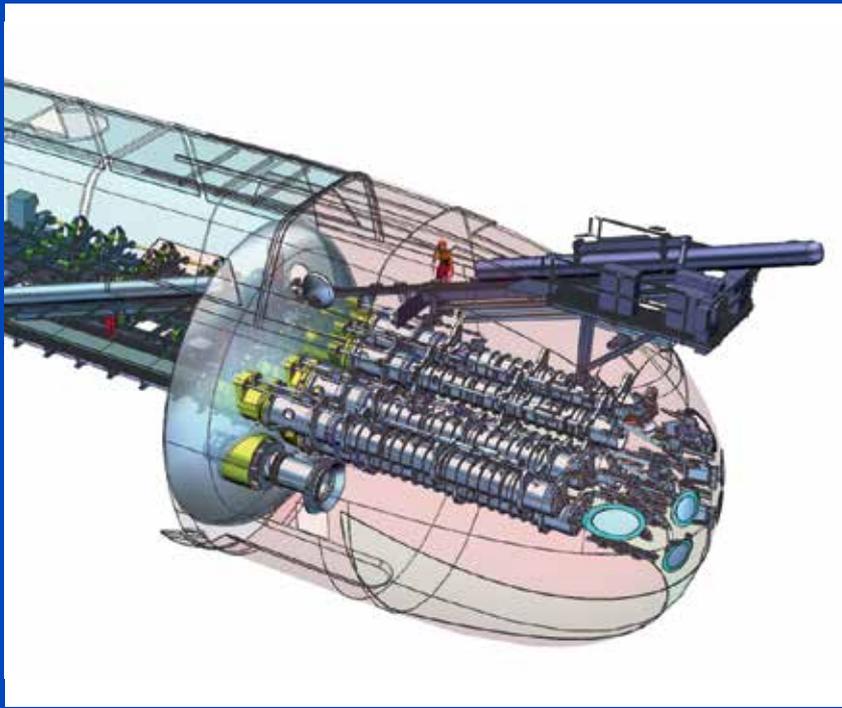


### Rampion Offshore Windfarm

Using an integrated approach to engineering and construction, Babcock is delivering a 2,500 tonne offshore sub-station topside and jacket for the Rampion Windfarm.

Starting mid-2015 the programme has moved through design and specification into manufacturing. Babcock's skills, capabilities, programme management and collaboration mean we deliver the highest safety and quality standards, while meeting our customer's schedule.

Babcock continues to consolidate its position as a key, credible supplier within the renewables sector. The 2015 Contracts for Difference allocations give us clear opportunities for growth as we continue to be in discussion with major clients in the offshore wind sector.



### South Korean Submarine WHLS

Babcock is currently undertaking the design and manufacture of the Weapons Handling and Launch System (WHLS) for the Republic of Korea's highly advanced KSS-III Class submarine, further enhancing South Korea's significant naval capability.

Babcock's WHLS is technologically superior and is proven with the UK Royal Navy. Coupled with its unrivalled submarine integration experience, the WHLS provides the business with a winning platform for new market entries. This contract, to design and supply the equipment on-board two of potentially nine submarines, is entering its third year. With design work nearing completion, production of the core system technologies has already commenced in the UK, with other sub-systems also being procured and manufactured in collaboration with South Korean industry. Building a strong local supply chain will ensure Babcock is able to support Daewoo Shipbuilding and Marine Engineering in maintaining its progressive build schedule.

We believe involvement on this major programme will provide future submarine equipment growth opportunities, whilst also furthering Babcock's experience of complex international vessel programmes.

business unit in line with industry best practice; both will continue with the programme for a further three years.

Another year of sustained growth has seen us continue to invest in our future workforce through the annual recruitment of graduates and apprentices who will significantly contribute towards meeting the demands of the business going forward. In the last year, we have welcomed a further 89 graduates and 188 apprentices into various roles across our sites.

We continue to drive engagement with schools, colleges and universities within local communities through a divisional programme of Science, Technology, Engineering and Maths (STEM) based outreach activities. In November, Babcock was recognised for its STEM efforts at the EEF Future Manufacturing Awards, where it received the Highly Commended prize in the Partnerships with Education category.

Babcock is committed to equality in the workplace regardless of age, gender, sexual orientation, race or religion. The division's Respect initiative includes

workshops, management training sessions and regular dialogue events to support the welfare of every individual within the business. We have also invested in changes to our facilities and equipment to improve the working environment for women in the workplace.

The well-being of the communities surrounding our sites is vital to our business and its people, and we actively support community groups and worthwhile causes. In the last financial year, Marine and Technology made charitable donations of close to £35,000 driven at local level through employee committees, and more than £163,000 through sponsorship funding.

#### Outlook

Our position and relationship with the Royal Navy and MOD through the ToBA continues to provide excellent visibility of our future naval support programme of work. We continue to identify opportunities to increase the scope of our complex and critical engineering support services to the MOD whilst maximising the availability of their assets and providing increased value for money.

We will continue to work with the new Single Source Regulations Office (SSRO) on future profit rates. We do not anticipate that the level of contracts awarded in 2016/17 which are subject to the regulations will be significant, and therefore anticipate a limited impact of operating profit of no more than £1 million in the coming year.

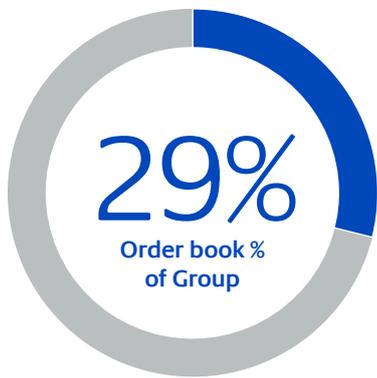
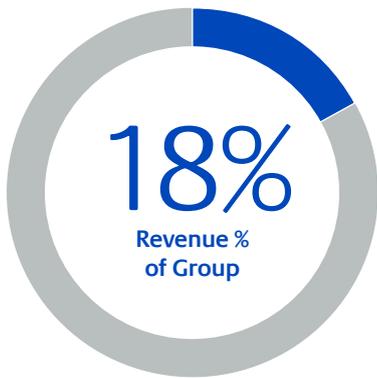
In addition to our core defence business, our expertise in complex and critical engineering services presents opportunities in adjacent commercial marine and energy markets both in the UK and internationally. We continue to develop our capabilities and capacity in order to exploit these opportunities as the market conditions evolve.

We believe the outlook for the Marine and Technology division is positive, with a strong pipeline of growth opportunities in both the UK and in our established international markets. The division expects 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 £60 million, in line with previous guidance.

# Well positioned to meet future defence needs

The division is focused on three strategic actions: 'win, develop and expand'. Win – significant UK and international defence contracts. Develop – through a dedicated international business, targeting emerging outsourcing opportunities. Expand – by building on existing contracts to move into adjacent markets where there are increasing opportunities for outsourcing complex and critical engineering and training support services.

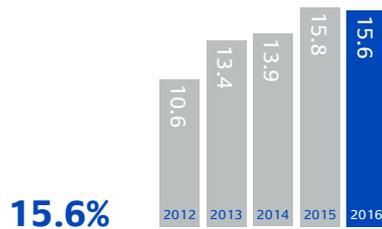
## 2016 performance highlights



### Strategy in action

- Ascent joint venture awarded £1.1 billion contract for fixed wing flight training
- Won contract to deliver forward maintenance and aircraft engineering for Royal Navy helicopters
- Defence Support Group performing well: significant growth in the first year of the 10-year contract
- Won Phoenix II contract to provide global fleet management services to MOD's white fleet of vehicles
- Awarded five-year £49 million Hawk 2 support contract
- Renewed Training, Maintenance and Support Services contract with the Army
- Excellent performance at Royal School of Military Engineering training wins two City and Guilds Lions awards

### Operating margin (%)



### Revenue growth

+4%



Delivering long-term military flight training

## Market overview

The UK's 2015 five-year Strategic Defence and Security Review (SDSR) moved defence fiscal policy towards investment and growth, with a future policy of drawing more heavily on the private sector's people and skills. It included a substantial programme of investment for new defence equipment, largely funded by over £9 billion of efficiency savings which are expected to be achieved during this UK parliament.

The SDSR provides for growth opportunities on existing contracts, such as military flying training and military equipment support, through increased training output and increased equipment utilisation. We believe new opportunities are emerging through a policy of continual defence reform intended to make the MOD leaner and more efficient. Customers across defence are looking to drive further operational benefits and savings through more innovative ways of working with industry, including strategic support supplier partnerships. The MOD continues to develop the Whole Force approach, ensuring that it makes best use of industry to support the front line, deploying forward when required.

The significant headcount reductions required across the MOD's civilian workforce provide further opportunities for the outsourcing of technical activities, underpinned by a government policy to outsource where it makes sense to do so. Currently there are a range of complex and technically difficult activities which could present opportunities for industry, such as areas where over 5,000 civilian personnel are employed by our customer in a range of industrial related roles.

International defence markets demonstrate varying degrees of maturity in their outsourcing activities, however all of the regions on which we are focused are expanding their provision for the delivery of equipment support and training by industry. We are currently working across the Group to support a number of opportunities in these markets.

## Strategy

Last year our strategy focused on winning, developing and expanding our business, and this proved successful with the integration of the Defence Support Group

(DSG), which has more than offset the loss of the Prime estate management contracts, and the achievement of a 100% success rate on contract retentions. In addition, we focused on operational effectiveness and capturing efficiencies to maximise our operating margins.

A key priority now is the delivery of revenue growth whilst sustaining existing operating margins. Our immediate strategic focus is on service delivery transformation, capability enhancement and growth through our strategic partnership with the UK Army, as well as securing business from the pipeline of existing and emerging defence opportunities.

We have a unique partnership status with the Army on equipment support and are working together on a collaborative partnering strategy approach for transformation, tailored for force generation and sustainment, manpower rebalancing, capability delivery and cost efficiencies through existing contract models and new programmes.

Having agreed a charter with BAE Systems to deliver Hawk aircraft platform support growth, we are widening relationships with OEMs. We are also using the resources of the wider Group to assist in winning new opportunities, such as the recent contract to support the Royal Navy's entire helicopter fleet.

Since establishing and resourcing our international capability with in-country teams, we have taken a number of steps designed to develop defence markets in key international territories.

We continue to evaluate new defence and non-defence markets that complement the Babcock business model and will continue to assess potential acquisitions both in the UK and overseas. We believe that these opportunities will also create scope to leverage our current capabilities into adjacent non-defence markets.

## Financial review

Revenue for the Defence and Security division, including the Group's share of JV revenue, increased by 4% to £843.1 million (2015: £812.8 million). Revenue growth was driven by the early start and procurement phase of the Defence Support Group (DSG) business, combined with the Aviation and Engineering Support and Airfield Services (AESAS) contract and the start of the UK Military Flying Training System (MFTS) fixed wing contract in the fourth quarter of the year.

Total operating profit for the division increased by 2% to £131.3 million (2015: £128.7 million). Operating margins were slightly lower at 15.6% (2015: 15.8%), reflecting the lower margins on the procurement phase of DSG.



## Positive first year: DSG

It has been a positive first year for DSG, with progress in line with expectations and the continued delivery of services required by the customer whilst undertaking a programme to transform the performance of the business.

All seven contractual transformation milestones have been met in full enhancing the improvements to the way we deliver services to the MOD. The move from MOD to our own IT system has been achieved with the migration of 30 data centres and applications. We have optimised our estates footprint and sized the business in line with efficiency savings we committed to the MOD. This year a Usage Monitoring System pilot phase was approved by the customer and equipment fitted to 14 equipment types in advance of the roll out to 2,650 MOD equipment units in all areas of operation. This will include the UK, Germany, Canada and Kenya.

**Operational review**

Our Air business continued to deliver a strong operational performance with all contracts performing in line with our expectations. Support to UK military flying training remains a core element of our service delivery and Ascent, our joint venture with Lockheed Martin to deliver UK MFTS, was awarded a contract worth c £0.5 billion (Babcock share), to deliver and manage the fixed wing flying training service until 2033. This was followed in May 2016 with a further contract awarded to Ascent (c £0.4 billion – Babcock share) for the delivery of a similar service for rotary wing flying training.

We continue to support current military flying training through our Hawk contracts. We concluded our sole source negotiation with the MOD at the end of 2015 and were awarded a five-year contract worth around £50 million to support Hawk T2. We have continued to develop our relationship with BAE Systems in support of Hawk aircraft.

We reported last year that we would develop our capability in military rotary wing support through collaboration with MCS. This proved successful, and we were awarded a five-year £20 million contract to deliver AESAS to the Royal Navy at Yeovilton and Culdrose. Under AESAS we

will provide forward maintenance and aircraft engineering to all rotary wing aircraft types in Royal Navy service, as well as general airfield engineering services and support to aircraft operations.

The DSG contract with the MOD started on 31 March 2015. This is a first generation 10-year outsourcing contract to maintain, repair, overhaul, and to provide stores and spares procurement services to land equipment, ranging from small arms to main battle tanks, delivered from seven main sites across the UK. It included the transfer of 1,950 staff into Babcock on 1 April 2015 and involves working with the Army to transform the equipment maintenance of its fleet of vehicles progressively over the life of the contract.

The contract has performed very well, and has already delivered growth in excess of £50 million, including a project to deliver 116 armoured vehicles to Latvia and the start of work with Lockheed Martin in preparation for the Warrior Capability Sustainment Programme. We have also taken on additional responsibility for the procurement of spares and repairs, earlier than planned.

In its first year of operation, the DSG team has delivered 50,000 maintenance and overhaul activities, day-to-day management of a training fleet of

1,000 vehicles and management of the Army’s stored fleet of 6,000 vehicles. The transformation is on track with all contractual milestones met and the cost base is being transformed.

We secured the six-year Phoenix II contract to provide fleet management services to the MOD – a successor to our earlier Phoenix I contract. In addition to consolidating the ‘white fleet’ services in Germany and Northern Ireland, Phoenix II has the potential to include international operations in Cyprus and Gibraltar.

Our ALC joint venture with Amey continues to perform strongly, with the C-vehicle contract acknowledged as an effective and flexible service in the provision and support of the MOD’s worldwide fleet of 2,000 construction vehicles. We successfully completed the regeneration of C-vehicle equipment returning from Afghanistan.

Within our training operations, under the Electro-Mechanical Training contract we successfully completed the move of the Royal Electrical and Mechanical Engineers (REME) training from Bordon and Arborfield to MOD Lyneham, Wiltshire. This involved the recruitment of over 300 staff and the safe move of c 250,000 pieces of equipment, ranging from spanners to tanks.

At the Armour Centre in Bovington and Lulworth, we were awarded a follow-on contract to provide Training, Maintenance and Support Services (TMASS), which runs for three years from 1 April 2016. Together with DSG, this puts us at the heart of delivering the UK’s Armoured Vehicle capability.

Performance at the Royal School of Military Engineering (RSME) continues to remain at the highest level; the contract is closely monitored and measured against 147 performance indicators and so it is a significant achievement that there have been no KPI failures in the last three years. The RSME won two City & Guilds Lions awards in 2015/16: Tutor and Centre of the Year, and the Happold Brilliant Award for Excellence in Training.

The Fleet Outsourced Activities Project which delivers wide-ranging training services to the Royal Navy has completed its fourth year of strong



**TMASS II**

The Land business unit has been awarded a three-year contract to deliver training, maintenance and support services at the Armour Centre at Bovington and Lulworth. The new contract, Training, Maintenance and Support Services (TMASS), known as TMASS II, replaces and builds upon the requirement within the current TMASS contract which we began delivering in 2008. TMASS II commenced in April 2016. Winning the successive contract builds on our extensive experience of working with the Army at the Armour Centre and is a reflection of the excellent standards maintained by our TMASS staff at Bovington and Lulworth. The next three years will see wide-ranging change as new vehicles are introduced to the Army and we work with our customer to develop and improve the training we deliver and the support we provide. There will also be internal reorganisation of the Army that is likely to see an expansion of the training undertaken at the Armour Centre.

performance. We have continued to operate the contract below its target cost and have seen significant growth since service commencement.

A key strand of our ongoing support to the Royal Navy is the transformation of its engineering training. The first cohort trained in mechanical engineering courses at HMS Sultan are now in operational roles at sea and feedback on their performance has been most encouraging. Training utilising the transformed delivery and content development for the equivalent weapons engineering course at HMS Collingwood is nearing completion with the initial group of technicians having entered the Fleet in April 2016. The transformation project has proved challenging but has allowed us to introduce a series of innovative approaches to training with noticeable enhancements being an increase in the use of imaginative and stimulating on-line learning supported by facilitated instruction.

Following the successful conclusion of the Hunter Training Project contract for the Royal Saudi Naval Forces through BAE Systems Saudi Arabia in June 2015, its successor, the Hunter Training Project 2, is now underway and will run until 2022.

### Sustainability

To broaden and deepen experience, 55% of our talent pool were promoted or moved into a stretch role within the last year. Middle and senior managers continue to secure and participate in the Group's bespoke management, leadership and MBA programmes with the University of Strathclyde.

Committed to the 5% Club, apprentices continue to be a key element of our recruitment strategy. We have expanded our provision for Aviation Technicians and maintained the significant commitment to mechanical engineering apprentice development within Babcock DSG. The quality of our apprenticeship development has been recognised this year, with Defence and Security apprentices winning the MOD's Sir Henry Royce award for Engineering Excellence, the Tom Nevard Memorial Competition and the Sir David Cardwell memorial prize.

Graduate recruitment across engineering, functional and business management

has increased. Our two-year development programme kick starts the graduate career, with each graduate working in four different areas of the business. The graduates are actively managed through early talent identification. Working within the Group framework we have targeted partner Universities, each with a University Liaison Officer and programme designed to promote opportunities to students from social and ethnic minority groups. 37% of 2016/17 graduate intake was female.

Our 'Target Zero' and 'Don't Walk By' safety programmes continue to reduce both our accident numbers and severity rate. The Air business unit delivered a 50% reduction in significant events (>3 days) and there was a 21% reduction in all accidents within the Land and Sea business units. The post-acquisition introduction of the Babcock Safety culture and the Babcock Safety Lens into Babcock DSG has reduced accident numbers in both frequency and severity by over 50% within the year. For the fifth year running our joint venture company, ALC has received the Occupational Health and Safety Gold Award from The Royal Society for the Prevention of Accidents.

We continue to seek to reduce the environmental impact of our activities. The MOD Phoenix management team has implemented a Carbon Reduction Initiative, with 10,800 trees planted across 22 acres of marginal land to capture carbon and offset some 3,000 tonnes (8%) of the CO<sub>2</sub> produced by the vehicle fleet. Our Smart Buildings Project is forecast to deliver a 20% reduction in energy usage across our estate. Our Renewable Energy strategy includes renewable energy source implementation feasibility studies across our estate during 2016.

Employing over half of the Group's Volunteer Reserves and co-ordinating the Group Reserves support, we are a major recruiter of Volunteer Reserves and Service Leavers. We monitor our commitments to the UK Armed Forces Corporate Covenant. We support Armed Forces Week, Reserves Day and provided direct support to Armed Forces Day at Medway, Bovington and Bordon. We are committed to the Whole Force concept

and the provision of company Sponsored Reserves. Our commitment was recognised with a Defence Relationship Management Gold Employers Award in January 2016.

### Outlook

Following the award of the AESAS rotary wing contract, the UKMFTS fixed and rotary wing contracts and the good progress made in the first year of the 10-year DSG contract, which included winning additional responsibility for the procurement of spares earlier than expected, we believe the division is well positioned for strong performance in 2016/17.



### Advanced pilot training for UK military

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.

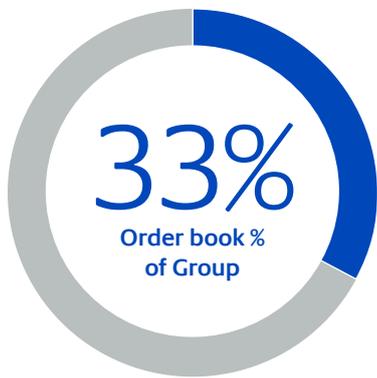
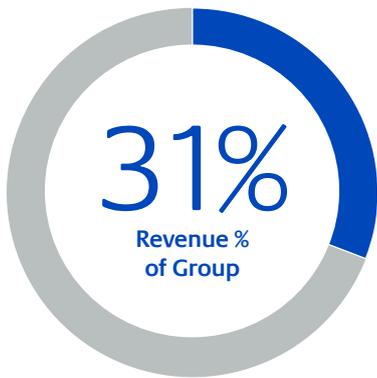
Our key activities include the delivery of pilot training, flight simulator maintenance, asset management, multi-activity support services and equipment support to ensure aircraft, and their pilots, are always mission ready.

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.

# Trusted to deliver in complex and critical markets

The Support Services division continues to deliver growth, both in the UK and overseas, through combining technical and engineering expertise to deliver value to customers. Its growth plans are targeted on clearly defined markets and underpinned by investment in core capabilities.

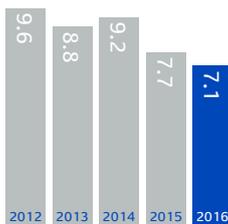
## 2016 performance highlights



### Strategy in action

- Cavendish Fluor Partnership completed consolidation phase of Magnox decommissioning contract for 12 nuclear licensed sites
- Additional work awarded to the Cavendish Dounreay Partnership
- Cavendish Bocard Nuclear selected as preferred bidder for EDF's new build programme
- Airports business expanded with new international airport fleet management contracts; five-year contract with Alitalia, Italy's largest airline, at Fiumicino Airport in Rome
- Skills and Learning won new contracts in UK and Middle East
- Innovative driving simulator delivered for London Fire Brigade
- Completion of Bathampton electrification; largest project on Great Western Mainline for 40 years
- Media Services' expanded capabilities attracts new customers

Operating margin (%)



7.1%



Revenue growth



+15%

Technical training for the LFB until 2033

## Market overview

The Support Services division delivers services to both public and private sector customers across three key areas: civil nuclear, asset management and technical training. We believe our markets remain attractive, with existing and potential customers continuing to seek outsourced solutions to reduce their cost base.

In the UK, the civil nuclear market remains resilient. We value the addressable market per annum at around £2.3 billion, with opportunities for both decommissioning and new build services providing scope for growth, albeit the timing of new build activity remains affected by uncertainty on funding routes.

We anticipate that outsourced spend on the management of complex fleet and equipment is likely to increase, particularly within the emergency services sector as the Government's new cross-service collaboration agenda comes into force. We believe we can address a greater part of this market as a result of our increased capability to deliver specialist vehicle conversion services following the acquisition of MacNeillie in February 2015.

Demand for our technical training services remains high, as demonstrated by recent activity in the rail and utilities markets. We currently value the UK technical training market at around £1.3 billion, and anticipate further growth opportunities from the new apprenticeship levy. We believe this will trigger large scale employers to review how they acquire and develop their workforce in the most efficient way, and provide greater funding visibility.

We see significant international opportunities in our core growth markets; most notably in the areas of complex fleet management, and technical training, where we have built a sizeable pipeline of visible opportunities and routes to market.

## Strategy

The division's strategy is well established and continues to deliver results in line with the Group's wider strategic objectives. Activity remains focused on our core markets, where we continue to develop and leverage long-term customer relationships, and invest in people and capability to maintain relevance and differentiation in the market place.

Growth in our core markets is underpinned by a strong order book and a pipeline of opportunities. We support delivery through continuing to develop our capability, either organically or through selected acquisition, and by harnessing expertise and best practice from across the Group. We also continue to maximise value from integrating the additional capabilities and access to customers provided by recent acquisitions in the fleet and equipment management sectors.

Recent successes outside the UK have confirmed our ability to support international expansion. We will continue to pursue international opportunities, targeting those markets where we can demonstrate well-established capabilities and a track record of delivery. We will draw upon the Group's increasing international footprint to provide customers with the benefit of local teams combined with operational expertise and scale, leading to more attractive value propositions.

## Financial review

The Support Services division continued to deliver strong growth in revenue, which increased by 15% to £1,513.0 million (2015: £1,316.4 million), driven by the first full year of the Cavendish Fluor partnership's operation of the Magnox decommissioning joint venture. Growth in Rail, Education and Critical Services more than offset the relatively small decline in Power.

Revenue growth drove operating profit growth, noting however the effect of the lower margin recognition in the early years of the Magnox contract. The £7.5 million gain on the sale of the Lewisham

BSF joint venture is included in the operating profit for the year and represented £4.7 million of underlying profit in the prior year.

## Operational review

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

Following the award of the 13.5-year Magnox and RSRL decommissioning contract in 2014, the Cavendish Fluor Partnership – in which Cavendish Nuclear is the lead partner – has completed the consolidation submission phase of the project, embedding the new contract programme across the 12 licensed sites. The contract team has delivered a number of successes, including the successful operation of the Wylfa power station, followed by taking the reactor offline in December 2015, and the early completion of the defueling project at the Oldbury site.

At Dounreay, the Cavendish Dounreay Partnership continued to make good progress, with key milestones such as the shipping of breeder elements from storage to Sellafield and the transfer of waste packages into underground disposal vaults being achieved on, or ahead of, schedule.

Significant additional scope has been introduced to the programme, following the change in the Government's national strategy for the consolidation of nuclear materials. This year saw the first shipments take place ahead of schedule.



## Making progress in Magnox

After c 45 years of safe operations, Anglesey's Wylfa nuclear power station closed down, marking the conclusion of Magnox reactor generation in the UK and a key milestone in the 60-year programme.

Wylfa is one of 10 Magnox sites successfully managed by the Cavendish Fluor Partnership, a joint venture between Cavendish Nuclear and Fluor Corporation. Wylfa will now move into defueling and decommissioning as an active site in the programme of decommissioning and clean-up work.

A technically complex project, Dounreay aims to be recognised as the pre-eminent reference site for decommissioning in Europe.

As part of its existing Lifetime Support Agreement with EDF, Cavendish Nuclear successfully supported a major planned outage at the Dungeness power station delivering a complex maintenance programme and ensuring the station was brought back to power generation on time and within budget.

Major design and construction projects to aid decommissioning at both Sellafield and Magnox power stations continue to be delivered to agreed programmes and budget. This includes winning future phases for two major projects, securing work for the next three years. At Atomic Weapons Establishment (AWE), Cavendish Nuclear built on its existing relationship with the customer, signing a five-year contract to decommission a further facility within its site.

In nuclear new build, EDF announced the selection of the Cavendish Boccord Nuclear joint venture as the preferred bidder for a key component to the Hinkley Point C programme, the Balance of Nuclear Island mechanical package. Funding and legislative issues have delayed the expected start date for this programme but the business continues to provide support in readiness for a final investment decision. Cavendish Nuclear is also pursuing additional opportunities in the UK new build programme.

Internationally, Cavendish Nuclear has continued to explore targeted opportunities for overseas work, and in November 2015 signed an international collaboration framework agreement with Hitachi-GE in connection with decommissioning activities in Japan.

Elsewhere in the division, the Critical Services business benefitted from the February 2015 acquisition of a specialist vehicle converter MacNeillie, which further strengthened our full life-cycle offering for the emergency services sector. The business was successfully integrated into our wider Resilience and Emergency Services business, increasing our capability. We continue to develop our tender to the Metropolitan Police service for the provision of fleet



### Cavendish Nuclear's year with EDF

Cavendish Nuclear is now a year into its Lifetime Enterprise Agreement with EDF Energy to provide engineering services to all eight of EDF's nuclear power stations for the remainder of their operational lives. Central to the partnership's success has been Cavendish Nuclear's technical expertise, our knowledge and engineering ingenuity which are all factors enabling EDF to extend the operating lives of their ageing reactors.

maintenance services. This would replace our existing repair and maintenance and vehicle conversion contracts, which have been extended to April 2017, and would include additional scope.

Also in Critical Services, our airports business continues to progress well. During the period we successfully delivered upgrades to the baggage systems in Heathrow Airport's Terminals 2 and 3, and completed major baggage system works at Gatwick's North Terminal.

Significantly, the division has made substantial progress in its plans to aid international growth, in cooperation with the MCS business. In March, we were awarded a five-year contract by Alitalia, Italy's national air carrier, to manage its fleet of over 2,000 assets at Rome Fiumicino Airport. The support provided by Babcock's established local MCS team, in combination with our track record of delivery, played a critical role in our ability to win the bid.

In Critical Services' Mining and Construction business, two of our customers – Lafarge and Holcim – came together in a merger during the summer of 2015. This led to the integration of a number of our existing contracts and also the sale of a number of UK sites to CRH. We continue to maintain these UK assets for CRH.

Our Skills & Learning business has secured a number of new training contracts, both in the UK and the Middle East. In the UK, we also expanded our delivery of apprentice training for the British Army, through a new contract with the Royal Armoured Corps and the Royal Armoured Veterinary Corps. We also won further five-year contracts

with BMW Group UK, to provide training for its dealer network, and with Network Rail, to deliver its advanced apprenticeship programme. Babcock was named Training Partner of the Year at the Science, Engineering, Manufacturing and Technologies Alliance (SEMATA) Skills Awards 2016, for our work with EDF Energy and Network Rail apprentices.

Also within Skills & Learning, our e-learning and virtual reality simulation business continues to experience high demand for its products. It secured business from a range of customers, including British Airways, Siemens and BAE Systems, and also supported projects across other Babcock divisions.

Babcock continues to invest in new technologies and capabilities to drive efficiencies in training. We have developed a state-of-the-art emergency services driving simulator for our 21-year London Fire Brigade contract, which will support the delivery of driver training across the brigade. We have also created a new centre of excellence to provide customers with access to high quality, innovative training course design.

In our Network Engineering business, the rail team has continued to perform well, delivering Network Rail's plain line track renewals framework contracts in the second year of the customer's five-year control period. Working with Network Rail, we completed the largest project on the Great Western Mainline for over 40 years. The team replaced 10.25km of track over a 46-day period as part of the Bathampton Electrification project, in preparation for the arrival of a new fleet of electric trains.

ABC Electrification, our joint venture with Alstom and Costain, continues to make good progress on projects including the West Coast Power Supply Upgrade, the Great Western Route Modernisation and the Edinburgh Glasgow Improvement Programme.

Also in Network Engineering, we experienced a reduction in revenue of £30 million in our Power business which led to a programme to restructure our operations in the first half of the year. However, four major 400kV overhead line refurbishment projects were awarded by National Grid during the year, three of which began mobilisation in January 2016.

Our Media Services business completed the integration of WRN Broadcast, acquired in February 2015, and invested in a new Master Control Room facility to expand our multi-platform offering. This enhanced capability has enabled us to attract several new customers. We recently signed a three-year contract with new customer, Perform Group, to distribute live and on-demand sports coverage to any device in Japan and Germany, with further countries expected to be added next year. Meanwhile the BBC World Service contract and short-wave radio contracts continue to perform well.

The Education business successfully expanded its footprint, mobilising a five-year £38 million contract with Worcestershire County Council to deliver education support services to around 240 schools in the county from October 2015. We also successfully launched an on-line product – Better Governor – expanding our presence in the digital market.

### Sustainability

During the year we made further progress on our people agenda, embedding our 'being babcock' guiding principles and introducing a range of Respect initiatives to progress diversity within our business.

We remain committed to developing our future leaders, and this year a further 15 people joined our divisional talent development programme which offers development opportunities for over 40 leaders. To date, 45% of participants have moved into more senior roles since joining the programme.

In September, 25 graduates joined the division, taking the total number of graduates on our two-year programme to 65.

We introduced a new aligned programme to ensure all graduates have the opportunity to network with colleagues across the division and benefit from a richer training experience and a wider choice of career paths.

Our apprenticeship programme also proved popular, with 46 new apprentices joining the division this year, swelling our intake to 132. Opportunities range from Motor Vehicle Technician to Civil and Mechanical Engineering, and this year we introduced Higher Apprenticeships.

This year, we've also provided financial support to fund first-aid training for approximately 8,500 school children across Devon and Surrey, and our financial assistance has delivered life-saving skills training to over 1,450 Not in Education, Employment or Training (NEET) young people in Lewisham. We also support independent educational charity, the Smallpeice Trust, working with over 100 13-14 year olds on the trust's three-day residential rail engineering course.

Excellent health and safety remains a core part of our strategy and this year continued the trend of improvement. Over the year we pursued more collaborative and consistent ways of working across the division and the Group, with a strong emphasis on supporting supervisors and line managers to develop and lead by example. At the heart of this is the development of standards and pro-active measures of performance. Our All Injury Frequency Rate improved by 14% from the previous year. However, we continue to challenge our Over Three Day Lost Frequency Rate, with a strong focus on incident investigation and lessons learned to deliver continuous improvement.

### Outlook

We believe that demand for outsourcing solutions remains strong in our chosen growth markets of civil nuclear, fleet management and technical training. We are confident that our well defined capabilities and proven track record of delivery in complex and critical environments will prove attractive to

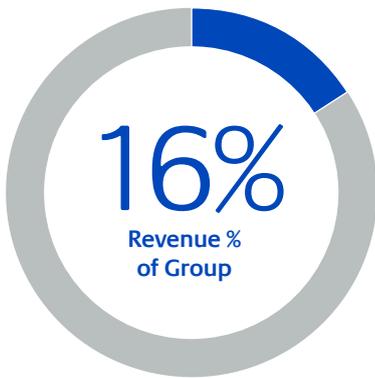
existing and new customers. We believe our deep technical knowledge, strongly aligned to customer requirements, provides us with a distinctive and compelling offering.

As previously indicated, the scheduled reduction in revenue next year in the Magnox and Dounreay decommissioning contracts of around £100 million is expected to result in low single digit revenue growth for the division in financial year 2016/17. We remain confident that the division is well placed to pursue the substantial opportunities available in the UK and internationally.

# Increasingly international critical services

The division remains focused on continuing to develop our aviation emergency services business, Mission Critical Services (MCS), and to grow our position in South Africa, where we are a leading supplier of engineering support services. We will look to grow by continuing to offer differentiated services to customers in our current markets, and by entering new markets, selected on the basis of their fit with our capabilities and goals.

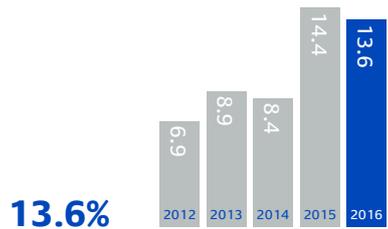
## 2016 performance highlights



### Strategy in action

- Successful start of the Ambulance Victoria emergency medical service contract in Australia
- Two-year contract extension signed with SASEMAR, the national search and rescue service in Spain
- Started operations in Africa, providing oil and gas crew change services to ENI in Ghana and Mozambique
- Celebrated 100,000 flight hours at Helidax joint venture, a long-term contract with the French Defence Ministry to provide helicopters for army pilot training
- Renewed four emergency services contracts in the UK, won new air ambulance contract for France's Languedoc region
- Won a contract for the sole supply of mobile cranes to Sasol in South Africa
- South African transmission business awarded three major contracts for around 300km of new line build

### Operating margin (%)



### Revenue growth



Providing critical emergency services in Emilia Romagna

## Market overview

### Mission Critical Services (MCS)

In our Emergency Services business, which delivers vital services to national and regional governments in Europe and Australia, we have maintained leading positions in all of the countries in which we operate. This market remains attractive and has continued to trade well throughout the year, as demonstrated by a number of recent contract wins and important rebids and extensions.

We continue to see new emergency services opportunities, including air ambulance, search and rescue and firefighting in our existing markets and in adjacent geographies. We also see opportunities to assist in the provision of support services to the defence sector in Europe, and have delivered complex projects to upgrade national government fleets in Spain, France and the UK. MCS is participating in Unmanned Aerial Vehicle (UAV) technology, developing our own prototype for surveillance and firefighting coordination tasks.

In Oil and Gas, the market for outsourcing has suffered from the continuing weakness in the oil price which has led to a reduction of capital expenditure by the industry, particularly in services related to hydrocarbon exploration activity. As reported previously, this has resulted in exploration-related contracts not being renewed or being delayed which has resulted in a decrease of activity. However the majority of our services to this sector are related to oil and gas production from existing facilities where operations – and therefore the requirement to fly oil and gas workers offshore – continue. MCS continues to benefit from long-term production-related contracts in the UK North Sea and the Australia.

Despite the low oil price environment contracting activity has not ceased; we have continued to win new contracts, and have increased our geographic footprint in Africa with a strategic customer led entry in Ghana and Mozambique through two new long-term contracts. We are taking action to reduce costs, grow presence and offer solutions which are integrated with the wider Group and to continue to leverage international revenue synergies.

### South Africa

South Africa experienced tough trading conditions in 2015/16 as a consequence of the economic fallout from declining commodity volumes. The ongoing slowdown in Asian economies had a major impact on the mining markets, resulting in equipment and automotive markets falling by over 30% during the year, and the currency weakening 30% versus Sterling.

Power generation and distribution in the region remains a challenge due to an ageing fleet of fossil fuel fired power stations and project delays on the two new stations of Medupi and Kusile. This has provided us with an opportunity to provide maintenance and breakdown services under our long-term Eskom contract. The need to distribute the new power as it becomes available has seen an improvement in the transmission line market with a number of new project opportunities coming to market.

Our African export markets remain subdued as most of them have been impacted by headwinds in the commodity sector, and oil price weakness has impacted the timing of the exploitation of offshore gas fields in Mozambique. Despite this, we have made considerable progress during the year in creating a platform which should allow us to benefit from future expected growth in the region.

