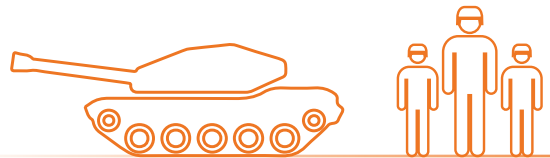
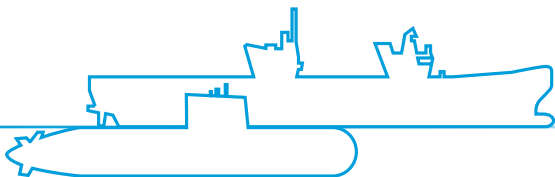
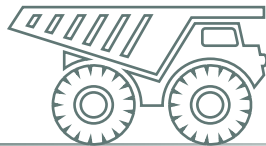




trusted to deliver™



trusted to deliver



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## Introduction and contents

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 ultra-reliable engineering excellence.

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

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#### 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 60 to 69 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.

## Financial highlights

### Statutory results

Group revenue

**£3,996.6m** **+20%**

2014: £3,321.0m

Operating profit

**£352.3m** **+51%**

2014: £233.1m

Profit before tax

**£313.1m** **+43%**

2014: £218.8m

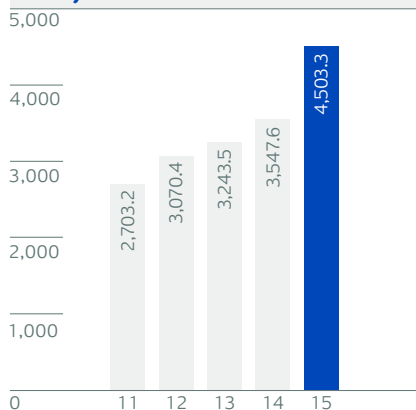
Basic earnings per share

**52.9p** **+19%**

2014: 44.3p

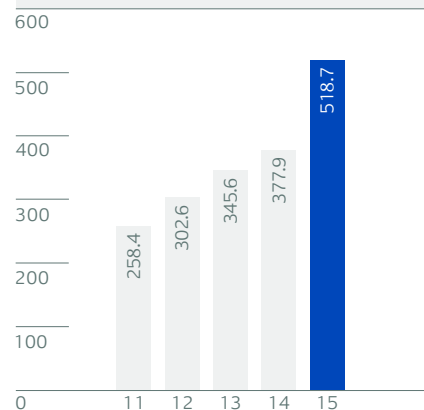
Total revenue\*

**£4,503.3m** **+27%**



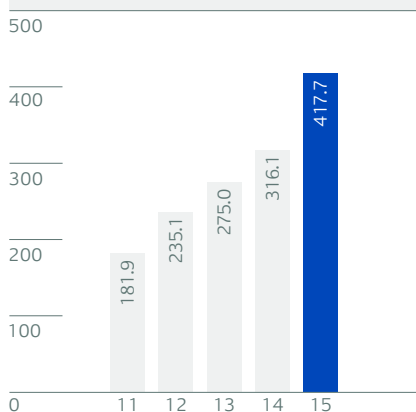
Operating profit\*

**£518.7m** **+37%**



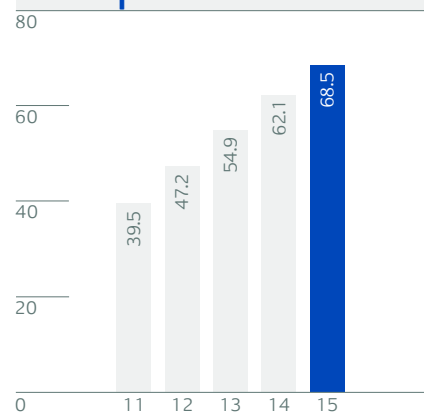
Profit before tax\*

**£417.7m** **+32%**



Basic earnings per share\*

**68.5p** **+10%**



### \* Underlying results

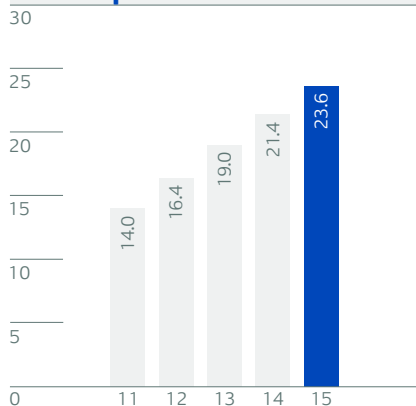
Throughout the overview and strategic report, unless otherwise stated, revenue, operating profit, operating return on revenue, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items and include the Group's share of joint ventures (jv) and include 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 40.

The underlying figures provide a consistent measure of business performance year-to-year thereby enabling comparison and understanding of Group financial performance.

Full year dividend

**23.6p** **+ 10%**



## At a glance – our divisions

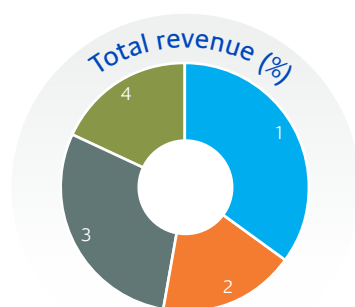
### Group

#### Description

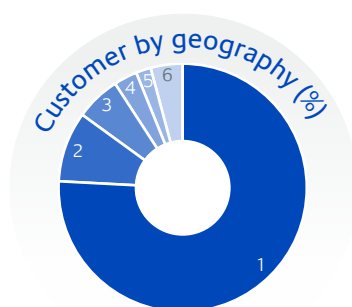
#### Principal activities

#### Key customers include