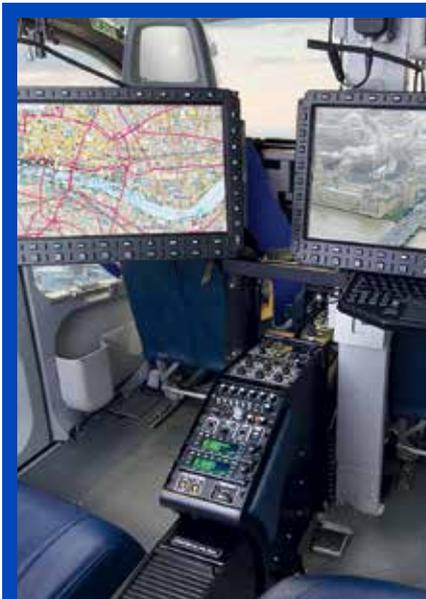
## Strategy

### Mission Critical Services

MCS is one of the world's leading providers of aviation services for mission critical operations, helping to protect people, places and communities around the world. We deliver complex, critical and bespoke aerial services to governments and blue chip companies in Europe, Australia and Africa and have market leading positions in the geographies we serve, underpinned by our commitment to safety.

We are looking to grow by continuing to offer differentiated services to customers in our current markets, and by entering new markets, selected on the basis of their fit with our capabilities and goals. We deliver fully integrated rotary and fixed wing services, and we believe the depth and breadth of our activities and experience enables us to adapt to meet our individual customers' precise needs. Our focus on deepening our close relationships with customers through our local operating companies has proved successful, with customers seeking to take us into new territories, such as with ENI in Ghana and Mozambique.

As a part of the Group, MCS is able to provide a wide range of capabilities, allowing us to provide more complex,



### Most advanced police helicopter handed over to NPAS

Bond formally handed over the first of seven redesigned and upgraded EC135 T2+ helicopters to the National Police Air Service at Helitech International.

The aircraft features a new custom-designed mission suite with a range of integrated technologies including a next generation mission management system, advanced and integrated communication systems, on-board computing and EO/IR sensors, making it the most advanced police helicopter platform available today.

The West Yorkshire Police and Crime Commissioner Mark Burns-Williamson, who chairs the NPAS National Strategic Board, said: "Air support is very important to policing; it can help save lives and catch criminals and this helicopter has some of the best kit available to help support the police in their work."



**MCS driving world-leading innovation with UAV research and development**

Xunta de Galicia has awarded INAER Spain with a pioneer contract in Europe to create a centre of reference in the research and development of Unmanned Aerial Vehicles (UAVs). The programme was competitively won with contenders such as Airbus and Boeing. The joint investment will amount to a total of €115 million and it's expected to generate 600 new jobs in Galicia. As an additional benefit to the community, the contract will include 18 local companies in Galicia across different fields that include 14 technology centres and three Galician universities. The aim is to have "a complete industrial and technological hub".

Alberto Núñez Feijóo, President of the Xunta of Galicia said: "With the creation of this industrial hub, Galicia will become one of the world's leading regions in the research, development and manufacturing of UAVs".

integrated solutions for our customers. Our strategy is to extend our position within our customers' value chains, develop strategic relationships with customers based on partnership, create leading positions in new markets with existing customers and use targeted acquisitions to develop new capabilities, whilst driving operational and cost efficiencies to deliver improved value.

Babcock's business development teams in Spain, Italy and France have begun to identify new opportunities where we can combine the expertise of our local MCS management team with Babcock's track record of delivery and broader capabilities, such as the award by Alitalia of a new five-year airport fleet management contract at Fiumicino Airport in Rome, the first win for the Support Services division in Italy.

**South Africa**

In South Africa, our power business continues to focus on being the preferred supplier to the national power company Eskom. Eskom has a continual struggle to meet demand and this provides opportunities for our power generation business. During the year we have doubled the volume of engineering and life extension work done at the power stations and have continued to improve efficiencies

on maintenance outages. In addition, we have been able to extend our work done on high pressure piping on the new Eskom Kusile power station to a second unit and our objective is to extend this to the remaining four units providing a base load of high pressure piping work to end 2018.

Outside the power business, our equipment business continues to gain market share, which grew substantially this year, while containing costs through improved efficiencies. The downturn in commodity prices has resulted in an increase of parts and service sales as customers seek to extend equipment life. We were awarded an exclusive dealership for the Southern African region by Volvo, following its purchase of Terex trucks. At the same time, we are continuing to win market share in the value segment with the Volvo owned Chinese SDLG brand and are now the leading brand in this segment in the country.

In the crane rental market, lack of construction work has seen demand fall by 40%, with a resultant drop in rates. We have worked hard to increase crane utilisation at these lower rates, leading to a 3% increase in utilisation whilst we increased market share by 35%. We will look to gradually increase rates as and when demand grows.

**Financial review**

The International division's revenue declined by 3% compared to the previous year, to £790.1 million (2015: £811.4 million), reflecting the impact of weaker oil and commodity prices on both the MCS and South African businesses and a movement in exchange rates. As a result, operating profit declined by 8% to £107.6 million (2015: £116.8 million), with the division achieving an overall margin of 13.6%. At constant exchange rates, organic revenue and operating profit were flat.

Our South African operations faced a challenging macro-economic environment throughout 2015/16, with low commodity prices and subdued export markets affecting the Equipment and Trucks business, which nevertheless continued to increase its share of the market. The increase in revenue of 6% at constant exchange rates could not offset a fall in profits of 20% reflecting the margin pressures in the equipment business offset by the growth in the Power business.

MCS reported revenue for the period of £548.3 million. Excluding pass-through costs which are recharged to the customer with no added margin and at constant exchange rates, organic revenue softened by 1% year-on-year.

On the same basis, revenue from emergency services operations grew by 5%, reflecting both contract wins and the growth within existing contracts, offset in part by lower firefighting in Spain. The significant headwinds in the oil and gas business have continued through the year. Revenue for MCS' Oil and Gas services business declined by 13% year-on-year with reduced flying hours and little exploration.

MCS' profits reflect the revenue change, but the actions taken to improve synergies and deliver efficiencies across the business have resulted in the margin being broadly maintained at 17.3% (2015: 17.8%).

## Operational review

### Mission Critical Services

Over the last financial year, MCS has maintained a high contract win rate of over 70% including rebids, winning 66 contracts and extensions with a total value of around £510 million.

Our Emergency Services business has continued to make good progress. As a result, and with the full period effect of contracts awarded during the prior year, the Emergency Services business grew 5%, at constant exchange rates in 2015/16.

Contracts awarded during the period include a further two-year extension of the search and rescue contract operated for SASEMAR on behalf of the Spanish Central Government. With a total contract value of £60 million, it includes the operation of 11 helicopters and three planes, most of them in service 24 hours a day. These aircraft carried out more than 570 operations and rescued more than 290 people during 2015.

In the UK, Bond Air Services has renewed four emergency services contracts, several including an increase in scope or upgrade of equipment. In February, we were awarded a contract by existing customer Wales Air Ambulance Charity to provide pilots, engineers and three brand-new custom-configured H145 helicopters. Equipped for night flights, the upgrade from their existing fleet of H135s moves the charity a step closer to its goal of providing a 24-hour air ambulance service.

In France, as part of the French Ministry of Health's new process of placing regional tenders, we have been able to secure a new long-term HEMS contract for the Languedoc Region where we will be providing the service with four additional aircraft. In Australia, the 10-year contract with Ambulance Victoria for the Victorian Government began to ramp up operations in January, after a successful complex mobilisation which included the delivery of five new AW139 twin engine helicopters. Our Australian business was also awarded a three-year extension by the Government of South Australia to continue operating the State Rescue Helicopter Service. The extension also includes the provision of a replacement

helicopter with improved range, payload and cabin space, and an upgrade of the remaining two helicopters to ensure their continuing compliance with aviation safety standards.

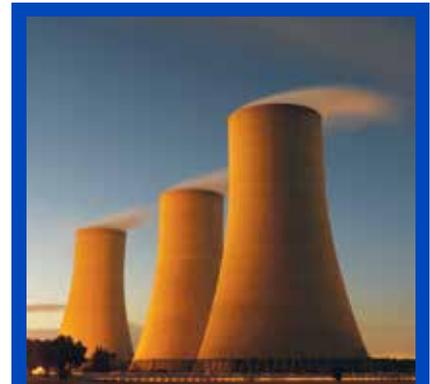
In the firefighting market, the Spanish Central Government awarded MCS a new contract to deliver a nationwide aerial firefighting service in Spain. In Portugal MCS was awarded a three-year contract to operate two Canadair CL215s for the Central Government during the fire-fighting season.

MCS is also growing its support to the defence sector in Europe, delivering complex projects such as the life extension programme developed for the Spanish Navy. The programme to upgrade seven AB212 helicopters with the latest technological and avionics advances will extend their operating life by at least 15 years. In the UK, we formally handed over the first of seven redesigned and upgraded H135 T2+ helicopters to the National Police Air Service.

Having been unsuccessful in our first defence bid earlier this year, the Pelican project, we have taken steps to improve our ability to structure tenders designed for national European governments. Recently, MCS was awarded a pioneering contract by Spain's Galician government to create a centre of reference for the research and development of UAVs which will provide surveillance and firefighting prevention services to the civil sector. The project was won in a competitive tender against large OEMs.

In April 2016 we acquired Heli Aviation, a German provider of mission critical helicopter services for around £11 million. The business not only provides MCS with an entry into the domestic German emergency services market but also provides non-governmental organisations and government agencies services for relief missions, delivering food, medical supplies, doctors and rescue teams to remote locations outside Europe.

In Oil and Gas, despite headwinds from the lower oil price we have been able to increase our customer portfolio, winning a new North Sea contract and a new customer in Australia as well as extensions of existing contracts. This will largely offset the weakness in



### Complex systems at Eskom Kusile

Following the completion of the design, manufacture and assembly contract for the replacement of the main steam pipework at Matimba Power Station, Babcock was awarded the contract for the balanced erection of five high pressure pipework systems at Kusile Power Station by Mitsubishi Hitachi. Babcock will perform the complex rigging and geometrical alignment of the piping for the main steam and hot/cold reheat systems that deliver steam between the boiler and turbine, together with feed water and auxiliary systems. We are proud to be providing our trusted expertise for a large complex programme of work, which, once completed, will be the fourth-largest coal-fired power station in the world.

the Oil and Gas sector's flying hours in the coming year.

MCS has also increased its geographic footprint in Africa with a strategic customer-led entry into Ghana and Mozambique through two new long-term contracts with a total value of around £80 million. The Group's existing presence in South Africa played a key role for our successful entry into both countries.

However, we experienced delays and cancellations in the North Sea and Australia, particularly in services related to exploration.

We are currently working to capture the benefits of the systems and expertise of

the wider Group through collaboration in a number of areas including training, information systems, safety management, improved asset management capability and access to a much broader pool of expertise and resource across the business. In Italy, our team played a crucial role in winning a new airport services contract with Alitalia at Rome's Fiumicino Airport, worth around £5 million per annum, in collaboration with Support Services division colleagues in the UK, and MCS supported the Defence and Security division's successful bid to provide forward maintenance and aircraft engineering for the Royal Navy at air stations in the south west of England.

We now have significantly greater abilities to lease and finance aircraft at lower cost, our pipeline of opportunities remains stable and robust and we are utilising Babcock's experience to optimise our bid management systems. We are working together to capture economies of scale and additional savings, particularly within procurement, fleet rationalisation and engineering.

The new IT systems will enable extensive business change across maintenance and engineering, including airworthiness management, maintenance planning and execution, logistics, warehousing and purchasing, and also has a significant

impact on finance. The new system will be set up to achieve measurable business benefit through the implementation of common best practice, business processes and shared data across the MCS group.

#### South Africa

The economic crisis that the country has found itself in has had a material effect on operations. However, in spite of the headwinds, we have made progress in increasing market share in our core markets of equipment, trucks, portable generators and rentals. The 6% increase in revenue reflects increased market share in Equipment, with Power also growing well; however there has been a 20% reduction in profit driven again by the equipment business margin pressures.

During the year we have undertaken preliminary activity in Zambia, Namibia and Botswana to take advantage of anticipated growth and in Botswana, in particular, we have opened a new Babcock owned dealership in preference to an independent sub dealer. In Mozambique, we have agreed a joint venture with ENH Logistics, the state owned enterprise responsible for developing the sovereign oil and gas reserves. We believe these steps will provide a platform for future growth in the country.

### Sustainability

#### Mission Critical Services

We take care of our people and the communities we serve. Our commitment to the safety and the development of our team of professionals who operate the critical and complex missions which save lives and protect the environment has resulted in initiatives such as the Talent Programme, designed to provide an active talent pipeline to support the growth of the business.

2015 has been a year of significant development and change for MCS and we have achieved some notable achievements in our Safety Strategy such as a continued increase in safety reporting rates, completed 99% of audits, significant improvement across the operating companies on audit closure rates and NCR management tracked at operational reviews. We have: implemented MissionMode incident management and notification software; developed an Internal Evaluation Program and Safety Management System audit checklists based on IOSA standard; made preparations for Vision Monitor KPI Mark two; continued implementing Q-Pulse safety/quality database; and configured of the Air Maestro scheduling and rostering platform.



#### Sasol maintenance contract

After 20 years of providing plant and support services to Sasol, Babcock is providing 50 cranes on hire and support services for the biggest plant shutdown to date for the Sasol One site in Sasolburg. All production will be suspended for the duration of the shutdown while over 27,000 maintenance tasks will be taking place requiring the equipment. Around 100 rigging teams of over 3,300 additional people will be ensuring the project is a success. Babcock will be providing a range of technical cranes with capacities of between eight and 500 tonnes which will be utilised in all the rigging activities.

Babcock's plant services business is the largest powered plant service provider in the country and the only operator with ISO 9001, 14001 and 18001 accreditation. We are working closely with Sasol to ensure that critical task is completed on time and budget, safely.



## 22 people rescued at sea in Spain

A complex mission carried out on behalf of SASEMAR and Xunta Galicia:

The Panamanian vessel, which was on its way to Le Havre from Gabon, got into difficulties off the coast of Cabo Ortegal. The crew arrived to find the 163m-long vessel listing at 40 degrees in Force 8 winds and heavy seas. These factors, as well as the distance from shore, made the rescue extremely difficult. Numerous rescue services were involved, including the Vivero, Gijón and La Coruña SAR bases and the INAER-operated Sasemar aircraft, as well as the National Rescue Coordination Centre, Cross ETEL and the Rescue Coordination Centre in Finisterre. The rescue was successful: the Helimer 401 helicopter winched 16 uninjured crew members to safety and took them to La Coruña airport. The remaining six crew were rescued by the Pesca 2 aircraft from Xunta de Galicia and were taken to Celeiro.

Whenever possible, MCS companies open their doors to the local communities, with primary schools and charity groups given the opportunity to get a closer look at the helicopters they see flying overhead each day and the pilots, engineers, rescuers, doctors and nurses carrying out these missions.

In the UK, MCS was recognised at the Armed Forces Employers' Awards ceremony, highlighting the support it gives to its staff who, as well as providing safe and effective mission-critical services at work, also give up their free time to serve their country. In Spain, the Minister of Development has requested the medal of the Order of Civil Merit for the crew of Helimer 401, one of our search and rescue helicopters. The team saved the lives of 11 crew members of the fishing boat Novo Jundiña, in an operation during the hours of darkness, in the midst of a storm, with eight metre high waves and a wind speed of 60 knots.

### South Africa

We are very proud of our continued health and safety performance during the year in the face of many social challenges including different cultures and languages in our workforce, and managing a transient workforce in our most dangerous environments. As a result, total injuries are down 33% on prior year.

We continue to support a number of corporate social responsibility programmes that include:

- funding 28 underprivileged children through private high schools
- sponsorship of four full-time student bursaries at South African universities
- support for an orphanage specifically for children who have lost parents through AIDS
- skills upgrading for science and mathematics teachers working in underprivileged areas

In addition to this we have staff development support including:

- 150 apprentices receiving training from Babcock
- 4 students on the Babcock MBA cohorts and a student on the Harvard development programme
- specially directed staff training programmes for skills upgrading and leading into the succession planning programme.

### Outlook

In MCS we continue to see significant prospects for growth in the Emergency Services business as we progress bids in our pipeline and opportunities in tracking that have yet to come to market. We are looking to build on our long-term

customer relationships and on our proven expertise and technology focus to create further opportunities for growth in new contracts, in existing contracts and in new geographies. However, as previously advised, headwinds in the oil and gas sector are expected to continue for some time with contract wins offset by reduced flying hours.

Following the end of the financial year, a tragic accident to an Airbus EC225 helicopter resulted in the grounding of the aircraft type by aviation authorities in the UK and elsewhere, with the exception of flights providing life and rescue services. Whilst it is too early to predict the effect of this accident on the division, we make no change to Group guidance.

In the South African business, the power generation and transmission market continues to offer opportunities, and we hope to extend our support services offering in the power sector. We continue to focus on growing our market share in trucks, construction equipment and rentals, developing the business in Mozambique and focused expansion of our export market.

We continue to progress the identified opportunities to grow Babcock's presence internationally, using our access to the wider Group's expertise and our local teams.

# Delivering and maintaining a sustainable business



Business sustainability is often described as resiliency over time. Our consistent focus remains on creating long-term value for shareholders through a strong and sustainable business.”

More now than ever, we understand that how we deal with our customers, our employees, our suppliers, the communities in which we operate and our impact on the environment is fundamental to achieving our plans and delivering performance. 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 is the UK’s leading engineering support services organisation with a growing, international footprint. We deliver in a range of markets and countries, operating and supporting complex infrastructure, equipment and training programmes. We are therefore required to consider a wide and complex range of stakeholders, interests and concerns. We look to do this by maintaining three overarching, underpinning and interlinking pillars of sustainability: profit and performance; people and potential; and environment and ethics.

We believe that we can sustain the long-term future of our business in ways that also serve the interests of individuals and local economies, for example: through apprenticeships, graduate schemes, training and general career development and succession opportunities across the Group. We 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. 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.

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.

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 success of the future of the Company. Last year we demonstrated Babcock’s commitment to diversity by hosting the Women In Science and Engineering (WISE) event in Rosyth, recognising the invaluable contribution made by women in engineering. Initiatives like these and our continued commitment to enhance our highly skilled and diverse workforce are intended to anchor us in a position to achieve and sustain our strategic aims.



Peter Rogers CBE  
Chief Executive

## Number of graduates

599

(2015: 530)

### Description

Number of graduates currently on a Group graduate programme.

See page 60 for more information

## Number of apprentices

714

(2015: 622)

### Description

Number of employees currently on apprenticeships across the Group.

See page 60 for more information



Critical maintenance of Hawk jet turbine

## 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.



Potential recognised with innovation in LPG design award

## 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.



Routine safety check on HMS Queen Elizabeth's flight deck

## 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 that we work in.

# Profit and Performance

The efficiencies that 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, 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 impacts 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 up-front 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 procurement activities is to achieve better value for our customers and shareholders through the delivery of effective and efficient sourcing activities. Savings targets are aggressive, 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.

Our supply base is over 10,000, however, we have strategic relationships with c 250 suppliers. 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 enable 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-add 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.

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 and 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 (DCPP). 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 forth in our Code of Conduct. In the reporting 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 which aims to enable all those working on, or visiting, Babcock operations to be able to return 'Home Safe Every Day'. 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 our 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 together 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.

# People and Potential

As our business expands, the development of our people is a critical part of our business strategy. To underpin and sustain our 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, for both now and in the future. This process is based on data and assumptions such as workforce demographics, attrition and business growth and feeds 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 the workforce. To check that we are achieving our objective, we seek feedback from our employees via a number of routes, for example, 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
- 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 the engineering sector 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 195 graduates for the 2015/16 intake under our Group graduate programme (2014/15: 186).

At the date of this report, we expect to recruit over 200 graduates for the 2016/17 intake. In addition to our Group graduate scheme, we recruit many graduates directly to management positions.

At 31 March 2016, there were 714 apprentices across the Group (2015: 622) of whom 232 were recruited during the year (2015: 206). The increase in numbers since last year demonstrates the commitment we have to apprenticeship training. Of those completing their training over 93.3% (2015: 85.8%) were appointed into substantive roles within the Group.

In addition to our well established intermediate and advanced apprenticeship programmes,

## Increase in apprentices

15%



## People and Potential

In October 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.

this year we have launched higher level apprenticeships in engineering and management with 47 apprentices currently on-programme. To support the continued growth of apprenticeships, in the coming year 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

As a Group we use 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 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: 18.9% (6,625) of our total workforce is female (male 28,425), with 20.6% (137) female senior executives (male 529), and two (16.7%) female Director' on our Board (male 10).

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 2016, 20% (2015: 22%) of those employed on our graduate scheme were female.

Last year we became a member of OUTstanding, a not-for-profit professional network for LGBT executives and their allies. Like us, OUTstanding understand

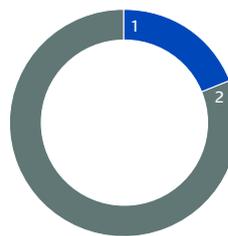
that it is executives that set the tone and culture of an organisation and their support at this level will support our diversity agenda. We have now become a founder member of UPstanding which champions equal opportunities for black, Asian and minority ethnic group (BAME) employees.

### Our commitment to the Armed Forces

In January, the 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.

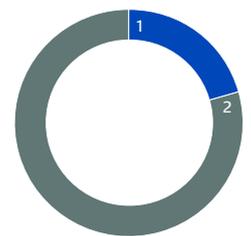
### Total workforce diversity

1. Female 18.9%
2. Male 81.1%



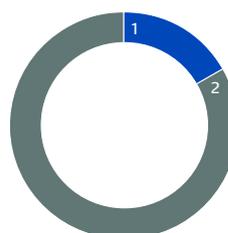
### Senior Executive diversity

1. Female 20.6%
2. Male 79.4%



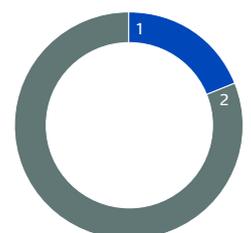
### Board diversity

1. Female 16.7%
2. Male 83.3%



### Graduate diversity

1. Female 20%
2. Male 80%



# 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.

More details of these risk management procedures can be found on pages 64 to 66, and the Ethics Policy and Code of Business Conduct on our website. Further information about our whistleblowing process can be found on page 66.

## 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.

## Ensuring safety

### Safety governance

Health and safety is a core value in our business. 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.

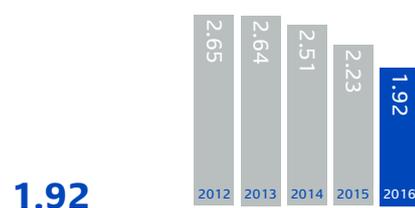
We also expect our managers to set personally a good example, listening to and involving others. We do not take shortcuts when it comes to safety.

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.

Divisional safety leadership teams and safety steering groups oversee implementation of policy, strategy and initiatives across all of our businesses.

Monthly performance reports are issued to the Group Executive Committee and half-yearly safety reviews are issued to the Board for discussion.

### Total injury rates per 100,000 hours worked



## Performance

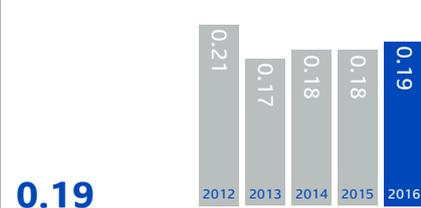
Tragically, one of our colleagues in our South African business lost their life following a motor vehicle accident in January 2016.

We have seen a 14% reduction in total injuries per 100,000 hours worked over the last year, whilst our RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) rate has increased from 0.18 to 0.19 per 100,000 hours worked.

### Reducing environmental impacts whilst continuing to grow

Our commitment to the management of our environmental impacts and energy use remains ever important. The introduction of the Energy Savings Opportunity Scheme (ESOS) legislation saw the business audit and review energy use across its built estate, processes and business transport and achieve compliance for all its UK operations. The resulting opportunities for energy savings and efficiencies identified will now be carefully reviewed to form a project programme to target the most effective measures and make reductions in its energy consumption and reduce carbon emissions.

### RIDDOR<sup>1</sup> rate per 100,000 hours worked



	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16 <sup>2</sup>
Total number of injuries	1,962	1,974	2,010	1,979	2,054	2,084
Fatalities	0	0	0	0	0	1
Major injuries	22	30	30	36	41	38
Over-three-day injuries	131	123	102	98	127	164
RIDDOR <sup>1</sup> totals	153	153	132	134	168	202

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 Mission Critical Services are included for the first time for the 2015/16 period. Additionally, Babcock DSG, acquired 31 March 2015, is included.

This year sees Babcock renewing its certification to the Carbon Trust Standard for the fourth consecutive year. Each time we have sought to collect and include more of our emissions data for assessment. As the Group has grown the emissions arising from our business travel have become increasingly significant so we are looking to report on these more comprehensively, not only on those generated by road travel but also by rail and air as well.

Simply collecting and collating key environmental data for such a large and diverse company is a huge undertaking and we have recently begun to implement the use of a central software-based system to allow us to automatically upload and report on some of our energy consumption data. We have been able to refine and improve the data as well as its classification, and have rebased our 2015 figures in the Total Group Emissions chart on the same basis as this year for consistency.

In the longer term the software system will enable the Company to record and report on much more of its environmental data including for example, water, waste, corporate social responsibility initiatives and even purchased goods and services. Babcock's many overseas businesses will also be encouraged to use this data collection and reporting system, allowing them both to achieve compliance in their own countries and to meet UK company reporting requirements. As a global group, Babcock recognises the importance of applying good environmental practices right across the business and ensuring that the highest standards are achieved wherever the Company operates.

In the last year the Company has undertaken a large number of varied initiatives to reduce its environmental impacts. Cavendish Nuclear have: used electric cars for business travel, totalling 8,770 miles and saving 1,357kg CO<sub>2</sub>e; increased their use of rail travel by 29%; reduced their total business mileage by 15%, and achieved an overall reduction in their travel carbon footprint of 21%.

Rosyth Dockyard, through its implementation of 'Targeted Carbon' reduction initiatives such as upgrading lighting in manufacturing bays and offices

to LEDs, replacing old maintenance vehicles with electric vans and improving the site Building Energy Management System, achieved a 10% reduction in its carbon footprint at a time when the site could not be busier.

Devonport Dockyard undertook a 'Battle of the Buildings' challenge to see who could save the most energy over the Christmas period. With 38 buildings taking part, the overall estimated savings for the site, by switching off unnecessary electricity and heating, were 1MW of energy and a reduction in carbon emissions of 470 tonnes. One building, S113, achieved an outstanding 86% reduction in energy consumption for the period.

Network Engineering, working with their Procurement, Design and Engineering teams, have focused on responsible sourcing, reuse and recycling of materials on their worksites. Together with their waste management partners, they introduced recycling facilities to their fixed sites leading to a 42% increase in recycling. Significant improvements in site waste management practices also led to better segregation of waste streams resulting in an increase in materials diverted from landfill and recycled to over 90%.



The MOD Phoenix White Fleet project team continue to target ways to reduce the environmental impact of our activities. The team have implemented a Carbon Reduction Initiative, with 10,800 trees planted across 22 acres of marginal land to capture carbon and offset some 3,000 tonnes (8%) of the CO<sub>2</sub> produced by the vehicle fleet. The Smart Buildings Project is also forecast to deliver a 20% reduction in energy usage across our estate and the Renewable Energy strategy includes renewable energy source implementation feasibility studies across our estate during 2016.

#### Total Group emissions – UK and overseas

Year ending		March 2015	March 2016
Scope 1: Direct emissions from owned/controlled operations	tCO <sub>2</sub> e	42,091.24	94,538.84
Scope 2: Indirect emissions from the use of purchased electricity, steam, heating and cooling	tCO <sub>2</sub> e	112,813.94	80,336.81
Scope 3: Emissions – business travel	tCO <sub>2</sub> e	10,458.86	10,724.80
Absolute footprint	tCO <sub>2</sub> e	165,364.04	185,600.45
Turnover	£m	3,996.60	4,158.40
Intensity ratio	tCO <sub>2</sub> e/£m	41.38	44.63

Babcock International Group – Carbon Footprint Tonnes CO<sub>2</sub>e against £m turnover. Due to the highly diverse nature of the Company's business the metric of 'tonnes of CO<sub>2</sub>e per £m turnover' 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 turnover to provide a final benchmark figure. The figures above include certain operations that we have managed to capture for the first time during this year and prior year numbers have been rebased accordingly.

# Our principal risks

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## and how we manage them

“It is a fundamental responsibility of the Board to identify, evaluate and manage risk, as effective risk management is essential to the achievement of our strategic objectives and the safeguarding of Babcock’s reputation.”

Franco Martinelli  
Group Finance Director

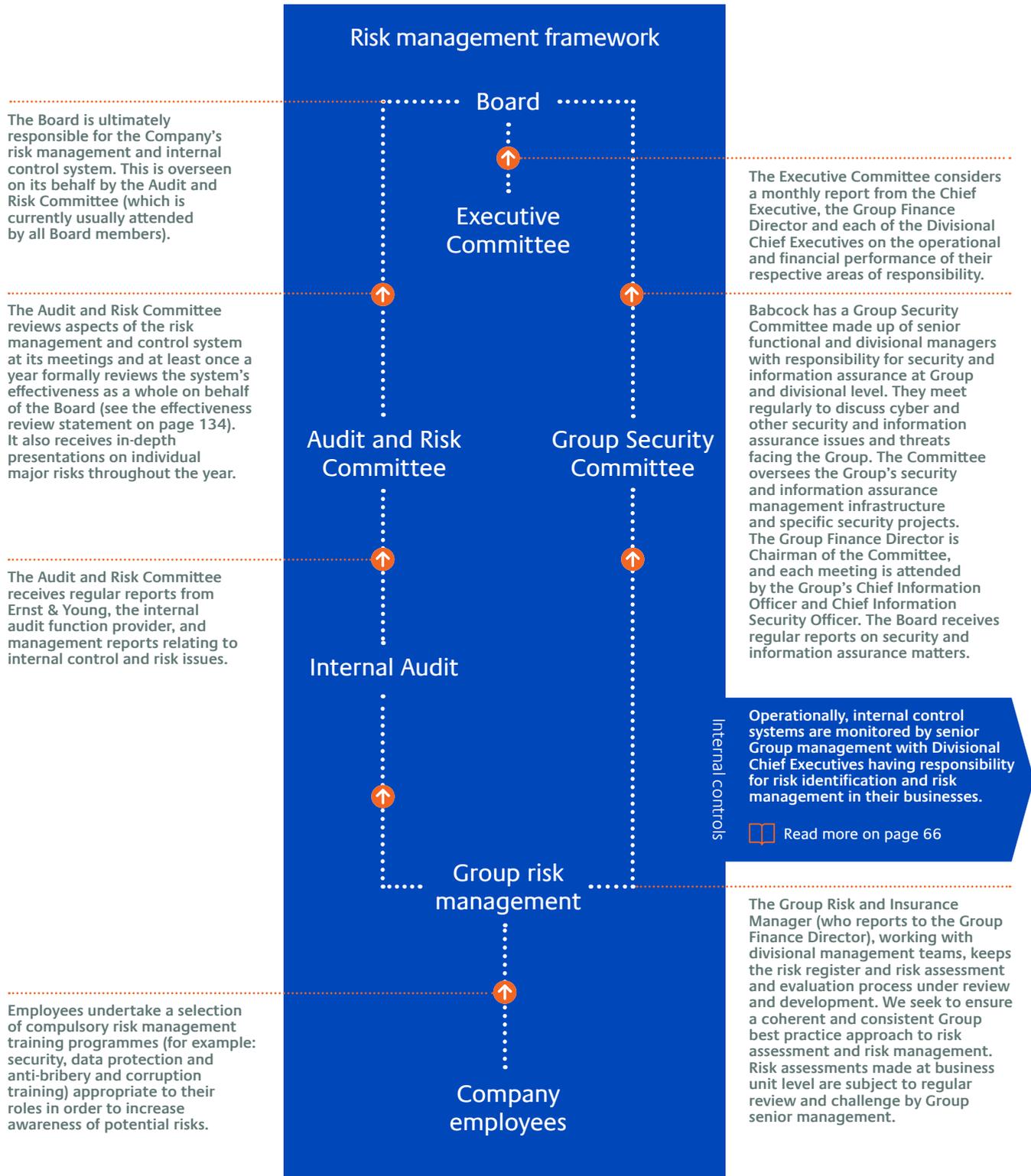


### How Babcock manages risk

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 that 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), 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, that 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.



### 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	<p>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.</p> <p>The Chief Executive, Group Finance Director and Divisional Chief Executives (and, since 1 April 2016, the Chief Operating Officer pending his appointment as Chief Executive on 1 September 2016) report to each Board meeting on operating performance and matters of potential strategic significance.</p> <p>Group senior management receives a monthly narrative operating report from all business units.</p>
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	<p>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.</p> <p>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.</p>
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	<p>All significant credit risks are reviewed by Group Finance and an Executive Director, and, where appropriate and available, risk limitation actions are taken.</p> <p>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.</p> <p>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. See more on our Code of Conduct on page 62.</p>
Group policies and procedures	<p>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, legal, financial and accounting matters.</p> <p>These policies and procedures are available to employees on the Group intranet and are supplemented at divisional level by further business unit specific policies and procedures.</p>
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 90.
Critical supplier reviews	Divisions 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 divisions, 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 74 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 (the 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.

If the UK votes to leave the European Union in the referendum to be held on 23 June 2016, the consequences for the Group's business will be difficult to predict, as there is likely to be a period of uncertainty over the consequential 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 small or medium-sized suppliers or adopting a more transactional rather than co-operative, 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 impacting the profitability of doing business with them.

#### Mitigation

We have extensive and regular dialogue with key customers, involving, as appropriate, our Chief Executive, Divisional 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 (KPIs) 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.

Loss of bids or rebids can adversely impact the strategic development of the Group.

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 major 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 in which we believe we stand a realistic chance of success, both in the UK and overseas.

There are formal and rigorous reviews and gating processes that are held at key

stages of each material bid that are intended to reduce the risk of underestimating risks and costs and ensure that limited bid resources are appropriately targeted at opportunities that we consider have the best prospects for winning or retaining business.

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

Contractual performance is continually under review (at a business unit, divisional 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 raised public profiles.

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

responsibilities or delivery of 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 can 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 prospects of securing future business from that or other customers in that or other sectors.

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

### Mitigation

Senior management at Group and divisional 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 56 to 63.

(See also health, safety and environmental risks below).

### Regulatory and compliance burden

Our major businesses are dependent on being able to comply with applicable customer or industry-specific requirements or regulations.

If the UK votes to leave the European Union in the referendum to be held on 23 June 2016, the terms of British exit could have implications on the requirements or regulations that are applicable to the business of the Group, including licence to operate in the European Union.

#### Risk Description

The cost of compliance can be high.

Requirements can change.

Compliance with some regulatory requirements is a precondition to 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 133 for more information).

- Our civil and defence-related nuclear businesses operate in a highly-regulated environment.

#### Potential Impact

Failure to maintain compliance with applicable requirements could render the business unable to continue providing services and 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 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 133 to 134 for more information).

However, if the UK votes to leave the European Union in the referendum to be held on 23 June 2016, there is likely to be a period of uncertainty over the exact nature, timing and scope of the regulation and requirements that will subsequently apply to the Group.

## 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 receive 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 environment 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.

## Principal risks and management controls – continued

### People

Our business delivery and future growth depends 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 throughout all divisions.

Further information about this subject and how we address it is on pages 60 to 61 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 being 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 on pension valuations and costs for the Group.

## Mitigation

Continuous strategic monitoring and evaluation 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 their sensitive information is a key factor for our customers.

During the coming year the Group expects to continue the implementation of a new Enterprise Resource Planning (ERP) application for the 'back office' within sections of two of our four divisions.

## 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.

## Principal risks and management controls – continued

### 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 in 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 2019. 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 2016, the Directors carried out a robust assessment of the principal strategic, financial and operational risks, including the principal risks listed on pages 67 to 74, 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 64 to 66.

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 divisional 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, at business unit level, are subject to robust review and challenge, with business unit and divisional 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 2016.

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 such 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 2019.

## Executive



**Peter Rogers** CBE

**Chief Executive**

**Appointed:** June 2002 as Chief Operating Officer and Chief Executive in August 2003. In January 2016, it was announced that Peter would be retiring as Chief Executive on 31 August 2016.

**Skills & experience:** Until his retirement from its board on 30 April 2015, Peter was Senior Independent Director (and latterly Deputy Chairman) of Galliford Try plc. He is a former Director of Courtaulds PLC and Acordis BV. He has also served as a President of ADS (Aerospace Defence Security).



**Archie Bethel** CBE

**Chief Operating Officer**

**Appointed:** Board Director in May 2010. Archie became Chief Operating Officer on 1 April 2016 pending his move to Group Chief Executive on Peter Roger's retirement on 31 August 2016.

**Skills & experience:** Archie was Chief Executive, Marine and Technology division from June 2007 having joined the Group in January 2004. 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 & experience:** Franco 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, International division**

**Appointed:** Group Finance Director in January 2002, a position he held until August 2014 when he was appointed Divisional Chief Executive for the Group's enlarged International division.

**Skills & experience:** 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 in January 2015.



**John Davies**

**Chief Executive, Support Services division**

**Appointed:** Board Director January 2013

**Skills & experience:** John joined the Group in 2010 following the acquisition of VT Group and was appointed Divisional Chief Executive, Defence and Security. Since November 2015, John has been leading the Support Services division. He is a lawyer by background and has worked extensively across the support services and defence sectors including within Bombardier, BAE Systems and VT Group.



**Roger Hardy**

**Chief Executive, Defence and Security division**

**Appointed:** Executive Committee November 2015

**Skills & 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 Support Services division. Prior to that he was Managing Director of our submarine business within the Marine division.



**John Howie**

**Chief Executive, Marine and Technology division**

**Appointed:** Executive Committee April 2016

**Skills & 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.

- A Audit and Risk Committee
- R Remuneration Committee
- N Nominations Committee
- Chairman

## Chairman



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### Mike Turner CBE

#### Chairman

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

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

## Non-executive directors



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### Sir David Omand ccb

Senior Independent Director  
Appointed: April 2009 and Senior Independent Director in Jan 2012

**Skills & 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.



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### Ian Duncan

Independent Non-Executive Director

Appointed: November 2010

**Skills & experience:** A chartered accountant and former Group Finance Director of Royal Mail Holdings PLC, Ian is currently a Non-Executive Director and Chairman of the Audit Committees of WANdisco plc and Bodycote plc. He has also formerly been Corporate Finance Director at British Nuclear Fuels plc, CFO and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA, and a Non-Executive Director and Audit Committee Chair at Fiberweb plc and Mouchel Group.



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### Anna Stewart

Independent Non-Executive Director

Appointed: November 2012

**Skills & experience:** Until December 2015 Anna was Chief Executive of Laing O'Rourke, where she was previously Group Finance and Commercial Director. Since January 2015 she has been a Non-Executive Director of the Major Projects Association and is also a UK Government Business Ambassador. She is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Institute of Civil Engineers.

## Company secretary



### Jack Borrett

Group Company Secretary and General Counsel

Appointed: 1 April 2016

**Skills & experience:** Jack joined Babcock in 2004 and since 2010 has been 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. Prior to joining Babcock, Jack was a solicitor at law firm Clifford Chance.



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### Jeff Randall

Independent Non-Executive Director

Appointed: April 2014

**Skills & experience:** Jeff had a long career as a journalist and broadcaster until he stepped down as a presenter for Sky News in March 2014 and as editor-at-large of the Daily Telegraph at the end of 2013. He was business editor of the BBC between 2001 and 2005, the launch editor of Sunday Business and, for six years, was 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 where he specialises in corporate reputation, and is an honorary professor at Nottingham University's Business School.



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### Myles Lee

Independent Non-Executive Director

Appointed: April 2015

**Skills & experience:** Myles was Chief Executive Officer of CRH plc between 2009 and 2013, serving before that from 2003 as its Finance Director, having joined CRH in 1982 and serving in a number of roles and management positions. He holds a degree in civil engineering and is a Fellow of the Institute of Chartered Accountants in Ireland. He is also a Non-Executive Director of Ingersoll-Rand plc which is listed on the New York Stock Exchange.



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### Prof. Victoire de Margerie

Independent Non-Executive Director

Appointed: February 2016

**Skills & experience:** Victoire is a Non-Executive Director of Italcementi S.p.A (Italy), Eurazeo S.A (France) and Arkema (France) and until February 2016, Morgan Advanced Materials PLC (UK). Between 2012 and 2014 she was a Non-Executive Director of Norsk Hydro ASA (Norway) and between 2007 and 2011 was a Non-Executive Director of Outokumpu Oyj (Finland). During her earlier Executive career Victoire held senior management positions in France, Germany and the USA with Atochem, Carnaud MetalBox and Pechiney. Victoire holds a PhD in Strategic Management from Université Panthéon-Assas (Paris II).

# Maintaining high standards



At Babcock we believe that good governance, transparency and sensible risk management are crucial to the long term success of the Company.”

## Dear Shareholder

I believe that the Board should be made up of a diverse range of backgrounds, experience and skills. The Nominations Committee has worked steadily to ensure that the Board is appropriately balanced and experienced for developing and implementing the Company’s near-term and longer-term business strategy and that all its members have a good understanding of its operations.

In the period under review there were a number of significant developments relating to the Board. In January 2016, Peter Rogers announced that he would be retiring as Chief Executive on 31 August 2016. Peter will be succeeded by Archie Bethel, who has been an integral part of Peter’s senior management team as Chief Executive of the Marine and Technology division and has been Chief Operating Officer since 1 April 2016. Archie was succeeded as Chief Executive of the Marine and Technology division by John Howie, who had been Managing Director of Naval Marine.

Before that, in September 2015, the Company announced the retirement of Kevin Thomas with effect from 31 March 2016. Kevin stepped down from the Board on 31 December 2015. Kevin’s role as Chief Executive, Support Services division was taken over by John Davies with effect from 1 November 2015. Prior to that, John had been Chief Executive, Defence and Security. Roger Hardy, who had been Managing Director of Cavendish Nuclear, succeeded John. Both Roger Hardy and John Howie are now members of the Company’s Executive Committee and, though not currently directors, attend meetings of the Board by invitation.

There were also developments amongst the Non-Executive Directors on the Board. In October 2015, the Company announced that Kate Swann would be retiring on 31 December 2015 due to increasing travel commitments in her role as Chief Executive Officer of SSL Group PLC. I would like to thank Kate for her valuable contribution over the last five years to the work of the Board and its Committees. In December 2015, the Company was pleased to announce that Prof. Victoire de Margerie would be joining the Board on 1 February 2016. Victoire has extensive experience as a non-executive director in a number of UK and other European publicly quoted companies and in her earlier executive career held senior management positions in several leading industrial businesses in France, Germany and the USA. Victoire’s background, experience and outlook will, I believe, prove invaluable to Babcock’s continued development, particularly internationally.

## Babcock governance structure

### Board



I believe that the developments that we have seen over the year under review show the importance placed by the Board and the Company as a whole on succession planning, making sure that the senior management team has the strength in depth so 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.

To review our progress on the composition and operation of our Board, the Board undertakes an annual Board, Committee and Director evaluation exercise. As was the case last year, it was carried out internally. There were no significant concerns highlighted. A summary of the review can be found on page 84. We are addressing and will continue to address the matters identified as areas for focus.

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, we have, after consideration, extended for a further three-year term, subject to annual re-election, the current expected term of appointment of Ian Duncan. Ian has been a Director since November 2010. We are 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 that should take into account the need for progressive refreshing of the Board. This we have done at a Nominations Committee meeting. We are satisfied as to both Ian's continuing independence and the ongoing value of having him serve as our Chairman of the Audit Committee. As to the refreshing of the Board, the

table below shows that, following the retirement of Kate Swann and the recent appointments mentioned above, we have a Board of Non-Executives that is clearly being renewed and enjoys the benefit of a range of periods in office.

Mike Turner CBE  
Chairman

24 May 2016

Non-Executive	Period in office to date
Sir David Omand	7 years, 1 month
Ian Duncan	5 years, 6 months
Anna Stewart	3 years, 6 months
Jeff Randall	2 years, 1 month
Myles Lee	1 year, 1 month
Victoire de Margerie	3 months

### 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 2016.

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 129 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 2016 Board evaluation process, including the progress made since the 2015 Board evaluation, and sets out the induction process for new Directors. The Report of the Nomination Committee (pages 86 to 87) expands on the process for board appointments including diversity policy.

#### Accountability

The Board believes that it has presented a fair, balanced and understandable assessment of the Company's position and prospects throughout this Annual Report principally acting through the Audit and Risk Committee which reviews the effectiveness of the risk management systems and internal controls in place. Principal risks and management controls are described in the Strategic Report (pages 64 to 74) where the Board also make its viability statement and internal controls and risk management are further discussed in the Report of the Audit and Risk Committee (pages 88 to 91).

#### 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 92 to 128) details the Company's Remuneration Policy.

#### 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 85 to 86) outlines how the Board has communicated with shareholders and how the shareholders can engage with the Company.

## 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 report.

The current Directors' biographies are set out on pages 76 and 77. 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 (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](http://www.babcockinternational.com) and can also be seen at the Company's registered office.

### Board meeting attendance

The Board has at least ten 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 and did so, off-site, on at least two occasions in the year to 31 March 2016. 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.

### MEETINGS

#### Chairman

Mike Turner	12 of 12
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#### Executive Directors

Peter Rogers	12 of 12
Franco Martinelli	12 of 12
Kevin Thomas <sup>1</sup>	7 of 9
Archie Bethel	12 of 12
John Davies	12 of 12
Bill Tame	12 of 12

#### Non-Executive Directors

Sir David Omand	12 of 12
Ian Duncan	12 of 12
Kate Swann <sup>2</sup>	8 of 9
Anna Stewart	12 of 12
Jeff Randall	12 of 12
Myles Lee	12 of 12
Victoire de Margerie <sup>3</sup>	1 of 2

1. Kevin Thomas retired from the Board on 31 December 2015 and was unavailable to attend on two occasions due to illness.
2. Kate Swann retired from the Board on 31 December 2015 and was unavailable for one meeting due to a pre-existing work commitment.
3. Victoire de Margerie joined the Board on 1 February 2016, but was unavailable for one meeting due to a pre-existing personal commitment.

### Composition of the Board

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

Date	Chairman	Executive Directors	Independent Non-Executive Directors
1 April 2015 – 31 December 2015	1	6	6
1 January 2016 – 31 January 2016	1	5	5
1 February 2016 – 31 March 2016	1	5	6
Since 1 April 2016	1	5	6

The Chairman in his letter on pages 78 to 79 talks further about the composition and development of the Board.

During the financial year and up to the date of this report the following changes were made to the Board.

	Date of Appointment
--	---------------------

#### New Directors

Myles Lee (Non-Executive)	1 April 2015
Victoire de Margerie (Non-Executive)	1 February 2016

	Date of Retirement
--	--------------------

#### Retired Directors

Kevin Thomas (Executive)	31 December 2015
Kate Swann (Non-Executive)	31 December 2015

## 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](http://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

### 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

#### 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

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,

#### 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 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

#### 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

guarantees, treasury and related matters within its terms of reference. The Company has, as described on page 84, an Executive Committee and an International Committee, though neither committee is a formal Board Committee with its own delegated powers.

## The Chairman and Chief Executive

The roles and responsibilities of the Chairman and the Chief Executive are separate, clearly established, 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](http://www.babcockinternational.com).

### The 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 and support the Chief Executive in 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 environment matters
- develop and promote effective communication with shareholders and other relevant constituencies

### The 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.

### The 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 business sectors and undertakings (see their biographies on page 77). 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. Re-appointment 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 only Non-Executive Director to whom this applied during the

year was Ian Duncan whose current period of appointment was due to expire at the AGM in July 2016 and whose appointment has been extended, subject to his annual re-election by shareholders at the intervening AGMs, until the AGM in 2019. The performance of all Directors is evaluated as part of the Board annual evaluation process described below. The terms and conditions of appointment of the Non-Executive Directors, together with the service contracts for Executive Directors, are available for inspection at the Company's registered office during normal business hours, and at the AGM.

### The 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 made up of the Chief Executive, the Chief Operating Officer, the Group Finance Director, the Divisional Chief Executives, the Group Company Secretary and General Counsel (the Company Secretary) and the Group Director of Organisation and Development. It is scheduled to meet ten times a year and minutes of its meetings are circulated to Board members.

### The 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 Divisional Chief Executives. It is also attended by the heads of the principal overseas operations. It is scheduled to meet ten times a year and minutes of its meetings are circulated to the Board.

## Effectiveness

### Board evaluation

The Board has decided that it will commission an external independent review of its effectiveness and that of its Committees and members at least once every three years, with internally-led reviews in the other years.

### Review for year ending 31 March 2016

The evaluation for the financial year ending 31 March 2016 was carried out internally by the Company Secretary. This involved confidential, one-on-one interviews with each Director, including Directors who had retired from the Board during the year under review. The review elicited Directors' views on the balance of skills, experience, independence and knowledge of the Board, how the Board, its Committees, the Chairman and individual Directors performed and how they worked together and other factors relevant to board effectiveness. Directors were also invited to comment specifically on succession planning, strategy, risks and risk management and any areas of concern or key messages they might have. The output from these interviews was put together, on a non-attributable basis, in a report for the Chairman who then used the report as the basis for his own round of one-on-one interviews with each Director. The Chairman then conveyed his conclusions as to the results of the process, and the Company Secretary submitted a written report to the Board. No material 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.

As to areas that were commonly felt to be the primary focus of the Board's continuing attention, these, as in prior years, were:

- Executive succession plans and their implementation
- planning to ensure that the Group has the necessary talent and skills being recruited and developed for its long-term needs
- strategy and awareness of potential strategic risks

The Board will report back to shareholders on progress in the 2017 Annual Report.

### Follow up on the review for year ending 31 March 2015

As reported last year, the Board evaluation for the year ending 31 March 2015 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 2016 included:

### Executive succession plans and their implementation

This continued to be the subject of discussion at Board and Nominations Committee meetings and in meetings between the Chairman and the Non-Executives and the succession plans have been enacted on the retirement of Peter Rogers and Kevin Thomas (as described on page 87).

### 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 60.

### The Company's international development

The Company has looked to build on the acquisition of Avincis (since renamed Mission Critical Services division) in order to expand its international footprint. The Company has set up the International Committee which has as its principal focus the setting and review of the Company's international strategy, the co-ordination 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 process for the selection and subsequent appointment of new Directors to the Board is described in the Nominations Committee section on pages 86 and 87 of this report.

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. Victoire de Margerie, who joined the Board on 1 February 2016, will be complying with this requirement, and, in compliance with provision B.7.1 of the Code, all other existing Directors will be seeking re-election at the 2016 AGM. The names and biographical details of each of the Directors are set out on pages 76 and 77.

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 Head of Investor Relations 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 92 to 94. 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 they believe a matter has not been adequately resolved.

Over 85% of all 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](http://www.babcockinternational.com/investors)).

### How we communicate

Results and trading updates available as audiocasts at <a href="http://www.babcockinternational.com/investors">www.babcockinternational.com/investors</a>	When May and November 2015
Full-year and half-year results: announcement and presentation	November 2015
Interim management statements and conference call with Group Finance Director	July 2015
<b>Other presentations</b>	
	When
By Group Finance Director at broker organised conferences and events	June, July and September 2015 and March 2016
<b>Dealings with shareholders, investors and analysts</b>	
Resolutions of AGM available at <a href="http://www.babcockinternational.com/investors">www.babcockinternational.com/investors</a>	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 2015
Annual General Meeting	July 2015
Roadshow in London and Edinburgh	May and November 2015

## Report of the Nominations Committee

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. Once again, the Company also 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 12 investors, including some of the Company's major shareholders, accounting for around 36% of the shareholder register, as well as some underweight or non-holding institutions). The results were formally presented to the Board in July 2015.

### Annual General Meeting

The 2016 AGM will be held at 11am on Thursday, 21 July 2016 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.



The changes to the Board, I believe, demonstrate the importance that we place on effective succession management.”

Mike Turner CBE  
Committee Chairman

### 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 during the year to 31 March 2016 as well as attendance at Committee meetings during the year, is shown below. Unless otherwise stated, the member was a member throughout the year. 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.

#### COMMITTEE MEMBERSHIP AND ATTENDANCE

Mike Turner (Chairman)	4 of 4
Ian Duncan	4 of 4
Sir David Omand	4 of 4
Kate Swann <sup>1</sup>	3 of 3
Anna Stewart	4 of 4
Jeff Randall	4 of 4
Myles Lee	4 of 4
Victoire de Margerie <sup>2</sup>	N/A

1. Kate Swann retired from the Board and the Committee on 31 December 2015.
2. Victoire de Margerie joined the Board and the Committee on 1 February 2016.

### 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 regards 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

When considering recommendations on 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 measurable 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 page 61.

### Activities undertaken by the Committee during the year

During the year ended 31 March 2016, the Committee:

Implemented succession plans formulated by the Committee in the light of the retirements of Peter Rogers and Kevin Thomas, which included:

- the appointment of Archie Bethel (formerly Chief Executive, Marine and Technology) as Chief Operating Officer effective 1 April 2016 and as Group Chief Executive effective 1 September 2016;
- the move of John Davies from Chief Executive, Defence and Security to become Chief Executive, Support Services;
- the promotion of Roger Hardy to Divisional Chief Executive, Defence and Security; and
- the promotion of John Howie to Divisional Chief Executive, Marine and Technology.

Oversaw the process for finding and recommending the appointment of a new independent Non-Executive Director, Victoire de Margerie (effective 1 February 2016), following the retirement of Kate Swann on 31 December 2015.

Considered and recommended the extension of the term of appointment as Non-Executive Director of Ian Duncan for up to a further three years, his having already served two three-year terms.

Succession planning for the Chief Executive role (and consequential executive moves) had been in hand over a number of years and involved consideration of both potential internal and external candidates and was run in consultation with Spencer Stuart. Spencer Stuart does not have any connection with the Group other than as a senior recruitment consultant.

In the search for a new non-executive director the Committee set the candidate specification and reviewed a number of potential candidates using the services and advice of Korn Ferry as search consultants. Korn Ferry does not have any connection with the Group other than as a senior recruitment consultant.

Mike Turner CBE  
Committee Chairman

24 May 2016

# Report of the Audit and Risk Committee



During the year, the Committee has continued to focus on providing oversight and reassurance to the Board with regard to the Company’s risk management.”

Ian Duncan  
Committee Chairman

## 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 below.

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 77. The Deputy General Counsel was Secretary to the Committee throughout the year. He took on the role of Company Secretary on 1 April 2016.

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 C3.1. Ian is a Chartered Accountant. He is currently Chairman of the Audit Committees of WANdisco plc and Bodycote plc and is a former chairman of the Audit Committees of Mouchel Group and Fiberweb PLC. He is a former Finance Director of Royal Mail Holdings PLC and other former roles have included the position of Corporate Finance Director at British Nuclear Fuels and Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA. As Ian Duncan has been a Non-Executive Director of the Company since November 2010, the Nominations Committee undertook a rigorous review of his performance and commitment before extending his appointment for up to a further three years to the AGM in 2019.

## 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 and 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.

### COMMITTEE MEMBERSHIP AND ATTENDANCE

Ian Duncan (Chairman)	4 of 4
Sir David Omand	4 of 4
Kate Swann <sup>1</sup>	2 of 3
Anna Stewart	4 of 4
Jeff Randall	4 of 4
Myles Lee	4 of 4
Victoire de Margerie <sup>2</sup>	1 of 1

1. Kate Swan retired from the Board and the Committee on 31 December 2015.
2. Victoire de Margerie joined the Board and the Committee on 1 February 2016.

### Who attends Committee meetings?

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chairman, Chief Executive, Chief Operating Officer, 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) are also, at the Committee's discretion, usually invited to attend meetings. 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 Divisional Chief Executives 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 the meeting.

The Group Risk Manager attended Committee meetings for its discussion of Group risk reports and related items. During the year to 31 March 2016, 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 2016. The Committee Chairman also met PricewaterhouseCoopers LLP 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 2016 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 2016, the Committee considered:

#### Audit re-tender process

The Committee instigated the external audit re-tendering process, which is discussed more fully on page 91.

#### 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 (see page 90).
- advising the Board on the requirement for a statement from it that the Annual Report and Accounts (both for the year to 31 March 2015 and for the year to 31 March 2016) 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 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 Head of Investor Relations reviews the content of the Strategic report to ensure consistency with other financial statements made by the Group during the year.

#### Audit plans

Internal and external audit plans for the year.

#### Internal audit

At each meeting, internal audit reports on findings from audit visits to business units, including follow-up reports on any matters identified in earlier reports as requiring attention or improvement are considered. 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 principal risks and 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.
- divisional and Group reviews of the Group risk standard.
- reviewing internal audit reports, which as a matter of course look at accounting, anti-bribery and corruption controls, business continuity, contract performance and contract bidding risks.
- focused reviews of selected major risk areas: insurance strategy; business critical suppliers; Treasury risk; 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 2016 was 60 (2015: 72). For further explanation of the whistleblowing procedure please see page 66.

**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 as 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 2016 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 2016 and how the Committee addressed them are set out in the table below:

**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. This is the first year that the new provisions set out in the 2014 UK Corporate Governance Code have applied to the Company’s Annual Report and Accounts. The way that the Company manages risk is set out in the Strategic report on pages 64 to 66, with the principal risks facing the Group set out on page 67 to page 74. 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 page 134.

Significant Issue	How the Committee addressed it
Contract accounting and revenue recognition	The Committee considered the material contracts that 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 25 on pages 177 to 181.
Business acquisitions – goodwill impairment assessment	Although no business acquisitions were made in the year to 31 March 2016, 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 11 on page 161.

### 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 2016, 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 2016, PricewaterhouseCoopers (PwC) has been the Group's external auditors. The Chairman and the Committee regularly assesses 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 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.

PwC has been the external auditor of the Group since 2002 without a re-tender in that time. In the Company's Annual Report and Accounts for the years ending 31 March 2014 and 31 March 2015, the Committee disclosed its intention to embark on a re-tendering process no later

than 2017, following which the Group would adopt a policy of putting the external audit out to tender at least every ten years. The Committee started the tendering process in December 2015 and four firms (PwC, Deloitte, KPMG and Ernst & Young) were asked to submit proposals against a detailed invitation to tender. In the course of preparing their proposals, each firm was given access to members of the Group's senior management and a data room. Whilst the Committee was impressed by the commitment shown by all the participating firms and the quality of their submissions, the Committee considered that PwC's submission and team were the strongest and decided to recommend to the Board that PwC be re-appointed as the Company's auditor. In addition, the Committee believes that PwC, with its deep knowledge of the Company both in the UK and internationally, supported by its international network, is best placed to work with the Company as its auditor as the Company looks to expand into new markets and geographies, as well as continuing with the phased roll-out of its new group-wide Enterprise Resource Planning application. The Board endorsed the Committee's recommendation and shareholders will be asked to approve the re-appointment of PwC at the AGM of the Company on 21 July 2016. The Company expects to tender the external audit function in five years and PwC will not be invited to participate in that tender.

### Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the auditors 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 auditors 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 auditors. 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 £100k must be approved by the Committee Chairman. Having considered the non-audit services provided by the auditor during the year ended 31 March 2016, 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 2016, the Committee has approved the payment to PwC of fees of £2.2 million for audit services, fees of £0.1 million for audit-related services in respect of a pre-implementation review of the Group enterprise and resource planning application and of fees of £0.3 million for non-audit related work, including work in connection with corporate finance services. Non-audit related work accounted for 12% 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 5 on page 157.

Ian Duncan  
Committee Chairman

24 May 2016

# Report of the Remuneration Committee



Jeff Randall  
Committee Chairman

## Annual Statement of the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' remuneration report for 2015/16.

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, and is set out on pages 96 to 105 below for shareholders' convenience. Whilst we have made some changes to the implementation of our policy, we are not proposing to make any changes to the policy itself this year and will next submit our policy with any proposed changes to shareholders for approval at the 2017 AGM. We will, however, be seeking an advisory vote as to your approval of this Annual Statement and the Annual Report on Remuneration at the Annual General Meeting on Thursday, 21 July 2016.

## Where has our main focus been since our last Report to shareholders?

In addition to a number of regularly recurring and routine matters relating to the application of our remuneration policy, the important matters for the Committee over the past year have been:

- consideration of remuneration arrangements for 2016/17 in light of changes to the management team, including removal of deferred bonus matching arrangements for Executive Directors under the DBMP;
- agreeing a remuneration package for Archie Bethel, as Chief Operating Officer, who until 31 March 2016 was Chief Executive Marine and Technology. Archie has been serving as Chief Operating Officer since 1 April 2016 and will be taking over from Peter Rogers as the new Group Chief Executive on 1 September 2016, at which point his salary will be revisited;
- deciding appropriate leaving terms for two retiring Executive Directors: Peter Rogers and Kevin Thomas;
- seeking views of our largest shareholders and investor bodies in advance of implementing changes to remuneration arrangements for 2016/17, the main thrust of which is to simplify executive remuneration by removing deferred bonus matching arrangements, whilst broadly maintaining the fair value of total remuneration by moving salaries closer to market and increasing the PSP opportunity;
- initial consideration of changes to our remuneration policy that may be required before being put to shareholders for re-approval at next year's AGM.

## Changes to remuneration arrangements for Executive Directors

Babcock's 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. However, senior executive salaries have not kept pace with market or with the increased responsibilities in managing what is now a significantly larger and more complex business than it was five years ago (our market capitalisation has grown from £2.2 billion on 31 March 2011 to £4.8 billion on 31 March 2016). Executive Directors' 2015/16 base salaries were positioned on average c 20% behind market, while total remuneration was approximately aligned with market (on a fair value basis) other than for the Group Finance Director whose package was c 15% below market. Having Executive Director salaries so significantly below market also affects remuneration for other senior staff and we were concerned that this does, and will increasingly, affect our ability to recruit and retain talent both at and below Board level.

In terms of structure, our incentives for Executive Directors have comprised the annual bonus, matching share awards under the DBMP and share awards under the PSP. The making of matching awards under the DBMP has been a successful incentive since introduction in 2012 and we believe has supported us in driving superior results in earnings growth and shareholder value. However, the Committee is aware of shareholder desire for simple long-term incentive arrangements and in particular some shareholder concerns regarding the perceived complexity of the DBMP.

In light of the changes to our management team, and having in mind shareholder views on current remuneration arrangements, including requests for less complexity, the Remuneration Committee considered carefully how best to apply our policy for remuneration for executive directors during the current financial year, 2016/17. Having sounded out the views of leading shareholders, the Committee has taken this opportunity (as explained below) to remove matching share awards under the DBMP (for continuing directors), align the remuneration packages for Executive

Directors more closely with market by moving salaries closer to market median, and increase the PSP opportunity within the limits prescribed in our approved policy, to help support recruitment and retention whilst maintaining broadly the fair value of Executive Director total remuneration for those whose roles are unchanged and delivering pay in line with our policy.

The DBMP currently allows for a performance-based matching award of two shares for each share mandatorily or voluntarily invested, which is worth up to 200% of salary based on the maximum permitted investment of 100% of salary. Having removed this matching opportunity for the Executive Directors going forward, the Committee intends to increase the PSP award opportunity for all directors (other than Peter Rogers) by 50% of salary and has made significant changes to base salaries (see below) in order to ensure that the fair value of Executive Director total remuneration is broadly maintained for those whose roles are unchanged. Whilst the Committee considered phasing salary increases over more than one year, we believed that this approach would prolong the period for which Executive Directors' pay is below market and therefore determined that a one-off realignment would better achieve our aims. Further, if we did not provide the salary increase to executives immediately, our Executive Directors would be receiving an effective reduction in their total remuneration as a result of the removal of the DBMP matching opportunity.

Since adoption in 2012, DBMP matching awards have included a ROCE performance measure alongside TSR and EPS, whilst PSP awards have been made based on an equal weighting of TSR and EPS growth. The Committee considers that ROCE continues to be an effective measure of long-term performance and that it reinforces the focus on returns for shareholders, encourages capital discipline and provides good line of sight for management. Therefore, in order to retain a weighting on ROCE in Babcock's long-term incentives following the elimination of matching awards under the DBMP, we plan to use ROCE, TSR and EPS equally weighted as performance measures for the PSP awards to be made in 2016/17.

In summary, for Executive Directors, other than the current Chief Executive (Peter Rogers) who will be retiring at the end of August, we:

- have set the base salary for the new Chief Operating Officer role at £550k
- have brought salaries for continuing Executive Directors closer to market median
- decided, for continuing directors, to cease granting matching awards under the DBMP from 2016 onwards; all outstanding awards will vest according to pre-determined vesting conditions
- are retaining mandatory deferral of 40% of bonus into Basic Share Awards, to be held for three years
- are aligning PSP opportunities for all Executive Directors at 200% of salary
- will include ROCE as a performance measure in the PSP – ie performance will be based 1/3, 1/3, 1/3 on relative TSR, EPS and ROCE
- are broadly maintaining the fair value of total remuneration for those whose roles are unchanged

As Peter Rogers, current Chief Executive, will be retiring shortly we have simply increased his salary effective 1 April 2016 by 2.7% (within the range of increases for the wider UK Babcock employee population) and have made no changes to his current incentive arrangements.

Before we implemented these changes, I wrote and/or spoke to a number of our largest shareholders to solicit their views on the above changes, and received broad support.

### New Chief Executive

Archie Bethel will take over as Chief Executive on 1 September 2016, at which point the Remuneration Committee will once again review his salary and set it at an appropriate level for that role. In anticipation of his appointment, the Committee has reviewed both market data for total remuneration, and the salary that Peter Rogers would have received had he continued as Chief Executive and been subject to the changes implemented for other ongoing executive directors (ie removal of DBMP and a salary increase to maintain broadly the fair value of total remuneration). With this in mind the Committee is minded to appoint Archie Bethel as Chief Executive on a salary of c £750k, which would remain below market median and will represent a reduction in total remuneration for the role. The final approved salary for the incoming Chief Executive will be disclosed in next year's remuneration report.

### The retirement of Peter Rogers and Kevin Thomas

Peter Rogers joined the Company and the Board in June 2002. He will be retiring from the Company at the end of August 2016 having served initially as Chief Operating Officer and for the last 13 years as Chief Executive. Archie Bethel (formerly Chief Executive, Marine and Technology division) has taken on the role of Chief Operating Officer from 1 April 2016 pending his taking over as Chief Executive on 1 September 2016.

Kevin Thomas (formerly Chief Executive, Support Services), having served five and a half years as an Executive Director, stepped down from the Board on 31 December 2015 and retired as a full-time executive on 31 March 2016. He joined the Board in 2002. Before joining the Board, Kevin had held a number of senior management roles. Kevin was succeeded as Chief Executive, Support Services by John Davies (formerly, Chief Executive, Defence and Security).

The growth of the Company under Peter's leadership since August 2003 has been impressive. During his 13-year tenure as Chief Executive, Babcock has grown from a small cap business to a FTSE 100 company with a revenue of £4,842 million in 2015/16, delivering total shareholder return of 1,204% (c 22.5% p.a.) over the period to 31 March 2016. Peter will be the first to acknowledge that this record is the result of a group effort, led by a senior management team at Babcock which has remained largely unchanged over that time, Kevin Thomas having been a key member. Further, in recent years, Peter and the Board's effective work on succession planning has ensured that Babcock is well placed for the future, and has enabled us to promote talent internally which we believe is very much in the interests of our shareholders. Recognising this record and a desire for a Director's interests to be aligned with those of our shareholders for a period beyond the date of leaving, the Committee has exercised its discretion in accordance with approved policy to allow Peter and Kevin each to retain the performance pro-rated share awards made to them up to June 2015. The awards will continue to be subject to any performance conditions attached to them and their normal vesting periods will remain unchanged. The Committee also intends to grant to Peter Rogers a time pro-rated PSP award in June 2016, with the level of the award reduced to one sixth of what it would normally have been to reflect the fact that he will retire in August. Peter will be required to defer 40% of his annual bonus awards for 2015/16 into shares in line with our remuneration policy. Rather than award a significant salary increase for his continuing service after 1 April 2016 we will instead be offering Peter Rogers a matching award under the DBMP on his deferral (including any permitted voluntary deferral), but with the matching opportunity time pro-rated as for the PSP. Peter Rogers is also participating in the 2016/17 annual bonus scheme, but will receive only 50% of the amount that would be payable for the full year. Any such payment will be made in June 2017 as to 60% in cash and 40% deferred into shares for three years, but he will not be eligible for a matching opportunity on that deferral.

Both Peter Rogers and Kevin Thomas will continue, therefore, to have a substantial interest in the form of share awards that are dependent on the future performance of the Company after their retirements.

### Consideration of changes to the Remuneration Policy

The remuneration changes outlined above are all permitted within our existing approved Remuneration Policy. As I mentioned in my Annual Statement last year, we will be reviewing our policy regarding malus and clawback provisions with the intention of including any changes in a revised remuneration policy at the next formal approval of policy, scheduled for the 2017 AGM.

### Remuneration outcomes for 2015/16

Against the background reported in the Chairman's statement on page 4:

- annual bonus payments in respect of the year to 31 March 2016 are up to 62% of maximum (see page 109 for more detail); and
- performance over the longer-term performance period from 1 April 2013 to 31 March 2016 is expected to result in 38.7% vesting of the PSP awards made in 2013 and 58.8% vesting of the matching awards made that year under the DBMP.

Jeff Randall  
Committee Chairman

24 May 2016

## 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
PSP	means the 2009 Babcock Performance Share Plan
PBT	means underlying Profit Before Tax
PBIT	means underlying Profit Before Interest and Tax
OCF	means Operating Cash Flow as determined for management purposes
ROCE	means Return on Capital Employed
EPS	means basic underlying Earnings per Share

### 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 106) and its terms of reference comply with the provisions of the Corporate Governance Code.

### Compliance statement

This report covers the reporting period from 1 April 2015 to 31 March 2016 and provides details of the Committee's membership, details of 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 2014, 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 and 439A 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 21 July 2016.

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

### 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 (as approved at the AGM held on 21 July 2014 and updated as explained on page 101 below)

#### Summary of Babcock's remuneration policy for Executive Directors (Policy Table)

Purpose and link to strategy

Operation

#### 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.

##### 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.

##### 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.

Opportunity	Performance metrics
<p>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.</p> <p>Latest salaries are set out in the Annual Report on Remuneration on page 113.</p>	<p>Business and individual performance are considerations in setting base salary.</p>
<p>All the Executive Directors currently receive a cash supplement of 25% of base pay in lieu of all pension benefits. Until 31 March 2016, John Davies was a member of the Babcock International Group Pension Scheme (which offers 1/60th accrual) and also received a cash supplement for earnings in excess of the applicable scheme earnings cap.</p> <p>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 30% of base salary or, in the case of internal promotions to the Board or for Executive Directors subsequently leaving existing Group pension schemes, in excess of the cost to the Company as a percentage of base salary of their current pension provision.</p>	<p>Not performance related.</p>
<p>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.</p> <p>The cost of the benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the period of this policy. The Committee retains the discretion to approve a higher cost in certain circumstances (eg relocation) or in circumstances where factors outside the Company's control have changed materially.</p>	<p>Not performance related.</p>

## Remuneration report – continued

Purpose and link to strategy

Operation

### Variable pay

#### Annual bonus

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 Babcock 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 under the DBMP. Mandatory deferred bonus awards (Deferred annual bonus) are subject to potential forfeiture if the holder leaves before the awards vest. Malus applies to unvested deferred annual bonuses if the accounts used to determine the bonus level have to be materially corrected or the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed or will have material adverse impacts in future years.

#### Deferred bonus matching plan (DBMP)

To ensure that a substantial part of the Directors' short-term incentive rewards is exposed to the longer-term impact of decision-making and to further align their interests with shareholders.

The Committee may grant performance-related matching awards to Executive Directors who are granted deferred bonus awards.

For 2016/17 awards the current CEO (Peter Rogers) is the only Executive Director who will receive matching awards under the DBMP as the Committee no longer intends to make use of matching awards for continuing directors.

Participants can make an investment (including by voluntary extra deferral of bonus) regardless of any annual bonus earned of up to 100% of salary (including mandatory and voluntary investment). Participants may make an additional voluntary investment of up to 40% of salary. From 2016, this option will not be available to Executive Directors other than Peter Rogers in respect of his 2015/16 bonus.

An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on shares that vest.

The Committee has the ability to exercise discretion to override the DBMP matching outcome in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles.

#### Performance Share Plan (PSP) and Company Share Option Plan (CSOP)

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 Remuneration Committee has the ability to grant nil-cost options or conditional share awards under the PSP, and may grant a portion of an award in CSOP options. To date, the Remuneration Committee has only awarded nil-cost options and CSOP options to executives.

The award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate.

An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on shares that vest.

Options may also be granted under the CSOP, an HMRC approved option scheme, which have an exercise price based on market price at the award date and can be linked to PSP awards as explained further on page 126, but are otherwise the same as for PSP awards.

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.

#### All-employee plans – Babcock Employee Share Plan

To encourage employee ownership of Babcock 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).

Opportunity	Performance metrics
<p>Maximum bonus opportunity is 150% of salary.</p> <p>For achievement of threshold, up to 15% of maximum bonus is earned; for achievement of target up to 55% of maximum bonus is earned.</p>	<p>Performance is determined by the Committee on an annual basis by reference to Group and/or divisional financial measures, eg EPS growth, PBIT, PBT, OCF, as well as the achievement of non-financial objectives.</p> <p>The financial and personal/strategic objectives are typically weighted 80% and 20% of maximum, respectively.</p> <p>The Committee retains discretion to vary the weightings +/-20% for individual measures within the financial element at the start of each year, to ensure alignment with the business priorities for the year.</p> <p>Measures used for the 2015/16 annual bonus and proposed for 2016/17 are included in the Annual Report on Remuneration on page 109.</p>
<p>The maximum match would be 2 for 1 on any shares held under the DBMP (up to a maximum of 200% of salary based on maximum voluntary investment).</p> <p>For each performance condition applying to matching awards, 12.5% of the maximum award will vest for threshold performance.</p>	<p>Vesting of DBMP awards is subject to continued employment and Company performance over a three year performance period.</p> <p>Awards in recent cycles have been based on the achievement of stretching EPS, TSR and/or ROCE targets. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy. Should the Committee make changes to the measures, the weighting on EPS, TSR and ROCE combined will be not less than 66% of the total award.</p> <p>Details of measures and targets used for specific DBMP grants are included in the Annual Report on Remuneration on pages 111 and 116.</p>
<p>Maximum annual PSP awards of up to 200% of base pay.</p> <p>For each performance condition applying to an award, 16.7% of the maximum award will vest for threshold performance.</p>	<p>Vesting of PSP awards is subject to continued employment and Company performance over a three year performance period.</p> <p>Awards in recent cycles have been based on the achievement of stretching EPS and TSR targets. However, 2016/17 PSP awards will also include an element based on ROCE.</p> <p>The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy. Should the Committee make changes to the measures, the weighting on EPS and/or TSR combined will be not less than 66% of the total award.</p> <p>Details of measures and targets used for specific PSP and CSOP grants are included in the Annual Report on Remuneration on pages 110 and 115.</p>
<p>Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate.</p> <p>The Company currently offers to match purchases made through the plan at the rate of 1 free matching share for every 10 shares purchased.</p> <p>The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.</p>	<p>Not performance related.</p>

## Remuneration report – continued

### 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
Deferred Bonus Matching Plan	New appointees may participate in the DBMP on similar terms to other executives. It is not intended to make awards under this Plan in 2016/17 for Executive Directors other than Peter Rogers.	200% of salary
Performance Share Plan and Company Share Option Plan (CSOP)	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 9.4.2R if required.	N/A
<b>Other recruitment events</b>		
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

### Minor updates to the approved Remuneration Policy

Updating and minor text changes have been made to this Policy Report (as compared to the text approved at the 2014 AGM) to improve its readability and provide clarifications. These include:

- clarification of malus provisions (previously referred to as clawback) in line with emerging consensus on terminology
- updating of charts illustrating the balance of remuneration for Executive Directors to be relevant for 2016/17
- updating to reflect changes to how the policy is to be applied in 2016/17
- minor updates to reflect changes in Board membership and other (non-policy) factual changes since 2014
- updating page references, references to year ends, and other minor text changes

The remuneration policy approved at the Annual General Meeting held on 21 July 2014 is available on the Company's website at [www.babcockinternational.com/investors](http://www.babcockinternational.com/investors), together with this Policy Report.

### 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 schemes 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 our strategic objectives and aligned with shareholders' interests mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee believes that Total Shareholder Return (TSR), Underlying Earnings per Share (EPS) and Return on Capital Employed (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.

It also provides good line of sight for management.

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.

## Remuneration report – continued

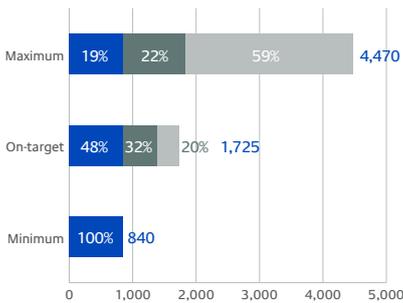
### Balance of remuneration for Executive Directors

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

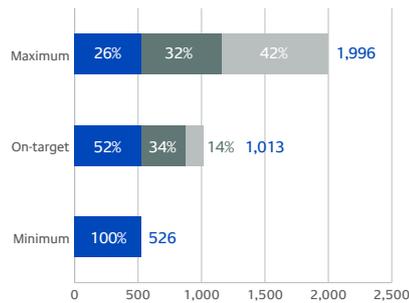
Potential reward opportunities are based on Babcock's remuneration policy and implementation in 2016/17,

as outlined in the Chairman's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2016. Note that the projected values exclude the impact of any share price movements. For this reason, were the PSP shares (or DBMP matching shares for the current Chief Executive) to vest in full, actual total remuneration may exceed the value shown in the chart below.

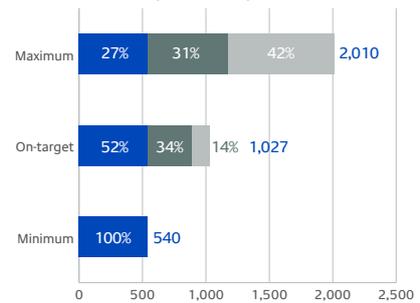
### Chief Executive Peter Rogers (£'000)



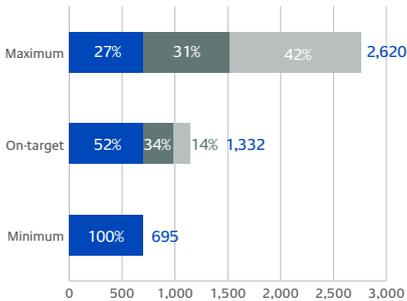
### Group Finance Director Franco Martinelli (£'000)



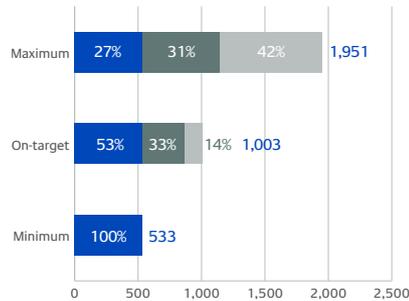
### Chief Executive, International division Bill Tame (£'000)



### Chief Operating Officer Archie Bethel (£'000)



### Chief Executive, Support Services division 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 (ie 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 12.5% and 16.7% of the maximum award under the DBMP (for Peter Rogers only) and PSP, respectively. All scenarios assume full voluntary investment under the DBMP.

The 'Maximum' scenario reflects fixed remuneration, plus full pay-out of all incentives.

## 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
Peter Rogers (Chief Executive)	31 July 2003 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director  Mr Rogers will be retiring from the Company on 31 August 2016.
Archie Bethel (Chief Operating Officer, becoming Chief Executive on 1 September 2016)	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, International division)	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, Support Services)	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 Director 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 (namely those for Peter Rogers and Bill Tame) 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 contracts for Peter Rogers and Bill Tame (but not for Archie Bethel, John Davies and Franco Martinelli) contain provisions which provide that within 90 days of the occurrence of a change of control of the Company, each 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

scheme of 150%) in lieu of bonus and all other contractual entitlements. From this payment there is to be deducted any amount that the Executive Director 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 contracts for Peter Rogers and Bill Tame (but not for Archie Bethel, John Davies and Franco Martinelli) also provide that if the Company terminates their appointment within 12 months of a change of control, they 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.

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.

## Remuneration report – continued

Component	Treatment on a change of control	Treatment for a good leaver <sup>2</sup>	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 <sup>1</sup>	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise	No annual bonus entitlement, unless the Committee exercises discretion to treat otherwise
PSP, CSOP, DBP and DBMP (mandatorily deferred bonus awards and matching awards)	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. Committee has discretion to allow immediate vesting and/or more than time pro-rated vesting	Outstanding awards are forfeited, unless the Committee exercises discretion to treat otherwise

1. Treatment of bonus on a change of control for Peter Rogers and Bill Tame is also subject of the provisions outlined on page 103 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.

The Committee has discretion to allow awards held by leavers to vest immediately and/or in full or for a 'good leaver' or on a change of control at a higher proportion than strict time-apportionment if it considers this to be appropriate.

In deciding how to exercise its discretion the Committee will take account of all the circumstances arising including, in the case of a leaver, the reasons for and circumstances of the termination of employment, the leaver's length of service, level of responsibility and business impact, individual performance during their tenure, exceptional contribution to the business and the extent to which that contribution is expected to still have an impact during the remainder of the applicable performance period. The Committee may also make any favourable exercise of its discretion subject to conditions.

### 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 120.

### 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	<p>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 Remuneration Committee in respect of fees payable to the Chairman), with any adjustments normally being made on 1 April in the review year</p> <p>Additional fees are payable for acting as Chairman of the Audit and Risk, and Remuneration Committees</p> <p>Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels</p> <p>Fees for the year ending 31 March 2016 and those for the year ending 31 March 2017 are set out in the Annual Report on Remuneration on page 118.</p>	<p>Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review</p> <p>Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees</p> <p>In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level</p>	None

#### Consideration of employee views

When reviewing Executive 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 UK 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, 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 2015 Directors' Remuneration report are provided in the Annual Report on Remuneration on page 107.

## Annual Report on Remuneration

### The Remuneration 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 2016 (with each member serving throughout the year unless otherwise stated) 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 2016)
Jeff Randall	7 / 7
Sir David Omand	7 / 7
Ian Duncan	7 / 7
Anna Stewart	7 / 7
Myles Lee	7 / 7
Victoire de Margerie <sup>1</sup>	1 / 2
Kate Swann <sup>2</sup>	4 / 4

1. Victoire de Margerie joined the Board and the Remuneration Committee on 1 February 2016. She was unable to attend one meeting due to a pre-existing engagement.

2. Kate Swann retired from the Board and the Committee on 31 December 2015

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](http://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 £113,816 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 Babcock 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 seven meetings in the year to 31 March 2016. The Committee plans to meet at least six times in the year to 31 March 2017.

#### Matters considered

The Committee considered a number of matters during the year to 31 March 2016, including:

- appropriate leaving terms for two retiring executive directors: Peter Rogers and Kevin Thomas
- terms of the remuneration package for Archie Bethel as Chief Operating Officer from 1st April 2016 and potential salary, from 1 September 2016, as the new Chief Executive
- changes to executive director remuneration arrangements for 2016/17 in light of changes to the management team, including removal of deferred bonus matching arrangements for executive directors under the DBMP as explained in the Chairman's Annual Statement on pages 92 to 95
- seeking views of our largest shareholders and investor bodies in advance of implementing changes to remuneration arrangements for 2016/17
- the Committee's terms of reference
- trends in executive remuneration, remuneration governance and investor views
- initial consideration of possible changes to remuneration policy to put to the AGM in 2017
- 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 2015/16 annual bonus scheme
- the level of vesting of PSP and CSOP awards granted in 2012
- the vesting of DBP and DBMP awards made in 2013 and 2012 respectively
- the level of annual bonuses to be paid for the year to 31 March 2015 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 2017
- review of share ownership guidelines for senior executives
- pay reviews for other senior executives for the year to 31 March 2017
- review of the Babcock 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 2015 AGM

The following table shows the results of the advisory shareholder vote on the 2015 Annual Report on Remuneration at the 2015 AGM, and the results of the binding shareholder vote on the 2014 Remuneration Policy at the 2014 AGM:

Votes cast	2015 Annual Report on Remuneration		2014 Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	372,308,190	97.3%	322,568,767	98.9%
Against	10,431,204	2.7%	3,734,746	1.1%
Total votes cast (excluding withheld votes)	382,739,394	100%	326,303,513	100%
Votes withheld	11,342,943		38,245,712	
Total votes cast (including withheld votes)	394,082,337		364,549,225	

The Committee is pleased to note the high level of shareholder support for both the Remuneration Policy (at the 2014 AGM) and Annual Report on Remuneration (at the 2015 AGM). The Committee will continue to engage with its major 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. The Committee Chairman spoke and/ or wrote to a number of the Company's leading shareholders and investor bodies (the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association) about the proposed implementation of the approved remuneration policy for 2016/17 (as described in the Chairman's Annual Statement on page 92, and elsewhere in this report), and more generally to garner their views on the Company's Remuneration Policy for Executive Directors.

## 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 2016 and 31 March 2015.

	Peter Rogers £000		Franco Martinelli £000 <sup>a</sup>		Bill Tame £000		Archie Bethel £000		Kevin Thomas £000 <sup>b</sup>		John Davies £000	
	15/16	14/15	15/16	14/15	15/16	14/15	15/16	14/15	15/16	14/15	15/16	14/15
<b>Fixed Remuneration</b>												
1 Salary	643	612	354	225	397	387	354	337	265	337	338	322
2 Benefits in kind and cash	15	24	1	11	15	13	7	19	1	1	27	19
3 Pension	161	153	88	72	99	97	88	84	66	84	68	65
<b>Annual Variable Remuneration</b>												
4 Annual bonus (cash or voluntarily deferred bonus)	349	431	192	211	187	275	197	209	0	190	188	202
5 DBMP (deferred annual bonus)	233	287	128	141	125	183	131	139	0	127	125	134
<b>Long-term incentives</b>												
6 DBMP (matching awards)	589	1,412	169	0	307	528	292	705	292	705	286	290
7 PSP	425	1,360	112	382	202	645	175	561	175	561	168	454
8 Dividends	76	169	21	23	38	71	35	77	35	78	34	45
<b>Total (of which)</b>	<b>2,481</b>	<b>4,448</b>	<b>1,065</b>	<b>1,065</b>	<b>1,370</b>	<b>2,199</b>	<b>1,279</b>	<b>2,131</b>	<b>834</b>	<b>2,083</b>	<b>1,234</b>	<b>1,531</b>
Fixed Remuneration <sup>(1,2,3)</sup>	819	789	443	308	511	497	449	440	332	422	433	406
Annual Variable Remuneration <sup>(4,5)</sup>	582	718	320	352	312	458	328	348	0	317	313	336
Long-term Incentives <sup>(6,7,8)</sup>	1,090	2,941	302	405	547	1,244	502	1,343	502	1,344	488	789

a. Franco Martinelli: the 2014/15 figures are for the period from his appointment as a Director on 1 August 2014 to 31 March 2015.

b. Kevin Thomas: retired from the Board on 31 December 2015. The figures in the table above for 2015/16 are for the period 1 April 2015 to 31 December 2015, pro-rated in the case of salary, annual bonus and benefits. The full values of long-term incentives vesting on performance to 31 March 2016 are included.

The figures have been calculated as follows:

- Salary: basic salary amount paid in the year.
- 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.
- Pension: for Peter Rogers, Bill Tame, Archie Bethel and Kevin Thomas, the numbers above represent for each year the value of the cash supplement of 25% of salary paid to each of them in both years; for John Davies they represent for each year (i) 20 times the increase in accrued benefit over the year in question less his contributions, plus (ii) a cash supplement of £36k; and for Franco Martinelli they represent, for the pro-rated period from his appointment as a director on 1 August 2014 to 31 March 2015; (i) 20 times the increase in accrued benefit over the year, less his contributions, plus (ii) the value of a cash supplement of £10k; and for the year to 31 March 2016 (his having ceased to participate in the Babcock International Group Pension Scheme as an active member from 1 April 2015), a cash supplement of 25% of salary.
- Annual bonus (cash or voluntarily deferred bonus): this is the part of total annual bonus earned for performance during the year (see page 109) that is not required to be mandatorily deferred into a basic award of shares under the DBMP (see page 110) and that is to be satisfied in cash and/ or, if the Director has so elected, by the making of a voluntary deferral into an award of shares under the DBMP.
- 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.

## Remuneration report – continued

- DBMP (matching awards): the market value of awards that vest on performance to (i) 31 March 2016: based on vesting as to 58.8% of the total award (see page 112) and an average share price in the 3 months to 31 March 2016 of 930p and (ii) 31 March 2015: based on vesting as to 88.4%. Note: the difference between the 2014/15 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 16 July 2015 of 1,111p.
- PSP: the market value of awards that vest on performance to (i) 31 March 2016: based on vesting as to 38.7% of the total award (see page 112) and an average share price in the 3 months to 31 March 2016 of 930p and (ii) 31 March 2015: based on vesting as to 83.5% and a vesting date share price on 15 June 2015 of 1,121p (and on 16 July 2015 of 1,111p for a portion of Peter Rogers PSP award). Note: the difference between the 2014/15 PSP 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 and dividends accrued on subsequent actual vesting.
- 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 2016 and (ii) 31 March 2015, 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 2016 and the prior year:

	Base fee £000		Additional fees £000		Total £000	
	15/16	14/15	15/16	14/15	15/16	14/15
Mike Turner	310	295	0	0	310	295
Jeff Randall	58	55	15 <sup>4</sup>	9	73	64
Sir David Omand	69	65	0	0	69	65
Ian Duncan	58	55	15 <sup>4</sup>	13	73	68
Kate Swann <sup>1</sup>	44	55	0	0	58	55
Anna Stewart	58	55	0	0	58	55
Myles Lee <sup>2</sup>	62	N/A	0	N/A	62	N/A
Victoire de Margerie <sup>3</sup>	10	N/A	0	N/A	10	N/A

- Retired from the Board on 31 December 2015: figure for 2015/16 is for the period 1 April 2015 to 31 December 2015.
- Appointed to the Board on 1 April 2015.
- Appointed to the Board on 1 February 2016.
- Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).

### Pensions

The Executive Directors, other than John Davies, did not participate in a Group pension scheme or otherwise receive pension benefits from the Group for service during the year to 31 March 2016. These Executive Directors received a cash supplement equal to 25% of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

John Davies was a member of the Babcock International Group Pension Scheme until 31 March 2016. During the year to 31 March 2016, John Davies received a cash supplement of £36,000 in lieu of pension benefits on that part of his salary as exceeded the applicable scheme earnings cap.

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 and Kevin Thomas were active members 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, Kevin Thomas 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. In the year to 31 March 2016, he accrued benefits on earnings up to the scheme earnings cap (for the year to 31 March 2016, £149,400) at the rate of one-sixtieth of pensionable salary for each year of service. From 1 April 2016, John Davies has ceased to be an active member of the Scheme and now receives a cash supplement equal to 25% of his salary in line with the other Executive Directors.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2016 are set out in the following table:

Director	Accrued pension at 31 March 2016 £ pa	Normal retirement date <sup>1</sup>
Bill Tame <sup>2</sup>	50,274	60
Archie Bethel <sup>2</sup>	39,950	65
Kevin Thomas <sup>2,3</sup>	64,168	65
John Davies	57,302	65
Franco Martinelli <sup>2</sup>	58,981	65

- Date from which payment can be drawn with no actuarial reduction.
- Bill Tame, Archie Bethel, Kevin Thomas and Franco Martinelli were not active members of the scheme during the year.
- Kevin Thomas retired from the Board on 31 December 2015 and retired as a full-time executive on 31 March 2016. The figure for him above is the amount accrued at 31 March 2016.

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	2015/16 £000	2014/15 £000
Bill Tame	3	2
Archie Bethel	2	2
Kevin Thomas	2 <sup>1</sup>	2
John Davies	2	2
Franco Martinelli	2	1 <sup>2</sup>

- Pro rata amount for the period from 1 April 2015 to 31 December 2015, the date of his retirement from the Board.
- Pro rata amount for the period from his appointment as a director on 1 August 2014 to 31 March 2015.

## Annual Bonus Scheme

### 2015/16 Annual bonus (audited)

For our Executive Directors' annual bonus schemes in 2015/16, 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 2015/16 bonus were set by the Committee at the beginning of the year.

The table below sets out the annual bonus schemes in place for the Executive Directors and the outturn under them in 2015/16. The figures in the table below for actual outturn excludes the effect of changes in exchange rates.

Bonus element	Threshold target	Maximum target	Actual outturn		Peter Rogers	Franco Martinelli	Bill Tame	Archie Bethel	Kevin Thomas	John Davies
EPS <sup>1</sup> performance	73.1p	77.1p	74.7p	Maximum potential (% of salary)	90%	90%	90%	90%	90%	90%
Stretching targets, with a sliding scale between threshold and maximum				Outturn (% of salary)	33.5%	33.5%	33.5%	33.5%	0%	33.5%
Achieving budgeted Group cash flow	96% of budget	Budget (£329.9m)	£400.5m	Maximum potential (% of salary)	15%	15%				
				Outturn (% of salary)	15%	15%				
Achieving budgeted Group PBT <sup>2,3</sup>	96% of budget	Budget (£467.9m)	£463.5m	Maximum potential (% of salary)	15%	15%				
				Outturn (% of salary)	12%	12%				
Achieving budgeted Divisional cash flow <sup>3</sup>	96% of budget	Budget <sup>4</sup>	-	Maximum potential (% of salary)			15%	15%	15%	15%
				Outturn (% of salary)			15%	15%	0%	15%
Achieving budgeted Divisional PBIT <sup>2,3</sup>	96% of budget	Budget <sup>4</sup>	-	Maximum potential (% of salary)			15%	15%	15%	15%
				Outturn (% of salary)			0%	14.3%	0%	14%
Non-financial objectives <sup>5</sup>				Maximum potential (% of salary)	30%	30%	30%	30%	30%	30%
				Outturn (% of salary)	30%	30%	30%	30%	0%	30%
Total				Maximum potential (% of salary)	150%	150%	150%	150%	150%	150%
				Outturn (% of salary)	90.5%	90.5%	78.5%	92.7%	0%	92.5%

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 bonus element for John Davies in respect of divisional financial targets applicable to the scheme is based on the targets set in respect of Defence and Security, where he was Chief Executive for the greater part of the financial year.
4. The Remuneration 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.
5. Non-financial objectives are set around the strategic and risk management 'Themes', which for the year were Reputation; Growth; Employees; and Processes. Within these Themes are then areas of 'Focus' and for each such area there are a number of more detailed 'Indicators' relating to specific matters that fall within that area of Focus. The scheme does 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 underway. At the end of the bonus year, the Committee reviews progress against the Themes, Focuses and Indicators overall having regard to all relevant circumstances and makes an assessment as to performance on non-financial measures and what the appropriate bonus payment, if any, would be for that.

The actual 'Indicators' used each 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 will 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.

## Remuneration report – continued

### 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 Babcock shares (by means of an award of nil-cost options).

Since 2012, deferred awards have been made to Directors under the Deferred Bonus Matching Plan (DBMP) under which the deferral period is three years. In addition to the mandatory deferral of 40% of bonus the DBMP allows for Directors to be invited to make a voluntary additional investment (including by way of accepting deferral of extra amounts of bonus) of an amount equal to up to 40% of salary. Both mandatorily deferred and voluntary investments are eligible, subject to Committee discretion, for performance-based matching share awards of up to a 2 for 1 match.

The Committee granted performance-related matching awards under the DBMP to Directors on the amount of bonus for 2014/15 mandatorily or voluntarily deferred into share awards under that scheme. As part of the restructuring of Executive Director remuneration arrangements discussed in the Chairman's Annual Statement on page 93, no further matching awards under the DBMP will be granted to Executive Directors, with the exception of Peter Rogers in respect of his deferred bonus for 2015/16.

The performance conditions relating to matching awards made in 2015 and those proposed for matching awards to be made to Peter Rogers and other below-Board participants in 2016 are discussed on pages 111 and 112. Mandatorily deferred annual bonus awards (Basic Awards) and Matching Awards under the DBMP 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 and DBMP)

#### PSP awards made in 2015/16\* (audited)

Director	Basis	Face value (£) <sup>1</sup>	Face value (% of salary) <sup>2</sup>	% receivable for threshold performance	End of performance period
Peter Rogers		1,285,690	200%	16.7%	31 March 2018
Franco Martinelli	As per the Policy. Performance measures and targets are set out below	530,782	150%	16.7%	31 March 2018
Bill Tame		595,522	150%	16.7%	31 March 2018
Archie Bethel		530,782	150%	16.7%	31 March 2018
Kevin Thomas <sup>3</sup>		530,782	150%	16.7%	31 March 2018
John Davies		507,140	150%	16.7%	31 March 2018

1. Based for directors on 3 day average share price (of 1,141p) at time of grant.

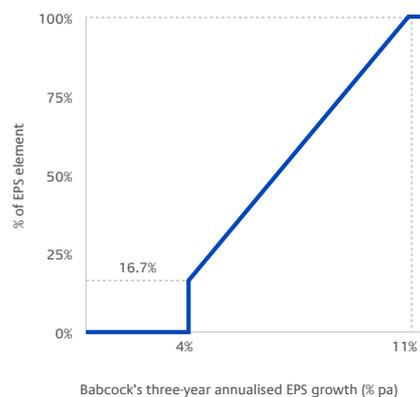
2. Expressed as a percentage of salary at the date of the award.

3. Kevin Thomas retired as a director on 31 December 2015.

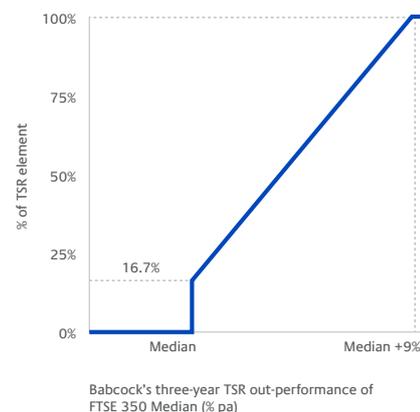
\* In the form of nil-cost options.

The performance targets that were attached to these awards – split equally between TSR performance relative to the peer group and real EPS growth – are illustrated in the charts below:

#### EPS element (50% of award)



#### TSR element (50% of award)



Note: TSR comparators are the companies comprised in the FTSE 350 (excluding investment trusts and financial services companies). As reported in the Remuneration Report for the year to 31 March 2015, the Committee decided, for awards going forward, having regard to the low inflation environment and the increasingly international nature of the Company's business, to measure growth in EPS in absolute terms and not, as in previous years, as growth in excess of the UK Retail Prices Index. 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.

**Deferred Bonus Plan awards made in 2015/16\* (audited)**

Director	Basis	Face value (£) <sup>1</sup>	Face value (% of salary) <sup>2</sup>	% receivable for threshold performance	End of performance period
Peter Rogers		532,128	83%	n/a	n/a
Franco Martinelli	As per the Policy. No additional performance conditions required for vesting.	114,579	32%	n/a	n/a
Bill Tame		183,359	46%	n/a	n/a
Archie Bethel		264,050	75%	n/a	n/a
Kevin Thomas <sup>3</sup>		126,674	36%	n/a	n/a
John Davies		218,513	65%	n/a	n/a

1. Based for directors on three day average share price of 1,141p at time of grant.
2. Expressed as a percentage of salary at the date of award.
3. Kevin Thomas retired as a director on 31 December 2015.

\* In the form of nil-cost options.

**Deferred Bonus Matching Plan awards made in 2015/16\* (audited)**

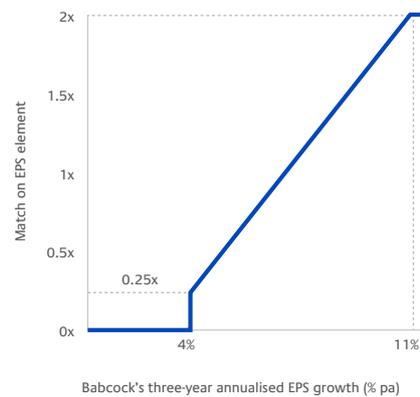
Director	Basis	Face value (£) <sup>1</sup>	Face value (% of salary) <sup>2</sup>	% receivable for threshold performance	End of performance period
Peter Rogers		1,064,256	166%	12.5%	31 March 2018
Franco Martinelli	As per the Policy. Performance measures and targets are set out below	229,158	65%	12.5%	31 March 2018
Bill Tame		366,717	92%	12.5%	31 March 2018
Archie Bethel		528,100	149%	12.5%	31 March 2018
Kevin Thomas <sup>3</sup>		253,348	72%	12.5%	31 March 2018
John Davies		437,026	129%	12.5%	31 March 2018

1. Based for directors on three day average share price of 1,141p at time of grant.
2. Expressed as a percentage of salary at the date of award.
3. Kevin Thomas retired as a director on 31 December 2015.

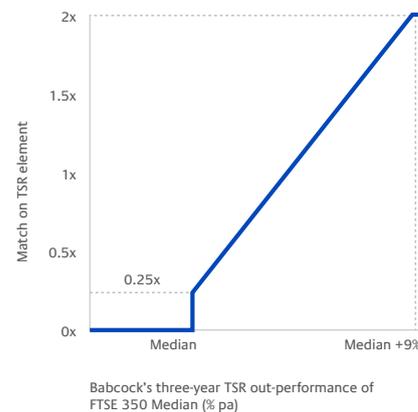
\* In the form of nil-cost options.

The DBMP allows 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 scheme 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 2015 cycle, the performance period runs from 1 April 2015 to 31 March 2018, the same as for PSP awards made in 2015. The performance targets attached to those matching awards – split equally between TSR performance relative to the peer group, EPS growth, and return on capital employed (ROCE) – are illustrated in the charts below:

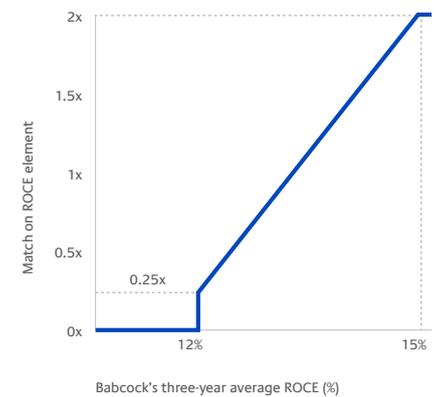
**EPS element**  
(33% of award)



**TSR element**  
(33% of award)



**ROCE element**  
(33% of award)



## Remuneration report – continued

The target for maximum vesting of these awards was set as ROCE of 15% and for threshold vesting it is 12%. 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).

For 2015/16 Executive Directors received awards in lieu of mandatorily and voluntarily deferred bonus and matching awards (in respect of the 2014/15 bonus) as follows:

Director	Deferred annual bonus (mandatorily deferred bonus) no of shares	Voluntarily Deferral Awards (no of shares)	Total shares invested in the DBMP in 2015/16	Potential Maximum number of matching shares
Peter Rogers	25,187	21,450	46,637	93,274
Franco Martinelli	10,042	–	10,042	20,084
Bill Tame	16,070	–	16,070	32,140
Archie Bethel	12,187	10,955	23,142	46,284
Kevin Thomas <sup>1</sup>	11,102	–	11,102	22,204
John Davies	11,785	7,366	19,151	38,302

1. Kevin Thomas retired as a director on 31 December 2015.

### 2013 PSP awards vesting (audited)

Awards granted in 2013 under the PSP were subject to 3-year TSR and EPS targets outlined on page 115. 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 2016	2.4% 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 2016	9.1% pa in excess of RPI (historical EPS numbers were restated to ensure they were on the same accounting basis)	50%	77.5%
2013 PSP awards expected to vest to Executive Directors in June 2016:			38.7%

Director	Award	Number expected to vest
Peter Rogers	PSP 2013	45,673
Franco Martinelli <sup>1</sup>	PSP 2013	12,092
Bill Tame	PSP 2013	21,684
Archie Bethel	PSP 2013	18,855
Kevin Thomas <sup>2</sup>	PSP 2013	18,855
John Davies	PSP 2013	18,016

1. Franco Martinelli's awards were made prior to his appointment as a director.

2. Kevin Thomas retired as a director on 31 December 2015.

### 2013 DBMP awards vesting (audited)

Awards granted in 2013 under the DBMP were subject to the 3-year TSR, EPS and average ROCE targets outlined on page 116. 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 2016	2.4% 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 2016	9.1% pa in excess of RPI (historical EPS numbers were restated to ensure they were on the same accounting basis)	33%	1.53x
Outcome of 3-year average ROCE	25.0%	33%	2x
Match expected on 2013 DBMP awards for Executive Directors on vesting in June 2016:			1.18

Director	Award	Number expected to vest
Peter Rogers	DBMP 2013	63,281
Franco Martinelli <sup>1</sup>	DBMP 2013	18,152
Bill Tame	DBMP 2013	33,009
Archie Bethel	DBMP 2013	31,364
Kevin Thomas <sup>2</sup>	DBMP 2013	31,364
John Davies	DBMP 2013	30,754

1. Franco Martinelli's award was made prior to his appointment as a director.

2. Kevin Thomas retired as a director on 31 December 2015.

### 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 to be in the best interests of the Company at the time, and what is permissible within available headroom and dilution limits.

### Executive Directors' remuneration for 2016/17

In light of the changes to our management team, and having in mind shareholder views on remuneration arrangements, including requests for less complexity, the Remuneration Committee has considered carefully how best to apply our policy for remuneration for executive directors in 2016/17. Having sounded out the views of leading shareholders, the Committee has taken this opportunity to remove matching share awards going forward for Executive Directors under the DBMP (for continuing directors), align the remuneration packages for Executive Directors more closely with market by moving salaries closer to market median, and increase the PSP opportunity within the limits prescribed in our approved policy, to help support recruitment and retention whilst being true to our policy. As set out in the Chairman's Annual Statement on page 93, remuneration arrangements for our Executive Directors in 2016/17 comprise the following:

- a move to more market competitive salary (other than for the outgoing CEO, Peter Rogers, who is participating in a final time pro-rated DBMP matching opportunity in 2016)
- annual bonus awards of up to 150% of salary, operated using a similar structure as in 2015/16. 40% of awards will continue to be mandatorily deferred into shares for 3 years
- removal of DBMP matching arrangements (other than for Peter Rogers, as above)
- PSP awards of 200% for all executive directors, based on TSR, EPS and ROCE, equally weighted
- pension and benefit arrangements as outlined above for 2015/16

This structure is described in more detail below.

### Base salary

Executive Directors' base salaries and benefits are reviewed each year with any changes usually taking effect from 1 April. Babcock's 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. However, senior executive salaries have not kept pace with market or with the increased responsibilities in managing what is now a significantly larger and more complex business than it was five years ago. Executive Directors' 2015/16 base salaries were positioned on average c 20% behind market, while total remuneration was approximately aligned with market (on a fair value basis) other than for the Group Finance Director whose package was c 15% below market. Having Executive Director salaries so significantly below market also affects remuneration for other senior staff and we were concerned that this does, and will increasingly, affect our ability to recruit and retain talent both at and below Board level.

As part of the restructuring of remuneration arrangements associated with changes to the management team which is more fully described (on page 93) in the Chairman's Annual Statement and elsewhere in this Report, the Committee has more closely aligned the remuneration packages for continuing Executive Directors with market by ceasing to grant matching awards to continuing Executive Directors under the DBMP, moving salaries closer to market median and increasing the PSP opportunity within the limits prescribed in our approved policy, to help support recruitment and retention whilst maintaining broadly the fair value of Executive Director total remuneration for those whose roles are unchanged and delivering pay in line with our policy. As part of this review of remuneration arrangements, the Committee determined the following base salaries for 2016/17 for Executive Directors.

	Salary 2016/17 £	Salary 2015/16 £
Peter Rogers	660,000	642,850
Franco Martinelli	420,000	353,861
Bill Tame	420,000	397,014
Archie Bethel (as Chief Operating Officer)	550,000	N/A
Archie Bethel (as Chief Executive, Marine and Technology)	N/A	353,861
Kevin Thomas <sup>1</sup>	N/A	353,861
John Davies <sup>2</sup> (as Chief Executive Support Services)	405,000	N/A
John Davies <sup>2</sup> (as Chief Executive Defence and Security)	N/A	338,101

1. Kevin Thomas retired from the Board on 31 December 2015. The figure for 2015/16 above is that implied for a full year of service as a director.

2. Salary reflects that he receives car and fuel benefits.

The salary increase for the Chief Executive, International division of 5.8% reflects the fact that the current fair value of his total remuneration was already closer to being appropriately positioned, whereas the Group Finance Director's salary increase of 18.7% reflects the fact that the fair value of his total remuneration was significantly below market. Salary increases for the Chief Operating Officer and the new Chief Executive, Support Services reflect both additional responsibilities and a move closer to market median.

As Peter Rogers, current Chief Executive, will be retiring shortly we have simply increased his salary effective 1 April 2016 by 2.7% (within the range of increases for the wider UK Babcock employee population) and are making no changes to his current incentive arrangements.

Leading shareholders consulted on the above proposals were broadly supportive of this approach to simplification of remuneration arrangements, and acknowledged the need to rebalance remuneration as a result of the removal of the DBMP.

Archie Bethel will take over as Chief Executive on 1 September 2016, at which point the Remuneration Committee will once again review his salary and set it to be at an appropriate level for the role. Subject to further review at the time, the Committee is minded to appoint Archie Bethel as CEO on a salary of c £750k, which would remain below market median and would represent a reduction in total remuneration for the role. The final approved salary will be disclosed in next year's remuneration report.

## Remuneration report – continued

### 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 2017 is expected to be in the range of 2 to 3% (with individual increases significantly above this amount in some cases) dependent on business and personal performance and local market conditions.

However, as explained on page 93 in the Chairman's Annual Statement and elsewhere in this Report, the Committee has restructured the continuing Executive Directors' overall remuneration packages, within the scope of its Remuneration Policy, and part of that restructuring involved the making of significant increases this year in base salaries, but that broadly maintain the fair value of total remuneration.

### 2016/17 Annual bonus

For our Executive Directors' annual bonus schemes for 2016/17 we are continuing to use the structure adopted in 2015/16 as set out on page 109. The Committee intends to disclose the Group financial performance targets for 2016/17 and personal 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 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 and DBMP awards for 2016/17

As discussed earlier in this report, with the exception of Peter Rogers, who will continue to participate in a final cycle of matching awards under the DBMP in 2016/17, the Committee intends to cease granting matching awards to Executive Directors. The DBMP currently allows for a performance-based matching award of two shares for each share mandatorily or voluntarily invested, which is worth up to 200% of salary based on the maximum permitted investment of 100% of salary. Having removed this matching opportunity for Executive Directors for 2016/17, the Committee intends to increase the PSP award opportunity for all Directors (other than Peter Rogers) by 50% of salary and has made some fairly significant changes to base salaries in order to ensure that the fair value of Executive Director total remuneration is broadly maintained for those whose roles are unchanged.

Since adoption in 2012, DBMP matching awards have included a ROCE performance measure alongside TSR and EPS, whilst PSP awards have been made based on an equal weighting of TSR and EPS growth. The Committee considers that ROCE continues to be an effective measure of long-term performance and that it reinforces the focus on returns for shareholders, encourages capital discipline and provides good line of sight for management. Therefore, in order to retain a weighting on ROCE in Babcock's long-term incentives following the elimination of matching awards under the DBMP, we plan to use ROCE, TSR and EPS equally weighted as performance measures for the PSP awards to be made in 2016/17.

The Committee intends to grant awards in 2016/17 under the PSP of 200% of salary for all Executive Directors, with the performance measures and targets as follows: the EPS growth targets for 2016 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 15%, set to be relevant for the Company strategy.

### 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 2016 and for the year to 31 March 2017 are summarised in the table below.

Director	2016/17				2015/16			
	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Maximum Matching Share opportunity under DBMP <sup>1</sup> (% of salary)	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Maximum Matching Share opportunity under DBMP <sup>1</sup> (% of salary)
Peter Rogers <sup>2</sup>	660,000	150%	200%	200%	642,850	150%	200%	200%
Franco Martinelli	420,000	150%	200%	N/A	353,861	150%	150%	200%
Bill Tame	420,000	150%	200%	N/A	397,014	150%	150%	200%
Archie Bethel	550,000 <sup>3</sup>	150%	200%	N/A	353,861 <sup>4</sup>	150%	150%	200%
Kevin Thomas <sup>5</sup>	N/A	N/A	N/A	N/A	353,861	150%	150%	200%
John Davies	405,000 <sup>4</sup>	150%	200%	N/A	338,101	150%	150%	200%

1. Assumes maximum bonus and maximum self-investment and 2 for 1 share match.
2. Peter Rogers will be retiring as a director on 31 August 2016 and his actual PSP and Matching Share Awards for 2016/17 will reflect this.
3. Salary on appointment as Chief Operating Officer 1 April 2016. His salary as Chief Executive from 1 September 2016 will be set using the approach described on page 94.
4. Salary as Chief Executive, Marine and Technology.
5. Kevin Thomas retired from the Board on 31 December 2015. The figure for 2015/16 above is that implied for a full year of service as a director.

### Outstanding share awards summaries: grants made up to and during 2015

The following tables on pages 115 to 116 summarise the performance targets (if applicable) and other information about the schemes 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 2016 (the awards made in 2012 under the PSP, the CSOP and the DBMP in 2012).

Scheme	Performance Share Plan (nil price options) and Company Share Option Plan (market price options) 2012–2015		
Performance period	For the 2012 awards: 1 April 2012 to 31 March 2015 (vested in June 2015 as to 83.5%). For the 2013 awards: 1 April 2013 to 31 March 2016 (expected to vest in June 2016 as to 38.7% for Executive Directors). For the 2014 awards: 1 April 2014 to 31 March 2017. For the 2015 awards: 1 April 2015 to 31 March 2018.		
General performance target	EPS growth test	Comparative TSR test	Proportion of total award that can vest under each measure
Maximum	Compound annual growth: 2012 awards: 12.5% or more in excess of RPI 2013 and 2014 Awards: 11% or more in excess of RPI 2015 Awards: 11% or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	50%
Threshold	Compound annual growth in: 2012 – 2014 awards: 4% or more in excess of RPI 2015 Awards: 4% or more Intermediate growth between the above points	TSR performance equivalent to the median for the peer group as a whole Intermediate ranking between the above points	8.3% Straight–line basis between 8.3% and 50%
	Compound annual growth below threshold	Performance less than equivalent to median for the whole peer group	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.		
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. 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.		

## Remuneration report – continued

Scheme	Deferred Bonus Matching Plan (nil price options) 2012–2015 matching awards			
Performance period	<p>For the 2012 awards: 1 April 2012 to 31 March 2015 (vested in June 2015 as to 88.4%).</p> <p>For the 2013 awards: 1 April 2013 to 31 March 2016 (expected to vest in June 2016 as to 58.8% for Executive Directors).</p> <p>For the 2014 awards: 1 April 2014 to 31 March 2017.</p> <p>For the 2015 awards: 1 April 2015 to 31 March 2018.</p>			
General Performance target	EPS growth test	Comparative TSR test	ROCE test	Match that can vest under each measure
Maximum	<p>Compound annual growth: 2012 awards: 12.5% or more in excess of RPI</p> <p>2013 and 2014 Awards: 11% or more in excess of RPI</p> <p>2015 Awards: 11% or more</p>	<p>Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more</p>	<p>ROCE of more than 20.5% (2012)/ 23.5% (2013)/ 17% (2014)/ 15% (2015)</p>	0.33x maximum
Threshold	<p>Compound annual growth: 2012 – 2014 awards: 4% or more in excess of RPI</p> <p>2015 Awards: 4% or more</p>	<p>TSR performance equivalent to the median for the peer group as a whole</p>	<p>ROCE of 17.5% (2012) 21.5% (2013) / 15% (2014)/ 12% (2015)</p>	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 17.5% (2012)/21.5% (2013)/ 15% (2014)/ 12% (2015)	0x
TSR comparator group	<p>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.</p>			
Other information	<p>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.</p> <p>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 2012, 2013 and 2015 awards ROCE is underlying Earnings Before Interest and Tax ('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 Remuneration 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.</p> <p>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.</p> <p>Exercise periods commence not less than three years from actual or nominal award grant date.</p>			

## 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 schemes.

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: <ul style="list-style-type: none"> <li>laying the foundations for sustainable growth in specific existing and new geographical business markets;</li> <li>winning key bids and re-bids;</li> <li>fostering strategically important partnering arrangements.</li> </ul>	
SO: Developing and maintaining leading market positions in the UK and selected overseas markets.	Specific non-financial objectives for: <ul style="list-style-type: none"> <li>progressing plans for entry into or expansion in targeted domestic and overseas markets;</li> <li>securing key business development milestones.</li> </ul>	
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: <ul style="list-style-type: none"> <li>customer satisfaction;</li> <li>continuing improvement of management processes;</li> <li>meeting and planning for existing and future customer expectations on capability and compliance, for example, in the field of security and information assurance.</li> </ul>	
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 schemes.
SO/R: Maintenance of an excellent health, safety and environmental record.	Overriding health, safety and environmental performance criterion in annual bonus schemes.	

### Exit payments made in year (audited)

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

### Payments to past Directors (audited)

In September 2015, Kevin Thomas gave notice of his retirement from full-time executive employment with the Company, effective 31 March 2016. He retired as an Executive Director of the Company on 31 December 2015 though he continued to be employed on his existing terms and conditions until his retirement on 31 March 2016 and he therefore continued to be paid salary and benefits in accordance with his service agreement until 31 March 2016. He will be entitled to the full value of any shares vesting in June 2016 under his 2013 PSP and DBMP awards (together with any associated Dividend Equivalent Cash). Payments not included in the single total figure of remuneration table were £88,500 of salary and £22,100 of pension in respect of the period 1 January 2016 to 31 March 2016. For further details on the treatment of Kevin Thomas's outstanding awards see section on "Retiring Directors" (below).

Save in respect of Kevin Thomas as referred to above, no payments were made to past Directors in the year.

### Retiring Directors

During the year to 31 March 2016, two Executive Directors gave notice of retirement. Kevin Thomas, as noted above, retired on 31 March 2016 having given notice of his retirement in September 2015. He stepped down from the Board on 31 December 2015. Peter Rogers gave notice in January 2016 of his intention to retire on 31 August 2016, when he will also step down from the Board. Consequent upon those notices of retirement, the Committee decided, as permitted by the terms of its remuneration policy, to deal with their remuneration as described further below.

Kevin Thomas will also continue to act as the Group's nominee for part-time, non-executive Chairman of the parent body organisations for the Magnox and Dounreay decommissioning contracts (Cavendish Fluor Limited and Cavendish Dounreay Partnership Limited, respectively) in which the Group is interested with its joint venture partners. He will be paid £60,000 per annum for each Chairmanship.

### Basic Pay and benefits (other than annual bonus and share awards)

Kevin Thomas continued to, and Peter Rogers will continue to, be paid in accordance with their relevant service agreements up to the date of their retirement.

### Annual Bonus 2015/16

The bonus for Peter Rogers for the full year to 31 March 2016 (for the whole of which he was employed) will be paid at the normal time in June 2016 and pro-rated for performance. In accordance with our remuneration policy, 40% of the bonus earned will be deferred for three years, subject to adjustment as described on page 94 above, into a Basic Award of shares under the DBMP and he will also receive the benefit of the dividends that would have been paid over the vesting period on shares that eventually vest under that award.

### DBMP and PSP awards in 2016

As he is continuing as Chief Executive for most of the first half of the 2016/17 financial year, Peter Rogers will also be granted a time pro-rated matching award under the DBMP and a time pro-rated PSP award, over one-sixth of the number of shares he would have been granted were he to have been expected to serve for the full three years of the performance period to be attached to those awards. These pro-rated matching awards under the DBMP and the PSP awards will be subject to

performance conditions as described on page 114 above for the period 1 April 2016 to 31 March 2019, and will vest at the normal time. He will also receive the benefit of the dividends that would have been paid over the vesting period on shares that vest the awards.

### Annual Bonus 2016/17

As he is serving as Chief Executive for most of the first half of the 2016/17 financial year, Peter Rogers will also participate in a time and performance pro-rated annual bonus scheme on similar terms as for other Directors as described on page 114 above, but will only receive 50% of the amount that would be payable for the full year after testing for performance. Any such payment will 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, but he will not be eligible for a matching award opportunity on the deferral. He will also receive the benefit of the dividends that would have been paid over the vesting period on shares that vest in respect of such DBMP award.

### Existing Share Awards (made up to and including 2015)

Please refer to the Chairman's Annual Statement on page 94 above, which provides further context regarding the treatment of existing share awards. The Committee has exercised discretion afforded within the approved remuneration policy not to reduce the number of shares covered by the share awards already held by Peter Rogers and Kevin Thomas at the time they gave notice of their retirements to reflect, where those awards were performance-related that the vesting periods would not be served in full. Performance pro-rating will still apply. Subject to performance they will, therefore receive any shares actually vesting under their PSP and DBMP 2013, 2014 and 2015 awards by reference to the number of shares as originally granted under each award, together with the Dividend Equivalent Cash on such shares.

### Non-Executive Directors' fees (including the Chairman)

The Chairman and Non-Executive Directors receive fixed fees. These fees are reviewed against market practice from time to time (by the Chairman and the Executive Directors in the case of the Non-Executive Director fees and by the Remuneration Committee in respect of the fees payable to the Chairman). The Chairman and Non-Executive Director fees were last reviewed and set as of 1 April 2015.

	Year to 31 March 2017 £
Annual rate of fees	
Chairman	310,000
Senior Independent Director (inclusive of basic fee)	69,000
Basic Non-Executive Director's fee (UK based directors) <sup>1</sup>	58,000
Chairmanship of Audit and Risk Committee <sup>2</sup>	15,000
Chairmanship of Remuneration Committee <sup>2</sup>	15,000

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 £62,000.
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 107) 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 2014/15 to 2015/16	
	Chief Executive	Other employees
Base salary	5%	1.9%
Taxable benefits	-38%	3.4%
Single-year variable	-19%	-26.6%

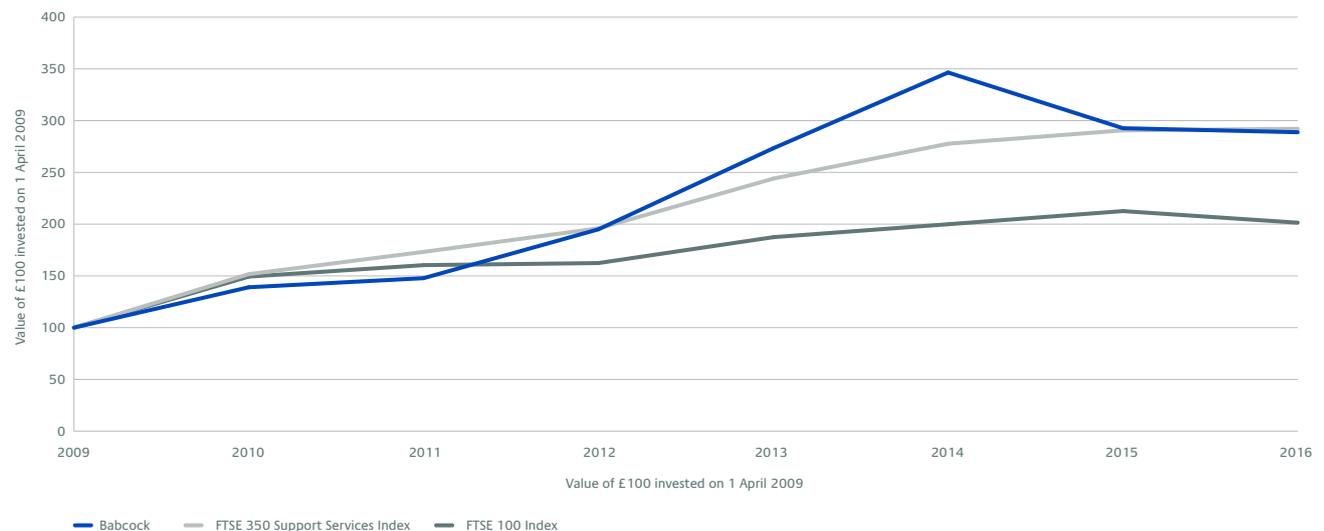
### Relative importance of spend on pay

	2014/15	2015/16	% change
Distribution to shareholders	£117m	£126m	7.3%
Employee remuneration	£1,384m	£1,459m	5.4%

### Performance graphs

The following graph shows the TSR (Total Shareholder Return) for the Company compared to the FTSE100 Index and FTSE350 Support Services Index, assuming £100 was invested on 31 March 2009 (investment in the Company was worth £289 on 31 March 2016). 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 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.

### Babcock CEO single figure of remuneration and % of variable awards vesting

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Single figure (£k)	1,706	1,792	2,185	2,731	3,809	4,448	2,491
Bonus vesting (% max)	97%	98%	99%	99%	93%	78%	60%
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	n/a	88.4%	58.8%
PSP/CSOP vesting (% max)	100%	82.9%	57.8%	58.8%	94.7%	83.5%	38.7%

## Remuneration report – continued

### 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 2016, and Directors' interests in shares and options under Babcock's long-term incentives are set out in the sections below:

Director	At 31 March 2015		At 31 March 2016						
	Shares held	Shares held	Options held				S/holding req. (% salary)	Current shareholding (% of salary) <sup>2</sup>	Req. met? <sup>2</sup>
Owned outright by director or spouse <sup>1</sup>	Owned outright by director or spouse <sup>1</sup>	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment				
Peter Rogers	1,074,856	1,250,829	63,105	0	627,371	85,225	300%	1,847%	✓
Franco Martinelli	244,956	263,114	8,125	0	181,943	23,319	200%	706%	✓
Bill Tame	569,518	508,847	7,714	0	279,286	54,075	200%	1,217%	✓
Archie Bethel	298,407	298,407	33,090	0	281,994	39,643	200%	801%	✓
Kevin Thomas <sup>4</sup>	252,425	292,936	23,001	0	260,197	38,833	200%	786%	✓
John Davies	87,390	118,371	27,226	0	261,680	38,388	200%	332%	✓
Mike Turner	55,384	65,384							
Jeff Randall	3,061	4,268							
Sir David Omand	0	0							
Ian Duncan	0	0							
Kate Swann <sup>5</sup>	6,923	6,923							
Anna Stewart	0	5,656							
Myles Lee <sup>6</sup>	0	2,000							
Victoire de Margerie	0	1,000							

- Beneficially held shares (of director and/or spouse).
- Current shareholdings for comparison with the shareholding requirements for Executive Directors is calculated based on salary as at 31 March 2016 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 2016 and calculated post-tax.
- Disclosure of these shareholdings reflects any adjustments made due to the rights issue which completed during May 2014.
- Kevin Thomas retired from the Board on 31 December 2015. His interests are shown as at that date.
- Kate Swann retired from the Board on 31 December 2015. The figures shown for her are holdings as at that date.
- Myles Lee joined the board on 1 April 2015.
- 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 2016 and 24 May 2016.

### Directors' share-based awards and options (audited)

The table below shows the various share awards held by Directors under the Company's various share schemes. The Company's mid-market share price at close of business on 31 March 2016 was 949.5p. The highest and lowest mid-market share prices in the year ended 31 March 2016 were 1,145p and 854p, respectively.

Director	Scheme <sup>1</sup> 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 2016	Exercise price (pence) <sup>2</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>3</sup>	Expiry date <sup>4</sup>	
Peter Rogers	PSP 2012	36,808		30,734 <sup>b</sup>	6,074	0		762.52	Jul 2015	Jul 2016	
	PSP 2012	108,851		90,890 <sup>a</sup>	17,961	0		773.54	Jun 2015	Jun 2016	
	DBMP 2012 (basic award)	42,455		42,455 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (basic matching award)	84,910		75,060 <sup>b</sup>	9,850	0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (voluntary deferral award)	29,446		29,446 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (voluntary deferral matching award)	58,892		52,060 <sup>b</sup>	6,832	0		762.52	Jul 2015	Jul 2016	
	PSP 2013	118,020				118,020		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic award)	32,157				32,157		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic matching award)	64,315				64,315		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral award)	21,654				21,654		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral matching award)	43,310				43,310		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	

a. Market value of each share at date of exercise (15 Jun 2015) = 1,104.1p.

b. Market value of each share at date of exercise (30 Nov 2015) = 1,078.9p.

For other notes to the table see page 126.

## Remuneration report – continued

Director	Scheme <sup>1</sup> and year of award <sup>7</sup>	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 2016	Exercise price (pence) <sup>2</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>3</sup>	Expiry date <sup>4</sup>	
Franco Martinelli	PSP <sup>(A)</sup> 2012 <sup>5,7</sup>	39,832		33,093 <sup>a</sup>	6,739	0		773.54	Jun 2015	Jun 2016	
	PSP <sup>(B)</sup> 2012 <sup>5,5A,7</sup>	1,009		695 <sup>a</sup>	314	0		773.54	Jun 2015	Jun 2016	
	CSOP 2012 <sup>7</sup>	1,009		1,009 <sup>a</sup>		0	773.54	773.54	Jun 2015	Jun 2022	
	PSP 2013 <sup>7</sup>	31,247				31,247		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic award) <sup>7</sup>	7,311				7,311		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic matching award) <sup>7</sup>	14,625				14,625		1,036.88	Jun 2016	Jun 2016	
	DBMP 2013 (voluntary deferral award) <sup>7</sup>	8,125				8,125		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral matching award) <sup>7</sup>	16,250				16,250		1,036.88	Jun 2016	Jun 2017	
	PSP 2014 <sup>7</sup>	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) <sup>7</sup>	5,966				5,966		1,223.67	Jun 2017	Jun 2018	
	DBMP 2014 (basic matching award) <sup>7</sup>	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

a. Market value of each share at date of exercise (15 Jun 2015) = 1,104.1p.

For other notes to the table see page 126.

Director	Scheme <sup>1</sup> 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 2016	Exercise price (pence) <sup>2</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>3</sup>	Expiry date <sup>4</sup>	
Archie Bethel	PSP 2012	59,919		50,032 <sup>a</sup>	9,887	0		773.54	Jun 2015	Jun 2016	
	DBMP 2012 (basic award)	19,671		19,671 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (basic matching award)	39,342		34,778 <sup>b</sup>	4,564	0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (voluntary deferral award)	16,209		16,209 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (voluntary deferral matching award)	32,419		28,658 <sup>b</sup>	3,761	0		762.52	Jul 2015	Jul 2016	
	PSP 2013	48,723				48,723		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic award)	14,751				14,751		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic matching award)	29,502				29,502		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral award)	11,920				11,920		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral matching award)	23,840				23,840		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

a. Market value of each share at date of exercise (15 Jun 2015) = 1,104.1p.

b. Market Value of each share at date of exercise (16 Jul 2015) = 1,108.5p.

For other notes to the table see page 126.

## Remuneration report – continued

Director	Scheme <sup>1</sup> 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 2016	Exercise price (pence) <sup>2</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>3</sup>	Expiry date <sup>4</sup>	
John Davies	PSP 2012 <sup>6</sup>	48,477		40,478 <sup>a</sup>	7,999	48,477		773.54	Jun 2015	Jun 2016	
	DBMP 2012 (basic award) <sup>6</sup>	14,753		14,753 <sup>b</sup>		14,753		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (basic matching awards)	29,506		26,083 <sup>b</sup>	3,423	29,506		762.52	Jul 2015	Jul 2016	
	PSP 2013	46,554				46,554		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic award)	14,464				14,464		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic matching award) <sup>7</sup>	28,929				28,929		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral award)	11,688				11,688		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral matching award)	23,377				23,377		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

a. Market value of each share at date of exercise (15 Jun 2015) = 1,104.1p.

b. Market value of each share at date of exercise (30 Nov 2015) = 1,078.9p.

For other notes to the table see page 126.

Director	Scheme <sup>1</sup> 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 2016	Exercise price (pence) <sup>2</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>3</sup>	Expiry date <sup>4</sup>	
Kevin Thomas	PSP <sup>(A)</sup> 2012 <sup>5</sup>	57,707		47,820 <sup>a</sup>	9,887	0		773.54	Jun 2015	Jun 2016	
	PSP <sup>(B)</sup> 2012 <sup>5,5A</sup>	2,210		1,554 <sup>a</sup>	656	0		773.54	Jun 2015	Jun 2016	
	CSOP 2012 <sup>5</sup>	2,210		2,210 <sup>a</sup>		0	773.54	773.54	Jun 2015	Jun 2022	
	DBMP 2012 (basic award)	19,671		19,671 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (basic matching award)	39,342		34,778 <sup>b</sup>	4,564	0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (voluntary deferral award)	16,209		16,209 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (voluntary deferral matching award)	32,419				32,419		762.52	Jul 2015	Jul 2016	
	PSP 2013	48,723				48,723		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic award)	14,751				14,751		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic matching award)	29,502				29,502		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral award)	11,920				11,920		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral matching award)	23,840				23,840		1,036.88	Jun 2016	Jun 2017	
	PSP 2014	41,286				41,286		1,223.67	Jun 2017	Jun 2018	
	DBMP 2014 (basic award)	12,980				12,980		1,223.67	Jun 2017	Jun 2018	
	DBMP 2014 (basic matching award)	25,961				25,961		1,223.67	Jun 2017	Jun 2018	
	DBMP 2014 (voluntary deferral award)	11,081				11,081		1,223.67	Jun 2017	Jun 2018	
	DBMP 2014 (voluntary deferral matching award)	22,162				22,162		1,223.67	Jun 2017	Jun 2018	
	PSP 2015			46,519			46,519		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)			11,102			11,102		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)			22,204			22,204		1,141.00	Jun 2018	Jun 2019

a. Market value of each share at date of exercise (16 Jun 2015) = 1,098.0p.  
b. Market value of each share at date of exercise (30 Nov 2015) = 1,078.9p.  
For other notes to the table see page 126.

## Remuneration report – continued

Director	Scheme <sup>1</sup> 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 2016	Exercise price (pence) <sup>2</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>3</sup>	Expiry date <sup>4</sup>	
Bill Tame	PSP 2012	68,906		57,536 <sup>a</sup>	11,370	0		773.54	Jun 2015	Jun 2016	
	DBMP 2012 (basic award)	26,875		26,875 <sup>b</sup>		0		762.52	Jul 2015	Jul 2016	
	DBMP 2012 (basic matching award)	53,750		47,515 <sup>b</sup>	6,235	0		762.52	Jul 2015	Jul 2016	
	PSP 2013	56,032				56,032		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic award)	20,356				20,356		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (basic matching award)	40,713				40,713		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral award)	7,714				7,714		1,036.88	Jun 2016	Jun 2017	
	DBMP 2013 (voluntary deferral matching award)	15,430				15,430		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

a. Market value of each share at date of exercise (17 Jun 2015) = 1,111.2p.

b. Market value of each share at date of exercise (30 Nov 2015)=1,071.0p.

### NOTES APPLICABLE TO ALL TABLES ON PAGES 121 TO 126.

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.

- PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBMP = 2012 Deferred Bonus Matching Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 110 to 116.
- 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.
- Subject to the rules of the scheme concerned, including as to meeting performance targets for PSP, CSOP and DBMP Matching Awards.
- 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.
- The vesting of the CSOP award is subject to performance measures that are identical to those for the PSP award granted on the same date. When a CSOP award is granted at the same time as a PSP award, the PSP award has two parts. The CSOP and PSP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of the two awards is limited to that number of shares that had a market value on the date of the awards (and after deducting any exercise price payable on exercise of the CSOP award) equal to the relevant grant multiple of the Director's base salary at the date of the awards (the 'Limit'). This is achieved by making the level of vesting of Part B of the PSP Award accord to the level of vesting of the linked CSOP award but the actual number of vested Part B award shares that can be exercised is then limited according to the market price on the day of exercise such that the total value of Part B PSP award shares so exercisable does not then exceed the exercise price payable on exercise of the vested CSOP award. If there is less than full vesting, it is possible for the Director to choose to exercise the CSOP to its fullest extent within the Limit and then to exercise the PSP award to the extent of any balance left within the Limit.
- The actual number of shares capable of being exercised under Part B of the PSP award can only be determined on the exercise date as explained in note 5 above.
- Awards shown in the table for John Davies for 2012 were made prior to his appointment as a Director, which took effect on 1 January 2013.
- Awards shown in the table for Franco Martinelli for 2012 and 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 2016 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) £
Peter Rogers	PSP 2012	90,890	14 Jun 2015	797,405	1,018,887	
	PSP 2012	30,734	16 Jul 2015	265,797	341,455	
	DBMP 2012 (basic award)	42,455	16 Jul 2015	367,164	471,675	
	DBMP 2012 (basic matching award)	75,060	16 Jul 2015	649,141	833,917	
	DBMP 2012 (voluntary deferral award)	29,446	16 Jul 2015	254,658	327,145	
	DBMP 2012 (voluntary deferral matching award)	52,060	16 Jul 2015	450,230	578,387	
Franco Martinelli	PSP 2012	33,093	14 Jun 2015	290,335	370,973	
	PSP 2012 Funding <sup>1</sup>	695	14 Jun 2015	n/a <sup>1</sup>	7,805	
	CSOP 2012	1,009	14 Jun 2015	7,805	11,311	7.7354
Bill Tame	PSP 2012	57,536	14 Jun 2015	504,781	644,979	
	DBMP 2012 (basic award)	26,875	16 Jul 2015	232,423	298,581	
	DBMP 2012 (basic matching award)	47,515	16 Jul 2015	410,924	527,892	
Archie Bethel	PSP 2012	50,032	14 Jun 2015	438,946	560,859	
	DBMP 2012 (basic award)	19,671	16 Jul 2015	170,121	218,545	
	DBMP 2012 (basic matching award)	34,778	16 Jul 2015	300,771	386,384	
	DBMP 2012 (voluntary deferral award)	16,209	16 Jul 2015	140,180	180,082	
	DBMP 2012 (voluntary deferral matching award)	28,658	16 Jul 2015	247,843	318,390	
Kevin Thomas	PSP 2012	47,820	14 Jun 2015	419,539	536,062	
	PSP 2012 Funding <sup>1</sup>	1,554	14 Jun 2015	n/a <sup>1</sup>	17,095	
	CSOP 2012	2,210	14 Jun 2015	17,095	24,774	7.7354
	DBMP 2012 (basic award)	19,671	16 Jul 2015	170,121	218,545	
	DBMP 2012 (basic matching award)	34,778	16 Jul 2015	300,771	386,384	
	DBMP 2012 (voluntary deferral award)	16,209	16 Jul 2015	140,180	180,082	
	DBMP 2012 (voluntary deferral matching award)	28,658	16 Jul 2015	247,843	318,390	
John Davies	PSP 2012	40,478	14 Jun 2015	355,126	453,758	
	DBMP 2012 (basic award)	14,753	16 Jul 2015	127,588	163,906	
	DBMP 2012 (basic matching award)	26,083	16 Jul 2015	225,574	289,782	

1. The actual number of PSP 2012 Funding shares capable of being exercised was determined on the CSOP exercise date. Market value on vesting could not have exceeded market value on award of relating CSOP 2012 awards.

### GENERAL NOTES:

- 'Dividend equivalent cash' (an amount representing dividends earned) of 69.77p per vested share had accrued on the PSP 2012 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.
- Closing Share Price on the last dealing date before vesting was for PSP 2012 1,121p (14 June 2015), CSOP 2012 and DBMP 2012 awards 1,111p (16 July 2015).

## Remuneration report – continued

### 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.

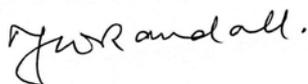
### External appointments of Executive Directors in 2015/16

The table below details the fees received by Peter Rogers, Bill Tame and Kevin Thomas during the year, in respect of their other directorships, which are retained by the Executive Director.

Name of director	Company	Fees received £000
Peter Rogers	Galliford Try plc <sup>1</sup>	4
Bill Tame	Southern Water	50
Kevin Thomas <sup>2</sup>	Harvey Nash Group plc	32

1. Peter Rogers retired from the board of Galliford Try on 30 April 2015
2. Kevin Thomas retired from the Board of Babcock International Group PLC on 31 December 2015. The figure for his earnings from Harvey Nash PLC is for the period 1 April 2015 to 31 December 2015.

This Remuneration report was approved by the Board on 24 May 2016 and signed on its behalf by:



Jeff Randall

Chairman of the Remuneration Committee

24 May 2016

### 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 2016 and an indication of likely future developments in the business of the Group can be found in the Strategic report on pages 2 to 75.

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 64 to 66 and a statement regarding the effectiveness of the internal controls can be found on page 134. Details in connection with the Company's share capital as required by DTR 7.2.6 can be found on pages 174 to 176.

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 following locations listed in the table below.

A statement regarding compliance with the UK Corporate Governance Code is included in the Governance section of the Directors' report on page 80.

#### 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 76 and 77. The table on page 81 shows the Directors who served during the year to 31 March 2016.

A summary of the rules relating to the appointment and removal of Directors can be found on page 85.

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 81.

#### Results and dividends

The profit attributable to the owners of the Company for the financial year was £286.6 million (2015: £260.2 million). An interim dividend of 6.05p per 60p

ordinary share was declared in the year (2015: 5.5p). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 19.75p (2015: 18.1p) on each of the ordinary shares of 60p to be paid on 12 August 2016 to those shareholders on the register at the close of business on 1 July 2016.

#### Authority to purchase own shares

At the Annual General Meeting in July 2015, members authorised the Company to make market purchases of up to 50,419,659 of its own ordinary shares of 60p each.

That authority expires at the forthcoming Annual General Meeting in July 2016 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 2015 (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 2016 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 23 on pages 174 to 176 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 24 on page 177.

Listing Rule	Topic	Location
9.8.4 (1)	Interest capitalised by the Group during the year	Financial statements, notes 12 and 13 on pages 162 and 163
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 23 on page 176

### Major shareholdings

As at 31 March 2016, 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 60p ordinary shares on date of notification	% of issued share capital on date of notification
The Capital Group Companies Inc.	55,999,431	11.10
Standard Life Investments Limited	50,446,775	10.00
Invesco Ltd	50,454,702	9.97
Cantillon Capital LLC	17,938,977	4.97
Legal & General Group Plc	14,325,920	3.97

On 18 May 2016 Standard Life Investments Limited notified the Company that its interest had increased to 55,547,554 shares representing 11.02% of the share capital. There had been no further notifications between then and the date of this report.

The holdings set out above relate only to those institutions which have notified the Company of an interest in the issued share capital pursuant to DTR5.

### Employee involvement

Engagement with our employees is key to Babcock's success.

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 for 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 92 to 128. 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 attend the Babcock International Group Employee Forum.

Further information regarding our employees and their involvement within the business, including the Company's policy towards discrimination and diversity, can be found within the Sustainability report on page 61.

### 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 151 to 154.

### Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic report on page 63.

### 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 1st December 2019 to 1st 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 NOTES

The Company has in issue two series of Loan Notes: (a) £60 million 4.995% Series A Shelf Notes due 21 January 2017 (the Series A Shelf Notes); and (b) £40 million 5.405% Series B Shelf Notes due 21 January 2020 (the Series B Shelf Notes) (together, the Multi-Currency Loan Notes). Each series 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 Series A Shelf Notes on 21 January 2017 and the Series B Shelf Notes on 21 January 2020, respectively at their principal amount. In the event of a change of control of the Company before then, the Company must offer to pay the Multi-Currency Loan 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 its 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 pay 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.

If there is a change of control of the Company and the notes then in issue either 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 noteholder 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 103 and 104.

### 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 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 MSDF in the event of a change of control of the Company. The provisions follow those in TOBA in this respect.

### Support Services

PARENT BODY AGREEMENT BETWEEN CAVENTISH 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.

### International

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 50 to 55 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 on-going requirement, the risk of this ceasing to be so cannot be ruled out.

See also Nationality-related restrictions on share ownership on page 133 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 annual 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 default shares and that no transfer of any default 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).

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 504,196,597 ordinary shares of 60p 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 132 above 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](http://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 on-going 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 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 2016 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 are reviewed by management to ensure that they reflect 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 64 to 66.

### 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 75.

### Auditor

The Company has conducted a tender of its external audit and further detail on the tender is set out on page 91 of this report.

### 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 auditors in connection with the preparation of their auditors' report) of which the auditors are 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 auditors are aware of that information.

### Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and Accounts including the Group's and the Company's financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. In accordance with that law, the Directors have prepared the Group's financial statements in accordance with International Financial Reporting Standards (IFRS) (as adopted in the European Union), and the Company's financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). The Group's and the Company's financial statements are required by law to 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 for that year. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state, for the Group financial statements, whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- state, for the Company's financial statements, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company's financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 Article 4 of the IAS Regulation and that the Company's financial statements comply with the Companies Act 2006. They 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.

Under applicable law and regulation, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate Governance Statement that complies with the law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 142 to 192) 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 2 to 135 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
Peter Rogers	Chief Executive
Archie Bethel	Chief Operating Officer
Franco Martinelli	Group Finance Director
Bill Tame	CEO, International
John Davies	CEO, Support Services division
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 2 to 135) for the year ending 31 March 2016 have been approved by the Board and signed on its behalf by



Mike Turner CBE  
Chairman

24 May 2016

# 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 2016 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

Babcock International Group PLC's financial statements included within the Annual Report and Accounts (the 'Annual Report') comprise:

- the Group balance sheet as at 31 March 2016;
- 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 Group 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 Group 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: £22.5 million (2015: £19 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 30 of the largest and highest risk reporting components located in the UK, Europe and South Africa.
- In addition, we performed specific audit procedures on the income statement at one further reporting component and the Group's share of the results of four 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, we planned for our audit work to cover 78% of Group revenue and 83% of profit before tax adjusted for amortisation of acquired intangibles (on an absolute basis).

##### AREAS OF FOCUS

- Contract accounting and revenue recognition.
- Goodwill impairment assessment.
- Defined benefit pension plan 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

##### Contract accounting and revenue recognition

REFER TO THE CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS SECTION IN NOTE 1 TO THE GROUP FINANCIAL STATEMENTS.

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, with estimates being made to:

- assess the total contract costs;
- assess 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 range of acceptable outcomes resulting from these judgements that could lead to different profit and revenue being reported in the financial statements.

#### How our audit addressed the area of focus

We read the relevant clauses within all key contracts and discussed each with management to obtain a full understanding of the specific terms and risks, which informed our consideration of whether revenue 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 controls relating to:

- detailed contract reviews performed by management and reviewed at both Group and divisional level that 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, in performing the following additional testing, 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;
- 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; and
- challenged whether provisions for onerous contracts appropriately reflect the expected contractual position, using the knowledge obtained from other testing.

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).

# Independent auditors' report to the members of Babcock International Group PLC – continued

## Area of focus

### Goodwill impairment assessment

REFER TO NOTE 11 TO THE GROUP FINANCIAL STATEMENTS.

The goodwill balance of £2.5 billion, which principally relates to the acquisitions of the VT Group in 2010 and Avincis (now MCS) in 2015, is supported by 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, notably the forecast cash flows, the overall growth rates and the discount rates applied.

## How our audit addressed the area of focus

We evaluated management's future cash flow forecasts and the process by which they were determined and approved, including checking 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 for 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 these assumptions to ascertain the extent of change that individually, or in combination, would be required for the goodwill to be impaired. We have checked the related disclosures in note 11 including the sensitivities provided in relation to MCS.

Based on our procedures, we agreed with the Directors that no impairment need be recognised at 31 March 2016.

## Area of focus

### Defined benefit pension plan liabilities

REFER TO NOTE 25 TO THE GROUP FINANCIAL STATEMENTS.

The Group operates a number of defined benefit pension plans, giving rise to net and gross pension liabilities of £203 million and £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.

Changes in a number of the key assumptions, including:

- salary increases and inflation;
- discount rate; and
- mortality.

All can have a material impact on the calculation of the liability.

The Group uses external actuaries to assist in assessing these assumptions.

## How our audit addressed the area of focus

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 to raise concerns over the valuation of the 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.

The Group is 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 (reporting components) and central functions.

The Group's reporting components vary significantly in size and we identified 30 components that, in our view, required an audit of their complete financial information due to their size and risk. Specific risk-based audit procedures on the income statement were performed at one further reporting component and Group's share of the results of four joint ventures. In scope reporting components and joint ventures were based in several jurisdictions including the UK, Spain, Italy, Canada and South Africa.

As a result, the Engagement Leader and senior members of the Group team undertook visits to eight components in the UK, Spain and South Africa during the audit, including the Group's only significant component, Devonport. Senior team members also attended all four of the divisional audit clearance meetings and 30 of the component audit clearance meetings in person or by conference call.

Audit procedures at reporting components were performed by teams from local network firms in each location, including teams separate from the Group team for 19 UK reporting components. The Group audit team led the work in relation to the central functions, including specific procedures over the Group consolidation, financial statements disclosures, derivative financial instruments, goodwill impairment, pensions, treasury, tax and share based payments.

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.

### 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	£22.5 million (2015: £19 million).
How we determined it	5% of profit before tax adjusted for the 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 on the basis this better reflects the true underlying size 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. Not adjusting for this amortisation would therefore distort the true results of the underlying operations.
Component materiality	For each component in our audit scope, we allocate a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £14 million and £1 million.
Misstatements to be reported to the Audit and Risk Committee	We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1 million (2015: £1 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 134, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK and 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 add 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.

# Independent auditors' report to the members of Babcock International Group PLC – continued

## Other required reporting

### Consistency of other information

#### Companies Act 2006 opinions

In our opinion:

- 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.
- the information given in the Directors' report on page 129 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

#### 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:	We have no exceptions to report.
– 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.	
– the statement given by the Directors on page 135, 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 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 89, as required by provision C.3.8 of the Code, describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.	We have no exceptions to report.

### The Directors' assessment of the prospects of the Group and 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 90 of the Annual Report, in accordance with provisions 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 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 to add or to draw attention to.
– the Directors' explanation on page 75 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 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 these responsibilities.

### Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten 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 135, 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.

### Other matter

We have reported separately on the parent company financial statements of Babcock International Group PLC for the year ended 31 March 2016 and on the information in the Remuneration report that is described as having been audited.

#### John Baker (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

24 May 2016

# Group income statement

For the year ended 31 March 2016	Note	2016		2015	
		£m	Total £m	£m	Total £m
<b>Total revenue</b>		<b>4,842.1</b>		<b>4,503.3</b>	
Less: joint ventures and associates revenue		683.7		506.7	
<b>Group revenue</b>	3		<b>4,158.4</b>		<b>3,996.6</b>
<b>Group</b>					
Operating profit before amortisation of acquired intangibles	3, 4, 5	468.3		445.9	
Amortisation of acquired intangibles	3	(115.8)		(93.6)	
<b>Group operating profit</b>	3		<b>352.5</b>		<b>352.3</b>
<b>Joint ventures and associates</b>					
Share of operating profit	3	40.8		35.2	
Investment income	3	29.5		36.2	
Amortisation of acquired intangibles	3	(5.8)		(6.0)	
Finance costs	3	(21.9)		(31.0)	
Income tax expense	3	(8.0)		(5.0)	
<b>Share of results of joint ventures and associates</b>			<b>34.6</b>		<b>29.4</b>
<b>Group and joint ventures and associates</b>					
Operating profit before amortisation of acquired intangibles		509.1		481.1	
Investment income		30.6		37.6	
Underlying operating profit*		539.7		518.7	
Amortisation of acquired intangibles		(121.6)		(99.6)	
Exceptional items		-		-	
Group investment income		(1.1)		(1.4)	
Joint ventures and associates finance costs		(21.9)		(31.0)	
Joint ventures and associates income tax expense		(8.0)		(5.0)	
<b>Group operating profit plus share of joint ventures and associates</b>			<b>387.1</b>		<b>381.7</b>
<b>Finance costs</b>					
Investment income	3	1.1		1.4	
Retirement benefit interest	25	(5.1)		(11.0)	
Finance costs	6	(64.1)		(70.4)	
Finance income	6	11.1		11.4	
			(57.0)		(68.6)
<b>Profit before tax</b>			<b>330.1</b>		<b>313.1</b>
Income tax expense	8		(39.0)		(46.7)
<b>Profit for the year</b>			<b>291.1</b>		<b>266.4</b>
<b>Attributable to:</b>					
Owners of the parent			286.6		260.2
Non-controlling interest			4.5		6.2
			291.1		266.4
<b>Earnings per share</b>					
	10				
Basic			57.0p		52.9p
Diluted			56.8p		52.6p

\* Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

For the year ended 31 March 2016	Note	2016 £m	2015 £m
Profit for the year		291.1	266.4
<b>Other comprehensive income</b>			
<b>Items that may be subsequently reclassified to income statement</b>			
Currency translation differences		34.1	(78.6)
Fair value adjustment of interest rate and foreign exchange hedges		15.9	(14.7)
Tax on fair value adjustment of interest rate and foreign exchange hedges		(3.2)	2.9
Fair value adjustment of joint venture and associates derivatives	14, 30	(16.4)	(41.9)
Tax on fair value adjustment of joint venture and associates derivatives	14	3.3	4.5
<b>Items that will not be reclassified to income statement</b>			
Remeasurement of retirement benefit obligations	25	(64.1)	66.0
Tax on remeasurement of retirement benefit obligations		13.0	(13.1)
Impact of change in UK tax rates		(4.7)	-
<b>Other comprehensive loss, net of tax</b>		<b>(22.1)</b>	<b>(74.9)</b>
<b>Total comprehensive income</b>		<b>269.0</b>	<b>191.5</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		265.8	185.5
Non-controlling interest		3.2	6.0
<b>Total comprehensive income</b>		<b>269.0</b>	<b>191.5</b>

## Group statement of changes in equity

For the year ended 31 March 2016	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
<b>At 1 April 2014</b>	217.2	873.0	-	30.6	(53.3)	(42.4)	(20.7)	1,004.4	21.7	1,026.1
Total comprehensive income/(loss)	-	-	-	-	313.0	(49.2)	(78.3)	185.5	6.0	191.5
Shares issued in the year	84.1	-	993.3	-	-	-	-	1,077.4	-	1,077.4
Dividends	-	-	-	-	(109.8)	-	-	(109.8)	(7.2)	(117.0)
Share-based payments	-	-	-	-	15.4	-	-	15.4	-	15.4
Tax on share-based payments	-	-	-	-	5.2	-	-	5.2	-	5.2
Other reserves released	-	-	(142.0)	-	142.0	-	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	(0.4)	(0.4)
Transactions with non-controlling interest	-	-	-	-	5.5	-	-	5.5	(2.1)	3.4
Own shares and other	-	-	-	-	(3.5)	-	-	(3.5)	-	(3.5)
<b>Net movement in equity</b>	<b>84.1</b>	<b>-</b>	<b>851.3</b>	<b>-</b>	<b>367.8</b>	<b>(49.2)</b>	<b>(78.3)</b>	<b>1,175.7</b>	<b>(3.7)</b>	<b>1,172.0</b>
<b>At 31 March 2015</b>	<b>301.3</b>	<b>873.0</b>	<b>851.3</b>	<b>30.6</b>	<b>314.5</b>	<b>(91.6)</b>	<b>(99.0)</b>	<b>2,180.1</b>	<b>18.0</b>	<b>2,198.1</b>
<b>At 1 April 2015</b>										
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)
<b>Net movement in equity</b>	<b>1.2</b>	<b>-</b>	<b>(82.5)</b>	<b>-</b>	<b>204.7</b>	<b>(0.4)</b>	<b>35.4</b>	<b>158.4</b>	<b>(0.2)</b>	<b>158.2</b>
<b>At 31 March 2016</b>	<b>302.5</b>	<b>873.0</b>	<b>768.8</b>	<b>30.6</b>	<b>519.2</b>	<b>(92.0)</b>	<b>(63.6)</b>	<b>2,338.5</b>	<b>17.8</b>	<b>2,356.3</b>

# Group balance sheet

As at 31 March 2016	Note	2016 £m	2015 (restated) £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	11	2,550.6	2,506.0
Other intangible assets	12	676.2	756.2
Property, plant and equipment	13	950.8	876.1
Investment in joint ventures and associates	14	39.9	36.3
Loan to joint ventures and associates	14	32.6	38.6
Retirement benefits	25	45.0	45.6
Trade and other receivables	17	29.2	27.1
IFRIC 12 financial assets		17.7	19.2
Other financial assets	21	84.3	61.8
Deferred tax asset	15	125.5	132.2
		4,551.8	4,499.1
<b>Current assets</b>			
Inventories	16	139.1	155.2
Trade and other receivables	17	766.9	742.2
Income tax recoverable		24.8	24.7
Other financial assets	21	10.1	12.3
Cash and cash equivalents	18	185.9	130.6
		1,126.8	1,065.0
<b>Total assets</b>		<b>5,678.6</b>	<b>5,564.1</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	23	302.5	301.3
Share premium		873.0	873.0
Capital redemption and other reserves		643.8	691.3
Retained earnings		519.2	314.5
		2,338.5	2,180.1
Non-controlling interest		17.8	18.0
<b>Total equity</b>		<b>2,356.3</b>	<b>2,198.1</b>
<b>Non-current liabilities</b>			
Bank and other borrowings	20	1,401.3	1,495.3
Trade and other payables	19	4.4	6.8
Deferred tax liabilities	15	151.9	186.7
Other financial liabilities	21	6.3	7.8
Retirement liabilities	25	248.1	214.4
Provisions for other liabilities	22	137.8	168.6
		1,949.8	2,079.6
<b>Current liabilities</b>			
Bank and other borrowings	20	131.6	64.8
Trade and other payables	19	1,185.6	1,158.3
Income tax payable		11.6	5.7
Other financial liabilities	21	10.6	27.9
Provisions for other liabilities	22	33.1	29.7
		1,372.5	1,286.4
<b>Total liabilities</b>		<b>3,322.3</b>	<b>3,366.0</b>
<b>Total equity and liabilities</b>		<b>5,678.6</b>	<b>5,564.1</b>

The notes on pages 146 to 192 are an integral part of the consolidated financial statements. The Group financial statements on pages 142 to 192 were approved by the Board of Directors on 24 May 2016 and are signed on its behalf by:

P L Rogers  
Director

F Martinelli  
Director

# Group cash flow statement

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For the year ended 31 March 2016	Note	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	26	490.3	426.8
Income tax paid		(46.6)	(46.1)
Interest paid		(61.7)	(80.7)
Interest received		8.3	6.9
<b>Net cash flows from operating activities</b>		<b>390.3</b>	<b>306.9</b>
<b>Cash flows from investing activities</b>			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	30	10.3	2.1
Dividends received from joint ventures and associates		23.0	19.5
Proceeds on disposal of property, plant and equipment		66.0	77.6
Proceeds on disposal of intangible assets		-	0.7
Purchases of property, plant and equipment		(163.2)	(150.7)
Purchases of intangible assets		(28.2)	(23.4)
Investment in, loan movements and interest received from joint ventures and associates		1.2	10.3
Transactions with non-controlling interest		-	(4.3)
Acquisition of subsidiaries net of cash acquired	29	(1.8)	(1,039.1)
<b>Net cash flows from investing activities</b>		<b>(92.7)</b>	<b>(1,107.3)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	9	(121.5)	(109.8)
Finance lease principal payments		(37.2)	(39.7)
Bank loans repaid		(111.3)	(1,638.7)
Loans raised		28.9	1,570.3
Dividends paid to non-controlling interest		(4.1)	(7.2)
Net proceeds on issue of shares		1.2	1,077.4
Movement on own shares		(0.7)	(3.5)
<b>Net cash flows from financing activities</b>		<b>(244.7)</b>	<b>848.8</b>
<b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b>		<b>52.9</b>	<b>48.4</b>
<b>Cash, cash equivalents and bank overdrafts at beginning of year</b>		<b>112.5</b>	<b>71.2</b>
Effects of exchange rate fluctuations		3.4	(7.1)
<b>Cash, cash equivalents and bank overdrafts at end of year</b>	28	<b>168.8</b>	<b>112.5</b>

## 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 Interpretations Committee (IFRS\_IC) 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. The 2015 results have been restated for the revised net assets and goodwill following the finalisation of the completion accounts of Defence Support Group.

### 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 12% 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)

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 result 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 has been 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 11.

#### (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.

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.

## 1. Basis of preparation and significant accounting policies (continued)

### Goodwill and intangible assets (continued)

#### (b) Acquired intangibles (continued)

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.

### 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.

## 1. Basis of preparation and significant accounting policies (continued)

### 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.

### 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. Capitalisation of applicable interest commenced in 2009/10.

### 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 Groups' 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 fair value of the schemes' surpluses or deficits at the balance sheet date.

## 1. Basis of preparation and significant accounting policies (continued)

### Employee benefits (continued)

#### (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 (e.g. 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.

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 25) and impairment of goodwill (see note 11).

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.

## 1. Basis of preparation and significant accounting policies (continued)

### 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 2016 or later periods but which the Group has not early adopted.

#### (a) Standards, amendments and interpretations effective in 2016 with minimal or no impact on the Group:

- IFRS 11, 'Joint arrangements', endorsed 1 January 2016;
- IFRS 10 (amendment), 'Consolidated financial statements', effective 1 January 2016;
- IFRS 14, 'Regulatory deferral accounts', effective 1 January 2016;
- IAS 1 (amendment), 'Presentation of financial statements', effective 1 January 2016;
- IAS 16 (amendment), 'Property, plant and equipment', effective 1 January 2016;
- IAS 28 (amendment), 'Investments in associates and joint ventures', effective 1 January 2016;
- IAS 39 (amendment), 'Financial instruments; Recognition and measurement', effective 1 January 2016; and
- 2014 Annual improvements effective 1 January 2016.

#### (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 9, 'Financial instruments', effective 1 January 2018
- IFRS 15, 'Revenue from contracts with Customers', effective 1 January 2018;
- IFRS 9 (amendment on general hedge accounting), 'Financial instruments', effective 1 January 2018;
- IAS12 (amendments), 'Income taxes' on Recognition of deferred tax assets for unrealised losses', effective 1 January 2017; and
- IAS7 (amendments), 'Statement of cash flows', effective 1 January 2017.

#### (c) 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:

- IFRS 16, 'Leases', effective 1 January 2019. See note 32 Operating lease commitments.

## 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 the current market and against the current economic backdrop. This is not to rule out acquisition spikes above two and a half times, as illustrated by past 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 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 acquisition spike of 2.5 times net debt to EBITDA upon completion of the acquisition of Babcock Mission Critical Services, on a 31 March 2014 proforma basis. Actual net debt to EBITDA as at 31 March 2016 was 2.0 times, demonstrating further progress in bringing gearing back below steady state level, both through the pay down of debt and increasing profits attributable to shareholders.			
		Covenant	2016	2015
Debt service cover	EBITDA/net interest	>4	10.8x	8.3x
Debt cover	Net debt/EBITDA	<3.5	2.0x	2.2x
Gearing	Net debt/shareholders' funds	n/a	48%	56%
	Debt ratios are below covenanted levels and gearing has continued to reduce since the Babcock Mission Critical Services acquisition in 2014. Current levels leave sufficient headroom for bolt-on acquisitions and funding of organic growth. The Group believes that capital markets remain accessible, if or when required.			

## 2. Financial risk management (continued)

### 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 principal 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.

### 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 and ZAR. 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.

<b>Objective</b>	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.
<b>Policy – Transactional risk</b>	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.
<b>Policy – Translational risk</b>	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 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.
<b>Performance</b>	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 £ 16.4 million Euro to US Dollars (2015: Euro to US Dollars £ 18.9 million).

## 2. Financial risk management (continued)

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 £0.9 million (2015: £1.5 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.

### 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  $\pm 50\text{bp}$  (2015:  $\pm 50\text{bp}$ ), 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  $\pm 50\text{bp}$  is an appropriate measure of volatility at this time.

	2016		2015	
	£m +50bp	£m -50bp	£m +50bp	£m -50bp
Net results for the year	(3.4)	3.4	(3.6)	3.6
Equity	8.8	(8.8)	10.5	(10.5)

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.

<b>Objective</b>	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.
<b>Policy</b>	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.
<b>Performance</b>	As at 31 March 2016, the Group had 61% fixed rate debt (March 2015: 55%) and 39% floating rate debt (March 2015: 45%) based on gross debt including derivatives of £1,461.2 million (March 2015: £1,507.9 million). For further information see note 21 to the Group accounts.

### 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 20).

The Group's committed Revolving Credit Facility (RCF) of £750 million has an expiry date of December 2020 with an option to extend for a further one year, and is available to meet general corporate funding requirements. At 31 March 2016, £306.2 million (2015: £395.8 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 two Sterling loan notes with a value of £100 million, with notes maturing in January 2017 and January 2020.

The Group has a Eurobond with a value of EUR 550 million, with notes maturing in October 2022.

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.

## 2. Financial risk management (continued)

### Liquidity risk (continued)

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.

<b>Objective</b>	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.
<b>Policy</b>	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.
<b>Performance</b>	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 2020. In addition to the aforementioned Revolving Credit Facility, the Group's other main debt facilities include: £100 million of loan notes issued in January 2010, US\$650 million US private placement notes issued in March 2011, and an EUR 550 million Eurobond issued in October 2014. These debt facilities provide the Group with total available committed banking facilities and loan notes of £1.77 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 20 to the Group accounts.

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 contractual 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
<b>At 31 March 2016</b>				
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
<b>At 31 March 2015</b>				
Bank and other borrowings	80.9	53.0	679.8	882.4
Derivative financial instruments	(16.0)	(4.2)	6.2	47.0
Trade and other payables*	1,119.6	2.0	2.9	1.2

\* 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
<b>At 31 March 2016</b>				
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	–	–	–
<b>At 31 March 2015</b>				
Forward derivative contracts – hedges:				
– outflow	283.1	65.5	98.5	307.7
– inflow	269.2	62.0	106.5	351.9
Forward derivative contracts – held for trading:				
– outflow	3.6	–	–	–
– inflow	3.0	–	–	–

### 3. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM).

2016	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total £m
Total revenue	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
<b>Group revenue</b>	<b>1,674.3</b>	<b>754.6</b>	<b>946.6</b>	<b>782.9</b>	<b>–</b>	<b>4,158.4</b>
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
<b>Underlying operating profit</b>	<b>198.9</b>	<b>131.3</b>	<b>107.6</b>	<b>107.6</b>	<b>(5.7)</b>	<b>539.7</b>
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)
<b>Group profit before tax</b>	<b>187.8</b>	<b>79.8</b>	<b>69.8</b>	<b>56.5</b>	<b>(63.8)</b>	<b>330.1</b>

\* Before amortisation of acquired intangibles and exceptional items.

2015	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total £m
Total revenue	1,562.5	812.8	1,316.4	811.4	0.2	4,503.3
Less: joint ventures and associates revenue	18.9	102.2	379.3	6.3	–	506.7
<b>Group revenue</b>	<b>1,543.6</b>	<b>710.6</b>	<b>937.1</b>	<b>805.1</b>	<b>0.2</b>	<b>3,996.6</b>
Operating profit* – Group	172.0	81.7	79.5	114.3	(1.6)	445.9
IFRIC 12 investment income – Group	–	0.7	0.7	–	–	1.4
Share of operating profit – joint ventures and associates	1.9	17.1	13.7	2.5	–	35.2
Share of IFRIC 12 investment income – joint ventures and associates	–	29.2	7.0	–	–	36.2
<b>Underlying operating profit</b>	<b>173.9</b>	<b>128.7</b>	<b>100.9</b>	<b>116.8</b>	<b>(1.6)</b>	<b>518.7</b>
Share of finance costs – joint ventures and associates	–	(23.2)	(6.8)	(1.0)	–	(31.0)
Share of tax – joint ventures and associates	(0.6)	(1.2)	(2.0)	(1.2)	–	(5.0)
Acquired intangible amortisation – Group	(11.1)	(9.5)	(33.5)	(39.5)	–	(93.6)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.7)	(0.3)	–	–	(6.0)
Net finance costs – Group	–	–	–	–	(70.0)	(70.0)
<b>Group profit before tax</b>	<b>162.2</b>	<b>89.1</b>	<b>58.3</b>	<b>75.1</b>	<b>(71.6)</b>	<b>313.1</b>

\* Before amortisation of acquired intangibles and exceptional items.

### 3. Segmental information (continued)

Inter divisional revenue is immaterial.

Revenues of £2.7 billion (2015: £2.5 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 2016 and 31 March 2015 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2016 £m	2015 (restated)* £m	2016 £m	2015 (restated)* £m	2016 £m	2015 £m
Marine and Technology	837.5	881.6	653.3	695.9	37.4	27.1
Defence and Security	1,063.9	1,078.5	280.6	237.0	18.5	16.0
Support Services	1,005.6	1,027.8	305.9	276.0	9.5	16.0
International	2,242.5	2,154.0	425.8	450.9	111.8	141.8
Unallocated	529.1	422.2	1,656.7	1,706.2	33.9	12.4
<b>Group total</b>	<b>5,678.6</b>	<b>5,564.1</b>	<b>3,322.3</b>	<b>3,366.0</b>	<b>211.1</b>	<b>213.3</b>

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £66.0 million (2015: £78.3 million). Proceeds are in the main within the International division. Please see note 19 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 14.

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2016 and 31 March 2015 are as follows:

	Depreciation		Amortisation of intangible assets	
	2016 £m	2015 £m	2016 £m	2015 £m
Marine and Technology	23.9	22.2	12.4	13.0
Defence and Security	5.1	4.5	23.0	9.5
Support Services	8.8	5.8	33.8	34.2
International	34.4	33.3	50.6	40.5
Unallocated	5.9	5.2	3.9	3.9
<b>Group total</b>	<b>78.1</b>	<b>71.0</b>	<b>123.7</b>	<b>101.1</b>

The geographic analysis by origin for the years ended 31 March 2016 and 31 March 2015 is as follows:

Geographic analysis	Revenue		Assets		Capital expenditure	
	2016 £m	2015 £m	2016 £m	2015 (restated)* £m	2016 £m	2015 £m
United Kingdom	3,289.9	3,109.7	2,483.2	2,567.3	116.1	98.8
Rest of Europe	362.0	351.6	2,419.9	2,283.3	82.4	96.7
Africa	248.4	267.3	195.1	181.9	6.8	7.6
North America	113.1	114.0	80.1	65.5	0.5	0.7
Australasia	89.1	89.9	399.7	368.8	3.9	7.5
Rest of World	55.9	64.1	100.6	97.3	1.4	2.0
<b>Group total</b>	<b>4,158.4</b>	<b>3,996.6</b>	<b>5,678.6</b>	<b>5,564.1</b>	<b>211.1</b>	<b>213.3</b>

The analysis of revenue for the years ended 31 March 2016 and 31 March 2015 is as follows:

	Total	
	2016 £m	2015 £m
Sales of goods	507.1	389.8
Provision of services	3,649.5	3,605.1
Rental income	1.8	1.7
	<b>4,158.4</b>	<b>3,996.6</b>

\* The restatement relates to the finalised completion accounts for Defence Support Group. Assets and liabilities have both increased by £6.8 million.

## 4. Operating expenses

	Total	
	2016 £m	2015 £m
Cost of sales	3,549.3	3,371.2
Distribution expenses	9.8	10.7
Administration expenses	246.8	262.4
	<b>3,805.9</b>	<b>3,644.3</b>

## 5. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	Total	
	2016 £m	2015 £m
Employee costs (note 7)	1,458.6	1,384.1
Inventories		
– cost of inventories recognised as an expense	327.8	333.7
– (decrease)/increase in inventory provisions	(2.7)	(2.1)
Depreciation of Property, plant and equipment (PPE)		
– owned assets	65.7	61.3
– under finance leases	12.4	9.7
	<b>78.1</b>	<b>71.0</b>
Amortisation of intangible assets		
– acquired intangibles	115.8	93.6
– other	7.9	7.5
	<b>123.7</b>	<b>101.1</b>
Profit on disposal of PPE	(2.4)	(0.1)
Operating lease rentals payable		
– property	24.9	23.1
– vehicles, plant and equipment	90.4	81.0
Research and development	1.5	1.2
Trade receivables released	(1.1)	(1.7)
Net foreign exchange gains	(4.6)	(2.5)

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

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	
	2016 £m	2015 £m
<b>Audit fees:</b>		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	0.5	0.7
Audit related services	0.1	–
<b>Fees for other services:</b>		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	1.7	1.6
Taxation advisory services	–	0.1
Services relating to corporate finance transactions	0.2	0.8
Other non-audit services	0.1	0.1
<b>Total fees paid to the Group's auditor and network firms</b>	<b>2.6</b>	<b>3.3</b>

## 6. Net finance costs

	2016 £m	2015 £m
<b>Finance costs</b>		
Loans, overdrafts and associated interest rate hedges*	50.8	48.5
Finance leases	7.3	9.0
Amortisation of issue costs of bank loan	2.0	9.0
Other	4.0	3.9
<b>Total finance costs</b>	<b>64.1</b>	<b>70.4</b>
<b>Finance income</b>		
Bank deposits and loans	11.1	11.4
<b>Total finance income</b>	<b>11.1</b>	<b>11.4</b>
<b>Net finance costs</b>	<b>53.0</b>	<b>59.0</b>

\* Interest rate hedges included above are £3.3 million cost (2015: £1.7 million cost).

## 7. Employee costs

	2016 £m	Total 2015 £m
Wages and salaries	1,214.1	1,149.4
Social security costs	122.8	124.1
Share-based payments (note 24)	16.2	15.4
Pension costs – defined contribution plans (note 25)	60.8	51.3
Pension charges – defined benefit plans (note 25)	44.7	43.9
	<b>1,458.6</b>	<b>1,384.1</b>

The average number of people employed by the Group during the year was:

	2016 Number	Total 2015 Number
Operations	30,617	27,941
Administration and management	4,433	4,427
	<b>35,050</b>	<b>32,368</b>

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.

	2016 £m	2015 £m
Salaries	9.2	9.9
Post-employment benefits	0.3	0.3
Share-based payments	5.2	4.6
	<b>14.7</b>	<b>14.8</b>

## 8. Income tax expense

	2016 £m	2015 £m
<b>Total</b>		
<b>Analysis of tax charge in the year</b>		
<b>Current tax</b>		
– UK current year charge	74.7	57.9
– Overseas current year charge	12.4	14.8
– UK prior year credit	(3.6)	(3.5)
– Overseas adjustment in respect of prior year	(0.8)	–
	<b>82.7</b>	<b>69.2</b>
<b>Deferred tax</b>		
– UK current year credit	(27.0)	(25.9)
– Overseas current year (credit)/charge	(8.6)	2.8
– Impact of change in UK tax rate	(4.3)	–
– Impact of change in Italian (2015: Spanish) tax rate	(3.8)	0.6
	<b>(43.7)</b>	<b>(22.5)</b>
<b>Total income tax expense</b>	<b>39.0</b>	<b>46.7</b>

The tax for the year is lower (2015: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £m	2015 £m
<b>Profit before tax</b>	<b>330.1</b>	<b>313.1</b>
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 20% (2015: 21%)	66.0	65.7
Effects of:		
Expenses not deductible for tax purposes	0.5	0.9
Re-measurement of deferred tax re change in UK tax rate	(4.3)	–
Re-measurement of deferred tax re change in Italian (2015: Spanish) tax rate	(3.8)	0.6
Difference in respect of joint venture results	(7.9)	(6.2)
Differences in respect of foreign rates and UK consortium relief rates	(1.8)	2.8
Adjustments in respect of earlier years	(3.6)	(3.5)
Other (2015: Other: including R&D tax relief)	(6.1)	(13.6)
<b>Total income tax expense</b>	<b>39.0</b>	<b>46.7</b>

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 18% as this is the tax rate that will apply on reversal. As a result a credit of £4.3 million has been taken to the Income statement in respect of the remeasurement of year end UK deferred tax balances to 18%. A further £4.7 million has been debited to reserves in respect of the remeasurement of year end UK deferred tax balances to 18%.

In addition, it was announced in the 2016 Italian budget that the corporate income tax (IRES) will be reduced from 27.5% to 24% from 2017. The budget law was passed by the Italian Parliament on 22 December 2015. As a result of the change, Italian deferred tax balances have been remeasured at 24% as this is the rate that will apply on reversal. As a result a credit of £3.8 million has been taken to the Income statement in respect of the remeasurement of the Italian year end deferred tax balances. The Italian tax rate change has no impact on reserves.

## 9. Dividends

	2016 £m	2015 £m
Final dividend for the year ended 31 March 2015 of 18.1p (2014: 16.4p) per 60p share	91.0	82.2
Interim dividend for the year ended 31 March 2016 of 6.05p (2015: 5.5p) per 60p share	30.5	27.6
	121.5	109.8

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2016 of 19.75p (2015: 18.1p) per share which will absorb an estimated £99.5 million (2015: £91.6 million) of shareholders' equity. It will be paid on 12 August 2016 to shareholders who are on the register of members on 1 July 2016. These financial statements do not reflect this dividend payable which is subject to approval at the Annual General Meeting on 21 July 2016.

## 10. 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.

In the previous year, in order to finance the acquisition of the Avincis Group and to ensure the Group maintains sufficient financial headroom for growth opportunities, the Group undertook a rights issue of 139,259,204 new ordinary shares which raised £1,076.9 million and was completed on 7 May 2014.

The calculation of the basic and diluted EPS is based on the following data:

### Number of shares

	2016 Number	2015 Number
<b>Pre-adjustment for rights issue</b>		
Weighted average number of ordinary shares for the purpose of basic EPS	–	487,123,443
Effect of dilutive potential ordinary shares: share options	–	2,200,000
Weighted average number of ordinary shares for the purpose of diluted EPS	–	489,323,443
<b>Adjustment for rights issue</b>		
Weighted average number of ordinary shares for the purpose of basic EPS	–	4,853,822
Effect of dilutive potential ordinary shares: share options	–	60,639
Weighted average number of ordinary shares for the purpose of diluted EPS	–	4,914,461
<b>Restated for rights issue</b>		
Weighted average number of ordinary shares for the purpose of basic EPS	503,165,719	491,977,265
Effect of dilutive potential ordinary shares: share options	1,072,736	2,260,639
Weighted average number of ordinary shares for the purpose of diluted EPS	504,238,455	494,237,904

### Earnings

	2016 Earnings £m	2016 Basic per share Pence	2016 Diluted per share Pence	2015 Earnings £m	2015 Basic per share (restated) Pence	2015 Diluted per share (restated) Pence
Earnings from continuing operations	286.6	57.0	56.8	260.2	52.9	52.6
Add back:						
Amortisation of acquired intangible assets, net of tax	94.8	18.8	18.8	76.3	15.5	15.4
Impact of change in statutory tax rates	(8.1)	(1.6)	(1.6)	0.6	0.1	0.1
Earnings before amortisation, exceptional items and other	373.3	74.2	74.0	337.1	68.5	68.1

## 11. Goodwill

	2016 £m	2015 £m
<b>Cost</b>		
At 1 April	2,510.8	1,614.4
On acquisition of subsidiaries (note 29)	–	974.0
On disposal of joint ventures and associates (note 30)	–	(0.4)
Exchange adjustments	44.6	(77.2)
At 31 March	2,555.4	2,510.8
<b>Accumulated impairment</b>		
At 1 April and 31 March	4.8	4.8
Net book value at 31 March	2,550.6	2,506.0

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 pre-tax 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% (2015: 7.0% to 8.0%).

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:

	2016 £m	2015 £m
Marine and Technology	429.5	429.5
Defence and Security	627.6	627.2
Support Services	590.3	590.9
International	903.2	858.4
	2,550.6	2,506.0

The MCS CGU within the International segment is the CGU with the lowest percentage headroom of £0.4 billion (21%). In the MCS CGU an increase of 1.4% in the discount rate or a 1.7% decrease in the terminal year growth rate would cause an impairment.

## 12. Other intangible assets

	Acquired intangibles – relationships (restated)* £m	Acquired intangibles – brands £m	Acquired intangibles – total (restated)* £m	IFRIC 12 intangibles £m	Software development costs and licences £m	Development costs and other £m	Total (restated)* £m
<b>Cost</b>							
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
<b>Accumulated amortisation and impairment</b>							
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
<b>Cost</b>							
At 1 April 2014	587.6	6.4	604.3	5.9	48.7	–	648.6
Additions	–	–	–	–	22.4	1.0	23.4
On acquisition of subsidiaries (note 29)	571.2	16.9	577.8	–	2.3	2.6	593.0
Disposals at cost	–	–	–	–	(2.8)	(0.1)	(2.9)
Reclassification	–	–	–	–	(3.9)	–	(3.9)
Exchange adjustments	(30.4)	(1.3)	(31.7)	–	(0.3)	(0.3)	(32.3)
At 31 March 2015	1,128.4	22.0	1,150.4	5.9	66.4	3.2	1,225.9
<b>Accumulated amortisation and impairment</b>							
At 1 April 2014	342.7	0.2	342.9	2.8	27.1	–	372.8
Amortisation charge	87.9	5.7	93.6	0.2	7.2	0.1	101.1
Amortisation on disposals	–	–	–	–	(2.1)	–	(2.1)
Exchange adjustments	(1.7)	(0.2)	(1.9)	–	(0.2)	–	(2.1)
At 31 March 2015	428.9	5.7	434.6	3.0	32.0	0.1	469.7
Net book value at 31 March 2015	699.5	16.3	715.8	2.9	34.4	3.1	756.2

\* The restatement relates to the finalised completion accounts for Defence Support Group. Acquired intangibles increased by £10.3 million.

All amortisation charges for the year have been charged through cost of sales.

The reclassification in 2015 related to assets that should have been included within plant and equipment.

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 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 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.

### 13. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment (restated)* £m	Aircraft fleet £m	Assets in course of construction £m	Total (restated)* £m
<b>Cost</b>						
At 1 April 2015	103.8	12.9	432.0	489.5	90.1	1,128.3
Exchange adjustments	1.0	0.1	(7.5)	35.6	7.4	36.6
On disposal of subsidiaries (note 30)	–	–	(0.4)	(0.3)	–	(0.7)
Additions	8.9	2.2	85.7	64.3	18.8	179.9
Reclassification	–	–	0.4	7.3	(7.7)	–
Capitalised borrowing costs	–	–	0.9	–	–	0.9
Disposals	(1.5)	(0.3)	(9.5)	(48.8)	(11.6)	(71.7)
At 31 March 2016	112.2	14.9	501.6	547.6	97.0	1,273.3
<b>Accumulated depreciation</b>						
At 1 April 2015	39.7	4.5	191.3	16.7	–	252.2
Exchange adjustments	0.1	–	(2.1)	2.6	–	0.6
On disposal of subsidiaries (note 30)	–	–	(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)
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
<b>Cost</b>						
At 1 April 2014	76.1	8.0	367.1	–	–	451.2
Exchange adjustments	(1.7)	(0.1)	(3.6)	(46.8)	(11.1)	(63.3)
On acquisition of subsidiaries (note 29)	22.7	0.8	10.8	453.6	134.9	622.8
Additions	6.9	4.2	69.8	102.5	22.8	206.2
Reclassification	–	–	3.9	17.8	(17.8)	3.9
Capitalised borrowing costs	–	–	0.2	–	–	0.2
Disposals	(0.2)	–	(16.2)	(37.6)	(38.7)	(92.7)
At 31 March 2015	103.8	12.9	432.0	489.5	90.1	1,128.3
<b>Accumulated depreciation</b>						
At 1 April 2014	34.3	3.5	161.3	–	–	199.1
Exchange adjustments	(0.2)	–	(1.3)	(1.2)	–	(2.7)
Charge for the year	5.7	1.0	44.3	20.0	–	71.0
Disposals	(0.1)	–	(13.0)	(2.1)	–	(15.2)
At 31 March 2015	39.7	4.5	191.3	16.7	–	252.2
Net book value at 31 March 2015	64.1	8.4	240.7	472.8	90.1	876.1

\* The restatement relates to the finalised completion accounts for Defence Support Group. Plant and equipment decreased by £1.9 million.

The reclassification of plant and equipment in 2015 related to assets previously classified as software development costs and licences.

A capitalisation rate of 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:

	2016 £m	2015 £m
Cost	231.6	217.2
Aggregate depreciation	(22.1)	(11.4)
Net book value	209.5	205.8

## 14. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
<b>At 1 April</b>	<b>36.3</b>	52.3	<b>38.6</b>	50.6	<b>74.9</b>	102.9
Joint ventures and associates acquired	–	8.3	–	–	–	8.3
Disposal of joint ventures and associates (note 30)	3.2	5.2	(6.5)	(6.3)	(3.3)	(1.1)
Joint ventures: loans and reclassifications	0.9	(0.3)	(1.5)	(7.1)	(0.6)	(7.4)
Investment in joint ventures and associates	0.1	–	–	–	0.1	–
Share of profits	34.6	29.4	–	–	34.6	29.4
Interest accrued	–	–	2.9	4.4	2.9	4.4
Interest received	–	–	(0.9)	(3.0)	(0.9)	(3.0)
Dividend received	(23.0)	(19.5)	–	–	(23.0)	(19.5)
Fair value adjustment of derivatives	(16.4)	(42.6)	–	–	(16.4)	(42.6)
Tax on fair value adjustment of derivatives	3.3	4.5	–	–	3.3	4.5
Foreign exchange	0.9	(1.0)	–	–	0.9	(1.0)
<b>At 31 March</b>	<b>39.9</b>	36.3	<b>32.6</b>	38.6	<b>72.5</b>	74.9

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:

	2016 £m	2015 £m
Marine and Technology	0.6	(0.1)
Defence and Security	49.6	53.3
Support Services	14.3	14.7
International	7.9	7.0
<b>Net book value</b>	<b>72.5</b>	74.9

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
<b>2016</b>							
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	23%
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	
		<b>683.7</b>	<b>(611.2)</b>	<b>683.7</b>	<b>40.8</b>	<b>34.6</b>	

## 14. 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
<b>2015</b>							
Holdfast Training Services Limited	United Kingdom	34.8	(34.5)	2.8	0.8	–	74%
ALC (Superholdco) Limited	United Kingdom	59.3	(38.9)	16.3	6.5	5.0	50%
Airtanker Limited	United Kingdom	336.0	(317.4)	60.0	4.6	11.1	13%
Airtanker Services Limited	United Kingdom	25.3	(2.1)	14.5	3.2	2.6	23%
Ascent Flight Training (Holdings) Limited	United Kingdom	37.5	(28.8)	8.6	1.6	(1.1)	50%
Naval Ship Management (Australia) Pty Limited	Australia	8.9	(8.9)	19.0	1.9	1.4	50%
Helidax S.A.S	France	25.1	(23.6)	6.6	2.5	0.3	50%
Cavendish Dounreay Partnership Limited	United Kingdom	25.5	(16.1)	86.0	5.4	4.8	50%
Cavendish Fluor Partnership Limited	United Kingdom	112.7	(111.3)	245.7	4.5	3.6	65%
ABC Electrification Limited	United Kingdom	1.6	–	31.1	1.6	1.6	33%
Other		74.2	(84.4)	16.1	2.6	0.1	
		740.9	(666.0)	506.7	35.2	29.4	

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 £7.7 million was cash and cash equivalents. During the year dividends of £8.9 million were received. The retained profit is after income tax expense of £2.8 million.

## 15. Deferred tax

	2016 £m	2015 (restated)* £m
Deferred tax asset	125.5	132.2
Deferred tax liability	(151.9)	(186.7)
	(26.4)	(54.5)

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 (restated)* £m	Total (restated)* £m
<b>At 1 April 2015</b>	(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 Italian tax rate					
– income statement	1.1	–	(0.2)	2.9	3.8
Exchange differences	–	–	–	(1.1)	(1.1)
<b>At 31 March 2016</b>	(8.5)	36.7	24.8	(79.4)	(26.4)
At 1 April 2014	(7.6)	53.6	0.8	(2.6)	44.2
Income statement credit	(3.7)	11.0	(5.8)	21.9	23.4
Tax credit to equity	–	(13.1)	–	8.1	(5.0)
Transfer to corporation tax	–	(17.6)	–	(4.3)	(21.9)
Acquisition of subsidiaries (note 29)	2.3	–	27.6	(128.8)	(98.9)
Effect of change in UK tax rate					
– Income statement	(1.6)	–	(2.4)	3.4	(0.6)
Exchange differences	–	–	–	4.3	4.3
<b>At 31 March 2015</b>	(10.6)	33.9	20.2	(98.0)	(54.5)

The net deferred tax liability of £26.4 million includes a deferred tax asset of £44.9 million and a deferred tax liability of £75.5 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:

	2016 £m	2015 (restated)* £m
Deferred tax asset	124.9	132.2
Deferred tax liability	(151.8)	(183.7)
	(26.9)	(51.5)

Deferred tax expected to be recovered within 12 months:

	2016 £m	2015 £m
Deferred tax liability	(23.2)	(29.1)
	(23.2)	(29.1)

\* The restatement relates to the finalised completion accounts for Defence Support Group. Deferred tax liability increased by £2.1 million.

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses and advance corporation tax) of £101.0 million (2015: £123.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil million (2015: £nil million) of such losses, which may be carried forward.

## 16. Inventories

	2016 £m	2015 (restated)* £m
Raw materials and spares	63.7	51.2
Work-in-progress and long-term contracts	8.2	22.1
Finished goods and goods for resale	67.2	81.9
<b>Total</b>	<b>139.1</b>	<b>155.2</b>

\* The restatement relates to the finalised completion accounts for Defence Support Group. Inventory decreased by £0.2 million.

## 17. Trade and other receivables

	2016 £m	2015 (restated)* £m
<b>Current assets</b>		
Trade receivables	294.2	286.4
Less: provision for impairment of receivables	(3.9)	–
Trade receivables – net	290.3	286.4
Amounts due from customers for contract work	212.2	187.3
Retentions	5.6	3.5
Amounts owed by related parties (note 35)	17.4	25.9
Other debtors	69.0	83.0
Prepayments	66.4	65.0
Accrued income	106.0	91.1
	<b>766.9</b>	<b>742.2</b>
<b>Non-current assets</b>		
Other debtors	29.2	27.1

\* The restatement relates to the finalised completion accounts for Defence Support Group. Trade and other receivables decreased by £1.4 million.

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

As of 31 March 2016, trade receivables with gross value of £4.9 million (2015: £4.2 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £3.9 million (2015: £nil 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.

## 17. Trade and other receivables (continued)

The ageing of the net impaired receivables is as follows:

	2016 £m	2015 £m
Less than three months	–	0.5
Three to six months	–	–
Over six months	0.9	3.7
	0.9	4.2

As of 31 March 2016, trade receivables of £34.5 million (2015: £22.3 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 £m	2015 £m
Less than three months	21.3	15.7
Three to six months	3.4	4.9
Over six months	9.8	1.7
	34.5	22.3

Movements on the provision for impairment of trade receivables are as follows:

	2016 £m	2015 £m
Balance at 1 April	–	(3.0)
Provision for receivables impairment	(4.0)	(1.7)
Receivables written off during the year as uncollectable	–	0.1
Unused amounts reversed	–	3.4
Exchange differences	0.1	1.2
Balance at 31 March	(3.9)	–

The creation and release of provisions for impairment of receivables have been included in cost of sales in the income statement (note 5). 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 21).

## 18. Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	179.3	117.1
Short-term bank deposits (overnight)	6.6	13.5
	<b>185.9</b>	<b>130.6</b>

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

Currency	2016		2015	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	69.3	69.3	59.4	59.4
Euro	31.1	31.1	12.3	12.3
US Dollar	3.3	3.3	8.5	8.5
South African Rand	22.2	22.2	25.3	25.3
Canadian Dollar	13.3	13.3	4.2	4.2
Omani Rial	9.9	9.9	4.2	4.2
Australian Dollar	13.5	13.5	5.3	5.3
Swedish Krone	10.6	10.6	3.8	3.8
New Zealand Dollar	3.6	3.6	5.2	5.2
Brazilian Real	0.9	0.9	0.9	0.9
Other currencies	8.2	8.2	1.5	1.5
	<b>185.9</b>	<b>185.9</b>	<b>130.6</b>	<b>130.6</b>

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.

## 19. Trade and other payables

	2016 £m	2015 (restated)* £m
<b>Current liabilities</b>		
Contract cost accruals	179.6	183.8
Amounts due to customers for contract work	219.2	273.7
Trade creditors	302.1	253.9
Amounts owed to related parties (note 35)	2.2	3.5
Other creditors	57.7	54.6
Other taxes and social security	105.7	95.6
Accruals	243.5	228.9
Deferred income	75.6	64.3
	<b>1,185.6</b>	<b>1,158.3</b>
<b>Non-current liabilities</b>		
Other creditors	4.4	6.8

\* The restatement relates to the finalised completion accounts for Defence Support Group. Trade and other payables decreased by £4.1 million.

Included in trade creditors is £14.4 million (2015: £16.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

## 20. Bank and other borrowings

	2016 £m	2015 £m
<b>Current liabilities</b>		
<b>Bank loans and overdrafts due within one year or on demand</b>		
Secured	2.9	15.5
Unsecured	103.9	16.9
	106.8	32.4
Finance lease obligations*	24.8	32.4
	131.6	64.8
<b>Non-current liabilities</b>		
<b>Bank and other borrowings</b>		
Secured	40.7	41.5
Unsecured	1,248.2	1,338.2
	1,288.9	1,379.7
Finance lease obligations*	112.4	115.6
	1,401.3	1,495.3

\* 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 21.

The carrying amount of the Group's borrowings are denominated in the following currencies:

Currency	2016		
	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

Currency	2015		
	Total £m	Floating rate £m	Fixed rate £m
Sterling	431.0	293.9	137.1
Euro	511.2	116.8	394.4
US Dollar*	540.4	269.8	270.6
South African Rand	18.0	18.0	–
Australian Dollar	15.8	2.7	13.1
Swedish Krone	43.7	23.0	20.7
	1,560.1	724.2	835.9

\* 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 5.1%. 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.

## 20. Bank and other borrowings (continued)

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 2016	640.9	386.1	505.9	1,532.9
As at 31 March 2015	734.2	197.4	628.5	1,560.1

The effective interest rates at the balance sheet dates were as follows:

	2016 %	2015 %
UK bank overdraft	1.5	1.5
UK bank borrowings	2.0	2.0
US private placement – fixed	5.7	5.7
US private placement – floating	2.3	2.3
Eurobond	1.8	1.8
Other borrowings	4.8 – 9.3	4.8 – 14.0
Finance leases	0.9 – 10.0	0.9 – 10.0

### Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2016		2015	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	106.8	24.8	32.4	32.4
Between one and two years	–	25.6	60.0	23.8
Between two and five years	849.8	50.9	571.9	51.3
Greater than five years	439.1	35.9	747.8	40.5
	1,395.7	137.2	1,412.1	148.0

### Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2016 £m	2015 £m
Expiring in less than one year	32.7	12.4
Expiring in more than one year but not more than five years	503.8	396.2
	536.5	408.6

The minimum lease payments under finance leases fall due as follows:

	2016 £m	2015 £m
Not later than one year	31.3	39.7
Later than one year but not more than five years	91.4	92.6
More than five years	38.1	43.0
	160.8	175.3
Future finance charges on finance leases	(23.6)	(27.3)
Present value of finance lease liabilities	137.2	148.0

## 21. Other financial assets and liabilities

### Financial instruments and finance leases granted

	Fair value			
	Assets		Liabilities	
	2016 £m	2015 £m	2016 £m	2015 £m
<b>Non-current</b>				
US private placement – currency and interest rate swaps	71.7	52.2	–	–
Interest rate hedges	0.3	–	1.3	–
Other currency hedges	2.6	–	–	–
Non-controlling interest put option	–	–	5.0	7.8
Financial instruments	74.6	52.2	6.3	7.8
Finance leases granted	9.7	9.6	–	–
<b>Total non-current other financial assets and liabilities</b>	<b>84.3</b>	<b>61.8</b>	<b>6.3</b>	<b>7.8</b>
<b>Current</b>				
Interest rate hedges	–	–	1.5	–
Other currency hedges	5.6	8.8	9.1	27.9
Financial instruments	5.6	8.8	10.6	27.9
Finance leases granted	4.5	3.5	–	–
<b>Total current other financial assets and liabilities</b>	<b>10.1</b>	<b>12.3</b>	<b>10.6</b>	<b>27.9</b>

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 discounted cash flows. Future cash flows are derived from approved budgets using post tax discount rate of 9%.

### Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2016 included £9.7 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 2016:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
<b>Hedged</b>				
Interest rate swap	4.7	5.45	0.62219	31/3/2019
Interest rate swap	5.0	4.745	0.62219	31/3/2029
<b>Total interest rate swaps</b>	<b>9.7</b>			

	Amount US\$m	Amount at swapped rates £m	Swap %	Maturity
<b>Hedged</b>				
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
<b>Total cross currency and interest rate swap</b>	<b>650.0</b>	<b>399.3</b>		

## 21. Other financial assets and liabilities (continued)

### 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 £14.3 million, these were split as £4.6 million due within one year and £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:

	2016		2015	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Fair value of non-current borrowings and loans</b>				
Long-term borrowings	(1,401.3)	(1,465.2)	(1,495.3)	(1,494.7)
Loan to joint venture	32.6	32.6	38.6	38.6
	(1,368.7)	(1,432.6)	(1,456.7)	(1,456.1)
<b>Fair value of other financial assets and financial liabilities</b>				
Short-term borrowings	(131.6)	(131.6)	(64.8)	(64.8)
Trade and other payables*	(1,132.1)	(1,131.5)	(1,122.4)	(1,121.6)
Trade and other receivables	796.1	796.1	769.3	769.3
Other financial assets – IFRIC 12	17.7	17.7	19.2	19.2
Short-term deposits	6.6	6.6	13.5	13.5
Cash at bank and in hand	179.3	179.3	117.1	117.1
Income tax receivable	24.8	24.8	24.7	24.7
Income tax payable	(11.6)	(11.6)	(5.7)	(5.7)
Other financial assets	77.5	77.5	38.4	38.4
	(173.3)	(172.7)	(210.7)	(209.9)

\* 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% (2015: 4% to 5%).

## 22. 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 2015	1.2	33.6	18.4	28.0	117.1	198.3
On acquisition of subsidiaries (note 29)	–	–	–	(1.8)	–	(1.8)
On disposal of subsidiaries (note 30)	–	1.2	(2.1)	–	(1.6)	(2.5)
(Released)/charged to income statement	0.3	(1.1)	11.1	(2.2)	(9.6)	(1.5)
Utilised in year	(0.1)	(4.3)	(10.4)	–	(8.8)	(23.6)
Foreign exchange	–	–	0.2	0.7	1.1	2.0
At 31 March 2016	1.4	29.4	17.2	24.7	98.2	170.9

\* The balances at 1 April 2015 have been restated due to the finalised completion accounts for Defence Support Group. Provisions increased by £8.8 million.

Provisions have been analysed between current and non-current as follows:

	2016 £m	2015 (restated) £m
Current	33.1	29.7
Non-current	137.8	168.6
	170.9	198.3

Of the £2.5 million cost of disposal of subsidiaries, £0.4 million relates to previously disposed of businesses and £2.1 million to the disposal of Norsk Helikopterservice AS (see note 30).

- (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 property and other provisions is £40 million expected to be utilised in approximately ten years. In addition within contract/warranty provisions there is £12 million expected to be materially utilised in approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

## 23. Share capital

	Ordinary shares of 60p Number	Total £m
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
Allotted, issued and fully paid		
At 1 April 2014	362,073,932	217.2
Rights issue	139,259,204	83.6
Shares issued	863,461	0.5
At 31 March 2015	502,196,597	301.3

In the previous year, on 7 May 2014, a rights issue was completed and 139,259,204 new ordinary shares with an aggregate nominal value of £83.6 million were issued for cash consideration of £1,076.9 million. The rights issue was effected through a structure which involved Babcock International Group PLC subscribing for shares in Axeman (Jersey) Limited. Axeman (Jersey) Limited subsequently redeemed its redeemable preference shares for cash. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds received over the nominal value of the share capital issued has been transferred to Other Reserves.

## 23. 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 2016 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 either granted directly by the Company or by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 7,299,826 (2015: 7,114,845) shares – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of 114,336 (2015: 169,088) 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	2016 Number	2015 Number
14 June 2011	PSP <sup>2</sup> – vested	–	14/06/2014 – 13/06/2015	–	147,151
14 June 2011	CSOP <sup>3</sup> – vested	–	14/06/2014 – 13/06/2015	–	24,964
14 June 2012	PSP <sup>2</sup> – vested in year	–	14/06/2015 – 13/06/2016	98,901	1,579,367
14 June 2012	CSOP <sup>3</sup> – vested in year	–	14/06/2015 – 13/06/2016	9,996	71,664
16 July 2012	PSP <sup>2</sup> – vested in year	–	16/07/2015 – 15/07/2016	–	36,808
24 January 2013	PSP <sup>2</sup> – vested in year	–	24/01/2016 – 24/01/2017	4,716	13,175
16 July 2012	DBMP <sup>4</sup> – vested in year	–	16/07/2015 – 15/07/2016	–	555,869
13 June 2013	PSP <sup>2</sup>	–	13/06/2016 – 13/06/2017	1,348,837	1,385,901
13 June 2013	CSOP <sup>3</sup>	–	13/06/2016 – 13/06/2017	103,409	108,664
13 June 2013	DBMP <sup>4</sup>	–	13/06/2016 – 13/06/2017	1,009,626	1,010,896
13 June 2013	DBMP <sup>5</sup>	–	13/06/2015 – 13/06/2016	–	9,982
14 June 2014	PSP <sup>2</sup>	–	12/06/2017 – 12/06/2018	1,369,760	1,462,757
29 January 2015	PSP <sup>2</sup>	–	29/01/2018 – 29/01/2019	14,196	14,196
14 June 2014	DBMP <sup>4</sup>	–	12/06/2017 – 12/06/2018	847,382	853,803
14 June 2014	DBMP <sup>5</sup>	–	12/06/2016 – 12/06/2017	8,736	8,736
11 June 2015	PSP <sup>2</sup>	–	11/06/2018 – 11/06/2019	1,644,321	–
2 November 2015	PSP <sup>2</sup>	–	11/06/2018 – 11/06/2019	27,388	–
11 June 2015	DBMP <sup>4</sup>	–	11/06/2018 – 11/06/2019	923,031	–
11 June 2015	DBMP <sup>5</sup>	–	11/06/2018 – 11/06/2019	3,863	–
				<b>7,414,162</b>	<b>7,283,933</b>

Options granted to Directors are summarised in the Remuneration report on pages 86 to 118 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.

### 23. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these awards and also awards made under the 2009 Deferred Bonus Plan.

	2016		2015	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	277,747	–	255,979	17,974
PEST	3,543	–	5,966	–
<b>Total</b>	<b>281,290</b>	<b>–</b>	<b>261,945</b>	<b>17,974</b>

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 share option movements is shown below:

	2016		2015	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 April	–	–	12	£ 1.26
Rights issue adjustment	–	–	1	–
Exercised	–	–	(13)	£ 1.11
Outstanding at 31 March	–	–	–	–
Exercisable at 31 March	–	–	–	–

The weighted average share price for options exercised during the previous year 2015 was 1,210p per share.

A reconciliation of LTIP, PSP, CSOP and DBMP movements is shown below:

	2016	2015
	Number '000	Number '000
Outstanding at 1 April	7,284	6,320
Granted	2,661	2,427
Rights issue adjustment	–	847
Exercised	(1,973)	(1,970)
Forfeited/lapsed	(558)	(340)
Outstanding at 31 March	7,414	7,284
Exercisable at 31 March	114	172

The weighted average share price for awards exercised during the year was 1,087.50p per share (2015: 1,150.04p per share).

During the year 2,000,000 ordinary shares (2015: 869,535 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 2016 1,998,629 shares (2015: 2,197,346) were disposed of by the Trusts resulting from options exercised. At 31 March 2016, the Trusts held between them a total of 281,290 (2015: 279,919) ordinary shares at a total market value of £2,670,849 (2015: £2,755,803) representing 0.06% (2015: 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.

## 24. 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 £16.2 million (2015: £15.4 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £13.0 million (2015: £12.2 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

### DBMP, PSPs, DBP and CSOP<sup>1</sup>

	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
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	40%	364.0	1,121.0	46%	11/6/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	30%	374.0	1,121.0	46%	11/6/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	–	1,121.0	46%	11/6/15
2014 PSP	14,196	1,007.0	12.0%	3.5	40%	165.0	1,007.0	46%	29/1/15
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	40%	536.0	1,218.0	46%	12/6/14
2014 PSP	1,550,135	1,218.0	15.0%	4.0	40%	547.0	1,218.0	46%	12/6/14
2014 DBP	8,736	1,218.0	15.0%	4.0	100%	–	1,218.0	46%	12/6/14
2013 DBMP Matching <sup>2</sup>	1,014,364	1,155.0	16.0%	4.0	59%	549.9	1,018.4	46%	15/8/13
2013 PSP <sup>2</sup>	1,310,577	1,155.0	16.0%	4.0	39%	559.1	1,018.4	46%	15/8/13
2013 PSP Funding <sup>2</sup>	122,015	1,155.0	16.0%	4.0	39%	496.0	933.8	46%	15/8/13
2013 CSOP <sup>2</sup>	122,015	1,155.0	16.0%	4.0	39%	84.6	63.1	46%	15/8/13

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. 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 58,036 matching shares (2015: 45,104 matching shares) at a cost of £0.6 million (2015: £0.6 million).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan, DBP = 2012 Deferred Bonus Plan and CSOP = 2009 Company Share Option Plan.

2. These DBMP, PSP and CSOP have been restated to take account of the rights issue in May 2015.

## 25. Retirement benefits and liabilities

### Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2016 £m	2015 £m
Defined contribution schemes	60.8	51.3

### Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2016 £m	2015 £m
Retirement benefits – funds in surplus	45.0	45.6
Retirement benefits – funds in deficit	(248.1)	(214.4)
	(203.1)	(168.8)

## 25. Retirement benefits and liabilities (continued)

The Group has a number of pension schemes covering many of its employees. The principal schemes are those in the UK where the Group operates three defined benefit pension schemes for employees. These 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 for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes 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 member contributions.

The Group also participates in the Babcock Rail Ltd 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 this year the assumption is that as the active membership reduces, approximately 100% of 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 an 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. Valuation of the Railways scheme and the Rosyth 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	01/04/13	31/03/12	31/12/10
Number of active members at above date	2,955	1,827	943	481
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	£470.0m	£189.0m
Level of funding	85%	89%	83%	101%

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 which 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.

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	14.38%	21.9%	12.0%	18.0%	–	–
Future service cash contributions	£11.8m	£8.9m	£3.4m	£1.7m	£3.2m	£29.0m
Deficit contributions	£18.5m	£6.6m	£8.7m	–	£2.4m	£36.2m
Longevity swap payments	£2.8m	£1.4m	£1.8m	–	–	£6.0m
Expected employer cash costs for 2016/17	£33.1m	£16.9m	£13.9m	£1.7m	£5.6m	£71.2m
Expected salary sacrifice contributions	£3.1m	£1.8m	£2.0m	–	–	£6.9m
Expected total employer contributions	£36.2m	£18.7m	£15.9m	£1.7m	£5.6m	£78.1m

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.

## 25. Retirement benefits and liabilities (continued)

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.

The latest full actuarial valuation of the Group's defined benefit pension schemes have been updated to 31 March 2016 by qualified independent actuaries for IAS 19 purposes using the following assumptions:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
March 2016				
Rate of increase in pensionable salaries	2.2%	2.2%	2.2%	2.2%
Rate of increase in pensions (past service)	2.1%	2.8%	3.0%	2.1%
Discount rate	3.5%	3.5%	3.5%	3.5%
Inflation rate (RPI)	2.9%	2.9%	2.9%	2.9%
Inflation rate (CPI)	1.9%	1.9%	1.9%	1.9%
Weighted average duration of cashflows (years)	18	16	18	18
Total life expectancy for current pensioners aged 65 (years)	86.4	87.9	84.2	86.6
Total life expectancy for future pensioners currently aged 45 (years)	88.2	89.5	85.6	88.9

The fair value of the assets, and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2016				2015			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
<b>Fair value of plan assets</b>								
Growth assets								
Equities	895.2	22.4	79.2	996.8	805.3	107.3	88.7	1,001.3
Property	252.0	11.8	8.6	272.4	161.5	27.4	8.1	197.0
Absolute return and multi strategy funds	9.8	103.7	19.0	132.5	45.4	16.1	13.9	75.4
Low risk assets								
Bonds	962.7	83.4	85.3	1,131.4	925.0	68.6	82.7	1,076.3
Matching assets*	1,298.4	0.9	104.4	1,403.7	1,625.1	0.5	106.5	1,732.1
Active position on longevity swaps	(112.0)	-	-	(112.0)	(144.1)	-	-	(144.1)
<b>Fair value of assets</b>	<b>3,306.1</b>	<b>222.2</b>	<b>296.5</b>	<b>3,824.8</b>	<b>3,418.2</b>	<b>219.9</b>	<b>299.9</b>	<b>3,938.0</b>
Percentage of assets quoted	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of assets unquoted	-	-	-	-	-	-	-	-
<b>Present value of defined benefit obligations</b>								
Active members	1,092.6	75.2	167.6	1,335.4	1,288.4	72.0	155.9	1,516.3
Deferred pensioners	739.2	70.4	70.5	880.1	748.1	68.2	77.2	893.5
Pensioners	1,637.8	109.9	64.5	1,812.2	1,524.1	102.9	69.8	1,696.8
<b>Total liabilities</b>	<b>3,469.6</b>	<b>255.5</b>	<b>302.6</b>	<b>4,027.7</b>	<b>3,560.6</b>	<b>243.1</b>	<b>302.9</b>	<b>4,106.6</b>
<b>Deficit</b>	<b>163.5</b>	<b>33.3</b>	<b>6.1</b>	<b>202.9</b>	<b>142.4</b>	<b>23.2</b>	<b>3.0</b>	<b>168.6</b>
Present value of unfunded obligations	-	-	0.2	0.2	-	-	0.2	0.2
<b>Net liabilities recognised in the balance sheet</b>	<b>163.5</b>	<b>33.3</b>	<b>6.3</b>	<b>203.1</b>	<b>142.4</b>	<b>23.2</b>	<b>3.2</b>	<b>168.8</b>

\* Included within matching assets are government bonds, which are shown net of repurchase obligations of £2,179 million (2015: £1,847 million).

The schemes do not invest directly in assets or shares of the Group.

## 25. Retirement benefits and liabilities (continued)

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps market allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

The amounts recognised in the Group income statement are as follows:

	2016				2015			
	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	36.3	1.7	2.4	40.4	36.6	1.7	2.0	40.3
Incurred expenses	4.0	0.1	0.2	4.3	3.3	0.1	0.2	3.6
<b>Total included within operating profit</b>	<b>40.3</b>	<b>1.8</b>	<b>2.6</b>	<b>44.7</b>	<b>39.9</b>	<b>1.8</b>	<b>2.2</b>	<b>43.9</b>
Net interest cost	4.2	0.8	0.1	5.1	11.2	0.4	(0.6)	11.0
<b>Total included within operating profit</b>	<b>44.5</b>	<b>2.6</b>	<b>2.7</b>	<b>49.8</b>	<b>51.1</b>	<b>2.2</b>	<b>1.6</b>	<b>54.9</b>

### Amounts recorded in the Group statement of comprehensive income

	2016				2015			
	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	(147.7)	3.3	(6.3)	(150.7)	588.5	20.4	35.2	644.1
Experience losses arising on scheme liabilities	26.9	(0.1)	–	26.8	(2.4)	(10.7)	(7.3)	(20.4)
Changes in assumptions on scheme liabilities	71.0	(12.3)	1.1	59.8	(489.0)	(23.9)	(44.8)	(557.7)
<b>At 31 March</b>	<b>(49.8)</b>	<b>(9.1)</b>	<b>(5.2)</b>	<b>(64.1)</b>	<b>97.1</b>	<b>(14.2)</b>	<b>(16.9)</b>	<b>66.0</b>

### Analysis of movement in the Group balance sheet

	2016				2015			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
<b>Fair value of plan assets (including reimbursement rights)</b>								
<b>At 1 April</b>	<b>3,418.2</b>	<b>219.9</b>	<b>299.9</b>	<b>3,938.0</b>	<b>2,759.2</b>	<b>200.2</b>	<b>260.7</b>	<b>3,220.1</b>
Interest on assets	114.2	4.4	4.9	123.5	123.3	5.4	5.6	134.3
Actuarial (loss)/ gain on assets	(147.7)	3.3	(6.3)	(150.7)	588.5	20.4	35.2	644.1
Employer contributions	74.5	1.6	4.7	80.8	81.9	1.8	4.3	88.0
Employee contributions	0.5	0.8	0.4	1.7	3.2	0.9	0.9	5.0
Benefits paid	(153.6)	(7.8)	(7.1)	(168.5)	(137.9)	(8.8)	(6.8)	(153.5)
<b>At 31 March</b>	<b>3,306.1</b>	<b>222.2</b>	<b>296.5</b>	<b>3,824.8</b>	<b>3,418.2</b>	<b>219.9</b>	<b>299.9</b>	<b>3,938.0</b>
<b>Present value of benefit obligations</b>								
<b>At 1 April</b>	<b>3,560.6</b>	<b>243.1</b>	<b>302.9</b>	<b>4,106.6</b>	<b>3,029.3</b>	<b>208.9</b>	<b>249.5</b>	<b>3,487.7</b>
Service cost	36.3	1.7	2.4	40.4	36.6	1.7	2.0	40.3
Incurred expenses	4.0	0.1	0.2	4.3	3.3	0.1	0.2	3.6
Interest cost	119.7	5.2	4.9	129.8	134.7	5.6	5.1	145.4
Employee contributions	0.5	0.8	0.4	1.7	3.2	0.9	0.9	5.0
Experience (gain)/losses	(26.9)	0.1	–	(26.8)	2.4	10.7	7.3	20.4
Actuarial gain – demographics	(37.3)	16.0	(0.1)	(21.4)	(6.1)	–	(0.3)	(6.4)
Actuarial (gain)/ loss – financial	(33.7)	(3.7)	(1.0)	(38.4)	495.1	24.0	45.0	564.1
Benefits paid	(153.6)	(7.8)	(7.1)	(168.5)	(137.9)	(8.8)	(6.8)	(153.5)
<b>At 31 March</b>	<b>3,469.6</b>	<b>255.5</b>	<b>302.6</b>	<b>4,027.7</b>	<b>3,560.6</b>	<b>243.1</b>	<b>302.9</b>	<b>4,106.6</b>
Present value of unfunded obligations	–	–	(0.2)	(0.2)	–	–	(0.2)	(0.2)
<b>Net deficit at 31 March</b>	<b>(163.5)</b>	<b>(33.3)</b>	<b>(6.3)</b>	<b>(203.1)</b>	<b>(142.4)</b>	<b>(23.2)</b>	<b>(3.2)</b>	<b>(168.8)</b>

The movement in net deficits for the year ending 31 March 2016 is as a result of the movement in assets and liabilities shown above.

## 25. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2016 and the charges to the Group income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £m	Income statement 2017 £m
Initial assumptions	4,027.7	47.5
Discount rate assumptions increased by 0.5%	(304.7)	(15.0)
Discount rate assumptions decreased by 0.5%	304.7	11.9
Inflation rate assumptions increased by 0.5%	238.2	10.9
Inflation rate assumptions decreased by 0.5%	(218.7)	(9.8)
Total life expectancy increased by half a year	58.8	2.6
Total life expectancy decreased by half a year	(58.8)	(2.3)
Salary increase assumptions increased by 0.5%	48.0	3.0
Salary increase assumptions decreased by 0.5%	(47.6)	(2.7)

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.

## 26. Reconciliation of operating profit to cash generated from operations

	2016 £m	2015 £m
<b>Cash flows from operating activities</b>		
Operating profit before amortisation of acquired intangible and exceptional items	468.3	445.9
Amortisation of acquired intangible and exceptional items	(115.8)	(93.6)
<b>Group operating profit</b>	<b>352.5</b>	<b>352.3</b>
Depreciation of property, plant and equipment	78.1	71.0
Amortisation of intangible assets	123.7	101.1
Investment income	1.2	1.4
Equity share-based payments	16.2	15.4
Profit on disposal of joint ventures and associates	(7.5)	(8.5)
Profit on disposal of property, plant and equipment	(2.4)	(0.1)
<b>Operating cash flows before movement in working capital</b>	<b>561.8</b>	<b>532.6</b>
Decrease in inventories	6.8	2.4
Increase in receivables	(33.4)	(29.5)
Increase in payables	15.1	3.7
Decrease in provisions	(25.1)	(14.3)
Exceptional items – acquisition costs	–	(24.2)
Retirement benefit contributions in excess of income statement	(34.9)	(43.9)
<b>Cash generated from operations</b>	<b>490.3</b>	<b>426.8</b>

## 27. Movement in net debt

	2016 £m	2015 £m
Increase/(decrease) in cash in the year	52.9	48.4
Cash flow from the decrease in debt and lease financing	112.4	92.4
Change in net funds resulting from cash flows	165.3	140.8
Loans and finance leases acquired with subsidiaries	–	(978.1)
New finance leases – received	(19.7)	(39.2)
New finance leases – granted	7.2	15.7
Movement in joint venture and associate loans	(6.0)	(12.0)
Foreign currency translation differences and other	(49.7)	80.9
Movement in net debt in the year	97.1	(791.9)
Net debt at the beginning of the year	(1,325.6)	(533.7)
Net debt at the end of the year	(1,228.5)	(1,325.6)

## 28. Changes in net debt

	31 March 2015 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	31 March 2016 £m
Cash and bank balances	130.6	53.1	(1.0)	–	3.2	185.9
Bank overdrafts	(18.1)	0.8	–	–	0.2	(17.1)
Cash, cash equivalents and bank overdrafts	112.5	53.9	(1.0)	–	3.4	168.8
Debt	(1,394.0)	79.4	–	–	(64.0)	(1,378.6)
Finance leases – received	(148.0)	37.2	–	(19.7)	(6.7)	(137.2)
Finance leases – granted	13.1	(4.2)	–	7.2	(1.9)	14.2
	(1,528.9)	112.4	–	(12.5)	(72.6)	(1,501.6)
Net debt before derivatives and joint ventures and associates loans	(1,416.4)	166.3	(1.0)	(12.5)	(69.2)	(1,332.8)
Net debt derivative	52.2	–	–	–	19.5	71.7
Joint ventures and associates loans	38.6	(6.0)	–	–	–	32.6
Net debt	(1,325.6)	160.3	(1.0)	(12.5)	(49.7)	(1,228.5)

## 29. Acquisitions

### 2016

There have been no acquisitions in the current 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 year the completion accounts for the Defence Support Group (DSC) were finalised. The restated, final assets acquired and goodwill are shown below. The final consideration of £7.6 million was paid in April 2016.

### 2015

During the previous year the following acquisitions were made:

On 16 May 2014 the Group acquired Avincis Mission Critical Services Topco Limited (Avincis) for £899.5 million (€1,088.5 million). The Group also assumed the Avincis debt of £859.7 million (€1,036.6 million). Avincis is a leading provider of helicopter and fixed-wing services in mission critical operations such as medical, search and rescue, fire-fighting and civil protection in Europe and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea.

On 29 June 2014 the Group acquired 84.6% of Scandinavian AirAmbulance AB (SAA) for £25.3 million (SEK290.3 million) including deferred consideration of £7.3 million (SEK84.2 million). The Group also assumed SAA debt of £40.8 million. This company provides helicopter services in medical mission critical services in Sweden and Finland.

On 2 February 2015 the Group acquired 100% of S. MacNeillie & Son Limited (MacNeillie) for £65 million plus deferred consideration of £1.3 million relating to working capital adjustments. MacNeillie is a specialist vehicle converter and will strengthen Babcock's whole life asset management capability.

On 9 February 2015 the Group acquired 100% of WRN Broadcast Limited (WRN) for £11.5 million including deferred consideration of £7.5 million. The Group also assumed debt of £1.6 million. WRN offers innovative broadcast solutions that deliver television and radio content to any platform or device anywhere around the world.

## 29. Acquisitions (continued)

On 31 March 2015 the Group acquired 100% of DSG Land Equipment Support Limited (DSG) for £140 million. This was increased by £7.6 million following the finalisation of the completion accounts. DSG was the MOD agency responsible for storage, maintenance, repair and overhaul of military vehicles and equipment.

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:

2015	Avincis £m	SAA £m	WRN £m	MacNeillie £m	DSG (restated) £m	Total (restated) £m
<b>Cost of acquisition</b>						
Cash paid	899.5	18.0	4.0	65.0	140.0	1,126.5
Deferred consideration	–	7.3	7.5	1.3	7.6	23.7
Purchase consideration	899.5	25.3	11.5	66.3	147.6	1,150.2
Fair value of assets acquired (see below)	(5.2)	(2.5)	2.1	34.2	147.6	176.2
<b>Goodwill</b>	<b>904.7</b>	<b>27.8</b>	<b>9.4</b>	<b>32.1</b>	<b>–</b>	<b>974.0</b>

Net assets and liabilities arising from the acquisition are as follows:

2015	Avincis		SAA		WRN		MacNeillie		DSG		Total	
	Fair value acquired £m	Fair value acquired (restated) £m	Fair value acquired (restated) £m	Fair value acquired (restated) £m	Fair value acquired (restated) £m							
Acquired intangibles*	413.5	15.5	2.9	15.3	140.9	588.1						
Other intangible assets	4.9	–	–	–	–	4.9						
Property, plant and equipment	574.2	41.4	3.4	3.2	0.6	622.8						
Investments	8.3	–	–	–	–	8.3						
Deferred tax	(65.8)	(1.4)	(0.4)	(3.1)	(28.2)	(98.9)						
Income tax	(8.8)	0.7	0.1	0.5	–	(7.5)						
Cash, cash equivalents and bank overdraft	67.0	9.0	0.1	15.7	–	91.8						
Bank loan	(808.1)	(23.9)	–	–	–	(832.0)						
Finance leases	(118.6)	(25.9)	(1.6)	–	–	(146.1)						
Inventory	20.0	0.1	–	10.2	25.1	55.4						
Current assets	138.9	5.9	1.9	6.4	23.4	176.5						
Current and non-current liabilities	(162.3)	(23.0)	(3.5)	(13.8)	(13.0)	(215.6)						
Provisions	(68.4)	(1.3)	(0.8)	(0.2)	(1.2)	(71.9)						
Non-controlling interest	–	0.4	–	–	–	0.4						
<b>Net assets acquired</b>	<b>(5.2)</b>	<b>(2.5)</b>	<b>2.1</b>	<b>34.2</b>	<b>147.6</b>	<b>176.2</b>						

\* Acquired intangibles are: customer relationships, both contracted and non-contracted plus brand valuations (see note 12).

Cash outflow to acquire businesses net of cash acquired:

2015	Avincis £m	SAA £m	WRN £m	MacNeillie £m	DSG £m	Other £m	Total £m
Purchase consideration paid in cash	899.5	18.0	4.0	65.0	140.0	–	1,126.5
Deferred consideration paid in cash	–	–	–	–	–	4.4	4.4
Cash, cash equivalents and bank overdrafts	(67.0)	(9.0)	(0.1)	(15.7)	–	–	(91.8)
<b>Cash outflow in period</b>	<b>832.5</b>	<b>9.0</b>	<b>3.9</b>	<b>49.3</b>	<b>140.0</b>	<b>4.4</b>	<b>1,039.1</b>

## 29. Acquisitions (continued)

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2014 are:

2015	Avincis		SAA	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Group revenue	497.4	538.8	33.2	45.8
Total revenue (including share of joint ventures)	503.7	545.8	33.2	45.8
Group operating profit	50.9	50.7	4.0	5.9
Underlying operating profit	90.7	90.8	5.0	7.0

2015	WRN		MacNeillie		DSG	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Group revenue	1.9	11.0	7.6	34.0	–	150.5
Total revenue (including share of joint ventures)	1.9	11.0	7.6	34.0	–	150.5
Group operating profit	(0.1)	(0.7)	0.5	4.1	–	12.5
Underlying operating profit	–	(0.6)	0.7	4.3	–	12.5

## 30. Disposals

On 17 April 2015 the Group sold its investments in Lewisham Schools for the Future joint ventures for £14.3 million.

On 5 July 2015 the Group disposed of its investment in Norsk Helikopterservice AS (Norsk) for NOK100.

During both the current and previous years the Group paid certain accrued costs on previously disposed of businesses.

In the previous year the Group disposed of its 50% interest in Greenwich BSF SPV Limited (Greenwich) for £12 million.

Details of the final assets disposed of are:

	2016				2015		
	Lewisham £m	Norsk £m	Previously disposed of business £m	Total £m	Greenwich £m	Previously disposed of business £m	Total £m
Goodwill	–	–	–	–	0.4	–	0.4
Investments in and loans to joint ventures and associates	3.3	–	–	3.3	1.1	–	1.1
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	0.7	–	0.7
Net assets disposed	4.0	(1.0)	–	3.0	2.2	–	2.2
Profit on disposal of joint ventures and associates	7.5	–	–	7.5	8.5	–	8.5
Disposal costs/Deferred consideration	2.8	1.0	–	3.8	1.3	–	1.3
Sale proceeds	14.3	–	–	14.3	12.0	–	12.0
Sale proceeds less cash disposed of	14.3	(1.0)	–	13.3	12.0	–	12.0
Less costs paid in the year	–	(1.1)	(1.9)	(3.0)	–	(9.9)	(9.9)
Net cash inflow/(outflow)	14.3	(2.1)	(1.9)	10.3	12.0	(9.9)	2.1

### 31. Transactions with non-controlling interests

On 5 July 2015 the non-controlling interest in Norsk Helikopterservice AS of £0.7 million was disposed of for no consideration.

During the previous financial year part of the Target Cranes put option was exercised resulting in the non-controlling interest being reduced from 35.6% to 28%. In addition part of the put option lapsed on transfer of the balance to a third party.

The following were the transactions with non-controlling interests in the previous year:

2015	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non- controlling interests £m	Cash outflow/ (inflow) £m
During the year part of the put option in Target Cranes was exercised. As a result 7.6% of shares in Target Cranes were purchased, in cash, from the non-controlling interest for £4.3 million utilising the put option valuation within the balance sheet. This resulted in a transfer from non-controlling interest of £2.1 million.	2.1	(2.1)	4.3
Following the exercising of part of the put option the balance lapsed and was transferred to reserves. The put option liability was shown as non-current other financial liability on the balance sheet.	3.4	-	-
<b>Transactions with non-controlling interests – 2015</b>	<b>5.5</b>	<b>(2.1)</b>	<b>4.3</b>

### 32. Operating lease commitments – minimum lease payments

	2016		2015	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
<b>Commitments under non-cancellable operating leases payable:</b>				
Within one year	26.0	84.4	33.8	65.0
Later than one year and less than five years	69.9	203.9	77.5	153.3
After five years	41.6	71.9	44.2	29.1
	<b>137.5</b>	<b>360.2</b>	<b>155.5</b>	<b>247.4</b>

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 £358.6 million (2015: £250.8 million) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

### 33. Contingent liabilities

- 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.
- 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.
- 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.
- 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.

### 34. Capital and other financial commitments

	2016 £m	2015 £m
Contracts placed for future capital expenditure not provided in the financial statements	26.2	79.4

### 35. 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 14.

	2016 Revenue to £m	2016 Purchases from £m	2016 Year end debtor balance £m	2016 Year end creditor balance £m
<b>Joint ventures and associates</b>				
Debut Services (South West) Limited	11.4	–	–	–
Holdfast Training Services Limited	69.7	(0.1)	7.5	–
Helidax S.A.S	–	–	–	–
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 Bocard 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 25 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 7 and in the Remuneration report.

(d) Transactions in employee benefits trusts are shown in note 23.

## 35. 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 14.

	2015 Revenue to £m	2015 Purchases from £m	2015 Year end debtor balance £m	2015 Year end creditor balance £m
<b>Joint ventures and associates</b>				
Debut Services (South West) Limited	122.0	–	4.2	–
Holdfast Training Services Limited	72.0	0.8	10.2	–
Helidax S.A.S	0.3	–	–	–
ABC Electrification Limited	10.7	–	0.1	–
First Swietelsky Operation and Maintenance FSP (2004) Limited	9.8	–	3.8	3.5
Ascent Flight Training (Management) Limited	–	0.8	–	–
Advanced Jet Training Limited	1.5	–	0.3	–
Rear Crew Training Limited	1.6	–	0.2	–
Airtanker Services Limited	0.8	–	0.1	–
ALC (Superholdco) Limited	12.0	–	1.3	–
Naval Ship Management (Australia) Pty Limited	2.3	–	–	–
Lewisham Schools for the Future LEP Limited	1.7	–	0.2	–
Lewisham Schools for the Future SPV Limited	0.8	0.1	0.4	–
Lewisham Schools for the Future SPV2 Limited	2.2	–	0.5	–
Lewisham Schools for the Future SPV3 Limited	0.4	–	0.1	–
Lewisham Schools for the Future SPV4 Limited	0.8	–	0.2	–
Greenwich BSF SPV Limited	1.7	–	0.4	–
Cura Classis (UK) Limited	0.1	–	–	–
Cura Classis (US) LLC	5.2	–	–	–
Cura Classis Canada (Hold Co) Inc.	5.2	–	–	–
Cavendish Dounreay Partnership Limited	12.2	–	–	–
Cavendish Fluor Partnership Limited	7.9	0.1	0.9	–
Cavendish Boccard Nuclear Limited	14.8	0.1	2.5	–
	1.2	–	0.5	–
	<b>287.2</b>	<b>1.9</b>	<b>25.9</b>	<b>3.5</b>

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.

Please refer to note 25 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 7.

(d) Transactions in employee benefits trusts are shown in note 23.

## 36. Post balance sheet events

### (a) Dividend

Details on dividends are given in note 10. There are no further material events subsequent to 31 March 2016 that require disclosure.

### 37. Group entities

The following tables outline the Group's subsidiaries, joint ventures and associate undertakings as defined in Regulation 7 of the UK Companies Act 2006. All subsidiaries are included in the Group consolidation.

#### Subsidiaries: Incorporated in the United Kingdom, wholly owned.

Name	Name
Active Management Limited	Babcock UK Finance
Air Power International Limited	Babcock US Investments Limited
Airwork Limited	Babcock Welbeck Limited
Alstec Automation Limited	Babcock Woodall-Duckham (Overseas) Limited <sup>(ix)</sup>
Alstec Defence Limited	Babcock2 Limited
Alstec Limited	Babcock-Moxey Limited
Appledore Shipbuilders (2004) Limited <sup>(iv)</sup>	BCRA Chesterfield Limited <sup>(xiii)</sup>
Armstrong Technology Associates Limited	BIL Solutions Limited
Babcock (UK) Holdings Limited*	Birchill Investment Co. Limited
Babcock 1234 Limited	BMH (2002) Limited
Babcock 2010 Limited	BNS Nuclear Services Limited
Babcock Aerospace Limited	BNS Pension Trustees Limited
Babcock Airports Limited	BNS Pensions Limited
Babcock Aviation Services (Holdings) Limited <sup>(iv)</sup>	Bond Air Services Limited
Babcock Brazil Investments Limited	Bond Aviation Group Limited
Babcock Brisco Limited	Bond Aviation Holdings II Limited
Babcock Career Progressions Limited	Bond Aviation Holdings Limited
Babcock Careers Guidance (North) Limited	Bond Aviation Leasing Limited
Babcock Careers Guidance (South) Limited <sup>(iv)</sup>	Bond Aviation Topco Limited <sup>(viii)</sup>
Babcock Careers Guidance Limited <sup>(xv)</sup>	Bond European Aviation Leasing Limited
Babcock Careers Management Limited <sup>(iv)</sup>	Bond Helicopters Europe Limited
Babcock Civil Infrastructure Limited	Bond Mission Critical Services PLC
Babcock Communications Limited	Bond Offshore Helicopters Limited
Babcock Contractors Limited	British Nuclear Services Limited
Babcock Corporate Secretaries Limited	Brooke Marine Shipbuilders Limited
Babcock Corporate Services Limited	Cavendish Nuclear (Overseas) Limited
Babcock Critical Assets Holdings LLP	Cavendish Nuclear Limited <sup>(viii)</sup>
Babcock Critical Services Limited	Cavendish Nuclear Manufacturing Limited
Babcock Defence & Security Holdings LLP	Certas Limited
Babcock Defence and Security Investments Limited	Chart Distribution Services Limited
Babcock Defence Systems Limited	Chart Services Limited
Babcock Design & Technology Limited	Chart Storage & Transportation Limited
Babcock DSG Limited	Context Information Security Limited
Babcock Education & Training Holdings LLP	Costpool Limited
Babcock Education and Skills Limited	Defence SCS Limited
Babcock Education Holdings Limited	Devonport Management Limited
Babcock Emergency Services Limited	Devonport Royal Dockyard Limited <sup>(iii)</sup>
Babcock Engine Controls Limited	Devonport Royal Dockyard Pension Trustees Limited
Babcock Engineering Limited	Eve Construction Limited
Babcock Environmental Services Limited	Eve Developments Limited
Babcock Finance Limited	Eve Group Limited
Babcock Fire Services (SW) Limited	Eve NCI Limited
Babcock Fire Services Limited	Eve Power Limited
Babcock Fire Training (Avonmouth) Limited	Eve Transmission Limited
Babcock Flagship Limited <sup>(iv)</sup>	FBM Babcock Marine Holdings (UK) Limited
Babcock Group (US Investments) Limited	FBM Babcock Marine Limited
Babcock Group International Limited	FBM Marine International (UK) Limited
Babcock Group Limited	First Engineering Holdings Limited
Babcock Holdings Limited <sup>(ix)</sup>	First Engineering Limited
Babcock HSPS Trustees Limited	First Fire and Rescue Service Limited
Babcock Information Analytics and Security Holdings Limited	First Fire and Rescue Service No 2 Limited
Babcock Information Analytics and Security Limited <sup>(viii)</sup>	First Projects Limited

## 37. Group entities (continued)

### Subsidiaries: Incorporated in the United Kingdom, wholly owned – continued

Name	Name
Babcock Infrastructure Holdings LLP	Flagship Fire Fighting Training Limited
Babcock Integrated Technology (Korea) Limited	FN Consultancy Limited
Babcock Integrated Technology Limited	FNC Group Limited
Babcock Integration LLP	FNC Limited
Babcock International Guarantee Company	Form Land Support Limited
Babcock International Limited <sup>(viii)</sup>	Frazer-Nash Consultancy Group Limited <sup>(iv)</sup>
Babcock International Middle East Limited	Frazer-Nash Consultancy Limited <sup>(x)</sup>
Babcock International Support Services Limited	FW 1B SPV Limited
Babcock Investments (Fire Services) Limited	Gaycrete Limited
Babcock Investments (Number Eight) Limited	Gibraltar Investments (No. 7) Limited <sup>(vi)</sup>
Babcock Investments (Number Four) Limited	Global Broadcast Telecommunication Services Limited
Babcock Investments (Number Three) Limited	Guidance Services Limited
Babcock Investments Limited	HCTC Limited
Babcock IP Management (Number One) Limited	Hiberna Contract Services Limited
Babcock IP Management (Number Two) Limited	Hiberna FM Limited
Babcock Land (Whitefleet Management) Limited	Hiberna Limited
Babcock Land Limited	Hiberna Network Solutions Limited
Babcock Leaseco Limited	INS Innovation Limited
Babcock Lifeskills Limited	Integrated Safety Services Group Limited
Babcock Managed Security Services Limited	International Aviation Leasing Limited
Babcock Management Limited	International Channel Europe Limited
Babcock Marine & Technology Holdings Limited	Jackson (EBP) Limited
Babcock Marine (Clyde) Limited	Jackson Management Services Limited
Babcock Marine (Devonport) Limited <sup>(iv)</sup>	KML (UK) Limited
Babcock Marine (Rosyth) Limited	Learning21 Limited
Babcock Marine Holdings (UK) Limited <sup>(viii)</sup>	Liquid Gas Equipment Limited
Babcock Marine Limited	Locam Limited
Babcock Marine Products Limited	Marine Engineering & Fabrications (Holdings) Limited
Babcock Mission Critical Services Limited	Marine Engineering & Fabrications Limited
Babcock Mission Critical Services Topco Limited **	Merlin Communications Group Limited <sup>(ix)</sup>
Babcock Money Purchase Trustees Limited	Merlin Orfordness Limited
Babcock MSS Limited	Municipal Vehicle Hire Limited
Babcock Networks Limited	Northern Cable Installations Limited
Babcock Nominees Limited	Pearson & Raby Limited
Babcock Nuclear Limited	Peterhouse Group Limited
Babcock Overseas Investments Limited	Peterhouse5 (Shorco) Limited <sup>(iv)</sup>
Babcock Partner No 6 Limited	Peterhouse6 (IETG) Limited
Babcock Partner No 7 Limited	Port Babcock Rosyth Limited
Babcock Partners No 2010 Limited	Rosyth Royal Dockyard Limited <sup>(xvi)</sup>
Babcock Porchester Limited	Rosyth Royal Dockyard Pension Trustees Limited
Babcock Power Maintenance Limited	S.MacNeillie & Son Limited <sup>(vii)</sup>
Babcock Project Investments Limited	Scimco Limited
Babcock Project Services Limited <sup>(iv)</sup>	Skills2Learn Limited
Babcock Rail Limited	St Helen's Securities Limited
Babcock Services Group Limited	Strachan & Henshaw Limited
Babcock Services Limited <sup>(ix)</sup>	The Stirling Boiler Company Limited
Babcock Skills Development and Training Limited	Touchstone Learning & Skills Limited
Babcock Southern Careers Limited <sup>(v)</sup>	Transfleet Distribution Limited
Babcock Southern Holdings Limited <sup>(xv)</sup>	Transfleet Truck Rentals Limited
Babcock Support Services (Investments) Limited	Tyneham Investments Limited
Babcock Support Services Limited <sup>(xvi)</sup>	UKAEA Limited
Babcock Systems Limited	Vosper ManTech Limited <sup>(iv)</sup>
Babcock Technical Services Limited	Vosper Thornycroft (UK) Limited
Babcock Training Limited	Westminster Education Consultants Limited
Babcock Transmission Limited	WRN Broadcast Limited
Babcock Trustees Limited	WRN Facilities Limited

## 37. Group entities (continued)

## Subsidiaries: Incorporated overseas, wholly owned:

Name	Country of incorporation	Name	Country of incorporation
AUH-Bidco Pty Limited	Australia	Babcock Malta Finance Limited (v)	Malta
Australian Helicopters Pty Limited	Australia	Babcock Malta Holdings (Number Two) Limited (vi)	Malta
Babcock Australia Holdings Pty Limited	Australia	Babcock Malta Holdings Limited (v)	Malta
Babcock Defence & Security Pty Limited	Australia	Babcock Mozambique Limitada	Mozambique
Babcock Pty Limited	Australia	Inaer Aviation Mozambique Lda	Mozambique
Babcock SSD (Australia) Pty Limited	Australia	Babcock Namibia Services Pty Limited	Namibia
Bond Helicopters Australia Pty Limited	Australia	Babcock Africa Investments BV	Netherlands
Frazer-Nash Consultancy (Australia) Pty Limited	Australia	Babcock B.V.	Netherlands
INAER Helicopter Australia Pty Limited	Australia	Babcock International Holdings BV	Netherlands
Babcock TCM (Proprietary) Limited (xiii)	Botswana	Naiad Marine B.V	Netherlands
Conbras Servicos Tecnicos de Suporte Limitada	Brazil	Babcock (NZ) Limited	New Zealand
Babcock Canada Inc	Canada	Marine Industrial Design Limited	New Zealand
Babcock Support Services (Canada) Inc.	Canada	World Helicopters Norway AS	Norway
Strachan & Henshaw Canada Inc	Canada	Babcock Oman LLC	Oman
INAER Helicopter Chile S.A.	Chile	INAER Helicopter Peru S.A.C.	Peru
Babcock Communications Cyprus Limited	Cyprus	Babcock Africa (Pty) Limited (xiii)	South Africa
Babcock International France SAS	France	Babcock Africa Holdings (Pty) Limited ****(viii)	South Africa
INAER Helicopter France S.A.	France	Babcock Africa Investments (Pty) Limited	South Africa
Babcock Support Services GmbH	Germany	Babcock Africa Services (Pty) Limited	South Africa
BMH Technologies (Holdings) GmbH	Germany	Babcock Education and Training (Pty) Limited	South Africa
Peterhouse GmbH	Germany	Babcock Financial Services (Pty) Limited	South Africa
VT Communications GmbH	Germany	Babcock Aviation Services (Holdings) SL	Spain
Chepstow Insurance Limited	Guernsey	Babcock International Spain S.L.U.	Spain
PHG Insurance Limited	Guernsey	Babcock Mission Critical Services Group, Sociedad Anonima	Spain
VT Insurance Services Limited	Guernsey	Babcock Mission Critical Services Holdings, Sociedad Limitada	Spain
Babcock Networks Ireland Limited	Ireland	Babcock Mission Critical Services International S.A.U.	Spain
Bond Air Services (Ireland) Limited	Ireland	Babcock Mission Critical Services, S.A.U.	Spain
INAER Ireland Finance Limited	Ireland	INAER Asset Management S.A.U.	Spain
Babcock International Italy S.p.A.	Italy	INAER Fleet Management S.A.U.	Spain
Babcock Support Services s.r.l.	Italy	INAER Helicopteros S.A.U.	Spain
INAER Aviation Italia Fleet S.p.A.	Italy	Babcock Holdings (USA) Incorporated (xiii)	United States
INAER Aviation Italia S.p.A.	Italy	Babcock International US Inc	United States
Babcock Ireland Finance Limited	Jersey	Babcock Support Services (USA) LLC	United States
Babcock Malta (Number Two) Limited	Jersey	Babcock US Investments (Number Two) LLC (iv)	United States
Babcock Malta Limited	Jersey	Babcock US Investments Inc. (iv)	United States
Babcock Luxembourg Finance S.a.r.l.	Luxembourg	Context Information Security LLC (iv)	United States
Babcock Luxembourg Investments I S.a.r.l.	Luxembourg	Strachan & Henshaw, Inc	United States
Babcock Luxembourg Investments S.a.r.l.	Luxembourg	Vosper Thornycroft Controls Inc	United States
Babcock Luxembourg S.a.r.l.	Luxembourg	VT Maritime Dynamics, Inc	United States
Vosper Thornycroft (Malaysia) Sdn Bhd	Malaysia	Babcock Zambia Limited	Zambia
Babcock Malta Finance (Number Two) Limited (vi)	Malta		

## 37. Group entities (continued)

### Subsidiaries: partly owned:

Name	Country of incorporation	% Interest
Airwork Technical Services & Partners LLC	Oman	51.0
Babcock 4S Limited <sup>(iii)</sup>	United Kingdom	80.1
Babcock Communications & Partners LLC	Oman	70.0
Babcock Dyncorp Limited <sup>(iii)</sup>	United Kingdom	56.0
Babcock Learning and Development Partnership LLP	United Kingdom	80.1
Babcock Mission Critical Services Portugal, LDA.	Portugal	75.0
Babcock Mission Critical Services, Scandinavia AB <sup>(iii)</sup>	Sweden	84.6
Babcock Ntuthuko Aviation (Pty) Limited	South Africa	74.2
Babcock Ntuthuko Engineering (Proprietary) Limited	South Africa	75.0
Babcock Ntuthuko Powerlines (Proprietary) Limited	Botswana	75.3
Babcock Plant Services (Pty) Limited	South Africa	72.0
Babcock West Sussex Careers Limited <sup>(iii)</sup>	United Kingdom	80.1
Capital Careers Limited	United Kingdom	88.3
INAER Galicia S.L.	Spain	91.0
Inaer Ghana Limited	Ghana	90.0
National Training Institute LLC	Oman	70.0
Rotary Wing Training Limited	United Kingdom	50.0
S.O.S. Helikoptern Gotland AB	Sweden	84.6
Scandinavian Air Ambulance AB	Sweden	84.6
Scandinavian Air Ambulance Holding AB	Sweden	84.6
Scandinavian Air Ambulance Norge A/S	Norway	84.6
Scandinavian MediCopter AB	Sweden	84.6
Surrey Careers Services Limited	United Kingdom	94.1
Svensk Flygambulans AB	Sweden	84.6

### Joint ventures and associates (equity accounted)

Name	Country of incorporation	% Interest
AirTanker Finance Limited	United Kingdom	13.3
AirTanker Holdings Limited	United Kingdom	13.3
AirTanker Limited	United Kingdom	13.3
AirTanker Services Limited	United Kingdom	22.0
Energy Sales and Trading Limited	United Kingdom	32.5
European Air-Crane S.p.A.	Italy	49.0
ABC Electrification Limited <sup>(iii)</sup>	United Kingdom	33.3
Advanced Jet Training Holdings Limited	United Kingdom	50.0
Advanced Jet Training Limited	United Kingdom	50.0
Airwork Advanced Group Company LLC	United Arab Emirates	49.0
ALC (FMC) Limited	United Kingdom	50.0
ALC (Holdco) Limited	United Kingdom	50.0
ALC (SPC) Limited	United Kingdom	50.0
ALC (Superholdco) Limited	United Kingdom	50.0
Alert Communications (2006) Limited <sup>(viii)</sup>	United Kingdom	20.0
Alert Communications (Holdings) Limited	United Kingdom	20.0
Alert Communications Group Holdings Limited	United Kingdom	20.0
Alert Communications Limited	United Kingdom	20.0
Ascent Flight Training (Holdings) Limited	United Kingdom	50.0
Ascent Flight Training (Management) Limited	United Kingdom	50.0
Ascent Flight Training (Services) Limited	United Kingdom	50.0
Cavendish Boccard Nuclear Limited	United Kingdom	51.0

## 37. Group entities (continued)

## Joint ventures and associates (equity accounted) – (continued)

Name	Country of incorporation	% Interest
Cavendish Dounreay Partnership Limited <sup>(iii)</sup>	United Kingdom	50.0
Cavendish Fluor Partnership Limited	United Kingdom	65.0
Cura Classis (Canada) Inc.	Canada	48.0
Cura Classis (UK) Limited	United Kingdom	48.0
Cura Classis (US) Hold Co LLC	United States	48.0
Cura Classis (US) LLC	United States	48.0
Cura Classis Canada (Hold Co) Inc. <sup>(xvi)</sup>	Canada	48.0
Cura Classis UK (Hold Co) Limited	United Kingdom	48.0
Debut Services (South West) Limited	United Kingdom	50.0
Debut Services Limited	United Kingdom	15.0
Dounreay Site Restoration Limited	United Kingdom	50.0
FBV Designs Limited <sup>(iii)</sup>	United Kingdom	50.0
Fixed Wing Training Holdings Limited	United Kingdom	50.0
Fixed Wing Training Limited	United Kingdom	50.0
FSP (2004) Limited <sup>(iii)</sup>	United Kingdom	50.0
Hackney Schools for the Future Limited	United Kingdom	40.0
Helidax S.A.S.	France	50.0
Holdfast Training Services Limited	United Kingdom	74.0
INS Rokkasho KK	Japan	34.0
Magnox Limited	United Kingdom	32.5
Mouchel Babcock Education Investments Limited	United Kingdom	50.0
Mouchel Babcock Education Services Limited	United Kingdom	50.0
Naval Ship Management (Australia) Pty Limited	Australia	50.0
Rear Crew Training Holdings Limited	United Kingdom	50.0
Rear Crew Training Limited	United Kingdom	50.0
Research Sites Restoration Limited <sup>(iii)</sup>	United Kingdom	65.0
Whitefleet Limited <sup>(iii)</sup>	United Kingdom	50.0

\* Babcock UK Holdings Limited is the only entity owned directly by Babcock International Group PLC.

\*\* 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.

\*\*\* 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.

- (i) Unless otherwise stated, the entities are unlisted, and have one type of ordinary share capital
- (ii) 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
- (iii) Holding of one type of ordinary share only, where more than one type of share is authorised or in issue
- (iv) Holding of two types of ordinary shares
- (v) Holding of three types of ordinary shares
- (vi) Holding of four types of ordinary shares
- (vii) Holding of five or more types of ordinary shares
- (viii) Holding of ordinary and preference shares
- (ix) Holding of two types of ordinary and preference shares
- (x) Holding of ordinary and two types of preference shares
- (xi) Holding of ordinary and three types of preference shares
- (xii) Holding of ordinary and five types of preference shares
- (xiii) Holding of ordinary and redeemable preference shares
- (xiv) Holding of two ordinary and redeemable preference shares
- (xv) Holding of ordinary and deferred shares
- (xvi) Holding of two types of ordinary shares, where more than one type of share is authorised or in issue.

## 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 2016;
- 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 2016;
- 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.

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 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

#### Companies Act 2006 opinion

In our opinion, 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.

#### 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 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 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.

# Independent auditors' report to the members of Babcock International Group PLC – continued

## 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 135, 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.

## Other matter

We have reported separately on the Group financial statements of Babcock International Group PLC for the year ended 31 March 2016.

### John Baker (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

24 May 2016

As at 31 March 2016	Note	2016 £m	2015 £m
<b>Non-current assets</b>			
Investment in subsidiaries	5	2,359.5	2,359.5
<b>Current assets</b>			
Trade and other receivables	6	2,572.1	2,402.0
Trade and other payables	7	1,437.5	1,080.4
<b>Net current assets</b>		<b>1,134.6</b>	<b>1,321.6</b>
<b>Total assets less current liabilities</b>		<b>3,494.1</b>	<b>3,681.1</b>
Trade and other payables	7	1,249.4	1,339.7
<b>Net assets</b>		<b>2,244.7</b>	<b>2,341.4</b>
<b>Equity</b>			
Called up share capital	10	302.5	301.3
Share premium account		873.0	873.0
Capital redemption reserve		30.6	30.6
Other reserve		768.8	851.3
Retained earnings		269.8	285.2
<b>Total shareholders' funds</b>		<b>2,244.7</b>	<b>2,341.4</b>

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The financial statements on pages 195 to 201 were approved by the Board of Directors on 24 May 2016 and are signed on its behalf by:

P L Rogers  
Director

F Martinelli  
Director

## Company statement of changes in equity

For the year ended 31 March 2016	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
<b>At 1 April 2014</b>	217.2	873.0	–	30.6	162.5	1,283.3
Profit for the year	–	–	–	–	120.1	120.1
Other comprehensive income	–	–	–	–	(46.9)	(46.9)
Shares issued in the year	84.1	–	993.3	–	–	1,077.4
Dividends	–	–	–	–	(109.8)	(109.8)
Share-based payments	–	–	–	–	12.1	12.1
Tax on share-based payments	–	–	–	–	5.2	5.2
Other reserves released	–	–	(142.0)	–	142.0	–
Net movement in equity	84.1	–	851.3	–	122.7	1,058.1
<b>At 31 March 2015</b>	301.3	873.0	851.3	30.6	285.2	2,341.4
<b>At 1 April 2015</b>						
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)
<b>At 31 March 2016</b>	302.5	873.0	768.8	30.6	269.8	2,244.7

## 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. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 12.

### 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 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. 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 and recharged to subsidiaries.

Full details of the share-based compensation plans are disclosed in note 24 of the Group financial statements.

#### (b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. Refer to the Group financial statements note 24 for further details.

#### (c) Pension arrangement

The Company operates a multi-employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities.

There is no material difference between the FRS 17 (as amended), 'Retirement Benefits' and IAS 19, 'Employee Benefits' valuation. Refer to the Group financial statements note 25 for further details.

As a result of the level of surplus the Company's compulsory contribution to the Babcock International Group Pension Scheme is currently suspended until at least the results of the next formal valuation are available although voluntary contributions have been made (see note 25 of the Group financial statements).

### 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.

### 3. Company profit

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 loss for the financial year was £35.1 million (2015: profit £120.1 million).

The fee payable to the parent auditors and its associates in respect of the audit of the Company's financial statements was £0.3 million (2015: £0.1 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 £7.5 million (2015: £7.9 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 £7.4 million (2015: £6.3 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 £7.6 million (2015: £6.0 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

	2016 £m	2015 £m
At 1 April	2,359.5	2,121.7
Additions	–	1,025.0
Disposals	–	(787.2)
Investments in shares	2,359.5	2,359.5

In the previous year, on 16 May 2014 the Company acquired Avincis Mission Critical Services Topco Limited for £787.2 million plus £112.3 million for shareholder loans. On the same day it sold this investment for £805.0 million to Babcock UK Holdings Limited.

In the previous year, on 27 May 2014 the Company increased its shareholding in Babcock UK Holdings Limited by subscribing for new shares for £237.8 million.

The Directors believe that the carrying value of the investments is supported by the underlying net assets.

### 6. Trade and other receivables

	2016 £m	2015 £m
<b>Non-current debtors</b>		
Amounts owed by subsidiary undertakings	69.0	38.5
Preference shares in a subsidiary undertaking	988.1	923.3
Other debtors	1.1	1.5
	1,058.2	963.3
<b>Current debtors</b>		
Amounts owed by subsidiary undertakings	1,497.5	1,420.4
Deferred tax	16.4	18.3
	1,513.9	1,438.7
<b>Total trade and other receivables</b>	<b>2,572.1</b>	<b>2,402.0</b>

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 £51.4 million (2015: £32.8 million) carries interest at EURIBOR + 4%; £9.9 million (2015: £nil) carries interest at USD LIBOR + 4%; £7.7 million (2015: £nil) carries interest at STIBOR + 4%. The remaining balance in 2015 was interest free.

The current amounts owed by subsidiary undertakings are repayable on demand and £140.0 million (2015: £140.0 million) carries interest at LIBOR + 5%; £47.6 million (2015: £29.2 million) carries interest at LIBOR + 4%; £5.0 million (2015: £5.0 million) carries interest at LIBOR + 1%; £9.3 million (2015: £713.0 million) carries interest at EURIBOR + 4%; £3.5 million (2015: £2.1 million) carries interest at EURIBOR + 2%; £11.4 million (2015: £nil) carries interest at US\$ LIBOR + 4%; £100.8 million (2015: £100.8 million) carries interest at 4.5%. The remaining balance is interest free.

## 7. Trade and other payables

	2016 £m	2015 £m
<b>Amounts due within one year</b>		
Bank loans and overdrafts	194.6	119.0
Amounts owed to subsidiary undertakings	1,237.3	955.9
Accruals and deferred income	5.6	5.5
	<b>1,437.5</b>	<b>1,080.4</b>
<b>Amounts due after one year</b>		
Bank loans and other borrowings	1,248.2	1,338.2
Other creditors	1.2	1.5
	<b>1,249.4</b>	<b>1,339.7</b>

The Company has £1,738.3 million (2015: £1,685.8 million) of committed borrowing facilities, of which £1,294.5 million (2015: £1,331.6 million) was drawn at the year end. The interest rate applying to bank loans is 0.7% (2015: 1.0%) and is linked to LIBOR, the Eurobond is at 1.75% (2015: 1.75%) whilst the interest rate applying to overdrafts is 1.5% (2015: 1.5%).

The amounts due to subsidiary undertakings are repayable on demand and £136.3 million (2015: £136.3 million) carries interest at LIBOR + 4%, £9.1 million (2015: £9.1 million) carries interest at LIBOR + 1% and £35.6 million (2015: £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 2016 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.

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 142 to 192.

## 9. Provisions

	2016 £m	2015 £m
At 1 April	–	9.0
Charged to the profit and loss account	–	–
Utilised during the year	–	(9.0)
At 31 March	–	–

The provisions relate to costs for the acquisition of Avincis Mission Critical Services.

## 10. Share capital

	Ordinary shares of 60p Number	Total £m
<b>Allotted, issued and fully paid</b>		
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
<b>Allotted, issued and fully paid</b>		
At 1 April 2014	362,073,932	217.2
Rights issue	139,259,204	83.6
Shares issued	863,461	0.5
At 31 March 2015	502,196,597	301.3

In the previous year, on 7 May 2014, a rights issue was completed and 136,259,204 new ordinary shares with an aggregate nominal value of £83.6 million were issued for cash consideration of £1,076.9 million. The rights issue was effected through a structure which involved Babcock International Group PLC subscribing for shares in Axeman (Jersey) Limited. Axeman (Jersey) Limited subsequently redeemed its redeemable preference shares for cash. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds received over the nominal value of the share capital issued has been transferred to Other Reserves.

## 11. Contingent liabilities

- (a) The Company has guaranteed or has joint and several liability for bank facilities of £3.6 million (2015: £28.0 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 2016 these amounted to £269.0 million (2015: £277.9 million), of which the Company had counter-indemnified £164.2 million (2015: £160.5 million).
- (c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

## 12. Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 101 was 1 April 2014. There was no transitional effect on profit/loss for the financial year, equity or the balance sheet.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1, 'First time adoption of International Financial Reporting Standards'.

## 13. Post balance sheet events

### (a) Dividends

The Directors have proposed a final dividend of 19.75p per 60p ordinary share (2015: 18.1p per 60p ordinary share) and it will be paid on 12 August 2016 to shareholders registered on 1 July 2016, subject to approval at the Annual General Meeting on 21 July 2016.

# Shareholder information

## Financial calendar

Financial year end	31 March 2016
2015/16 full year results announced	25 May 2016
Annual General Meeting	21 July 2016
Final dividend payment date (record date 1 July 2016)*	12 August 2016

\* See also 'Results and dividends' on page 129.

## Registered office and company number

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London W1U 1QX

Registered in England  
Company number 2342138

## Registrars

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The Registry  
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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](mailto:shareholderenquiries@capita.co.uk).  
[www.babcock-shares.com](http://www.babcock-shares.com).

Shareholdings can be managed by registering for the Share Portal at [www.babcock-shares.com](http://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](http://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-4.30pm, Monday to Friday excluding public holidays in England and Wales).

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## 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](http://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 9.00am to 5.30pm Monday to Friday). Alternatively, email [shares@capita.co.uk](mailto: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](http://www.ShareGift.org).

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
<b>Continuing revenue</b>	<b>4,158.4</b>	3,996.6	3,321.0	3,029.4	2,848.4
Operating profit from continuing operations	352.5	352.3	233.1	203.5	175.6
Share of profit from joint ventures	34.6	29.4	20.9	18.0	4.3
Profit before interest from continuing operations	387.1	381.7	254.0	221.5	179.9
Net interest and similar charges	(57.0)	(68.6)	(35.2)	(39.7)	(45.9)
Profit before taxation from continuing operations	330.1	313.1	218.8	181.8	134.0
Income tax expense	(39.0)	(46.7)	(30.8)	(18.0)	(5.7)
Profit from continuing operations	291.1	266.4	188.0	163.8	128.3
Discontinued operations	-	-	-	(15.2)	(53.1)
Profit for the year	291.1	266.4	188.0	148.6	75.2
Non-controlling interest	(4.5)	(6.2)	(7.5)	(5.9)	(3.3)
<b>Profit attributable to owners of parent</b>	<b>286.6</b>	260.2	180.5	142.7	71.9
Non-current assets	4,551.8	4,499.1	2,323.9	2,302.1	2,232.5
Net current liabilities	(245.7)	(221.4)	(246.6)	(240.9)	(153.0)
Non-current liabilities	(1,949.8)	(2,079.6)	(1,051.2)	(1,092.3)	(1,159.5)
<b>Total net assets</b>	<b>2,356.3</b>	2,198.1	1,026.1	968.9	920.0
Equity holders of the parent	2,338.5	2,180.1	1,004.4	947.1	911.4
Non-controlling interest	17.8	18.0	21.7	21.8	8.6
<b>Total equity</b>	<b>2,356.3</b>	2,198.1	1,026.1	968.9	920.0
Total earnings per share – basic	57.0p	52.9p	44.3p	35.0p	17.7p
Dividend per share (proposed)	25.8p	23.6p	21.4p	19.0p	16.4p



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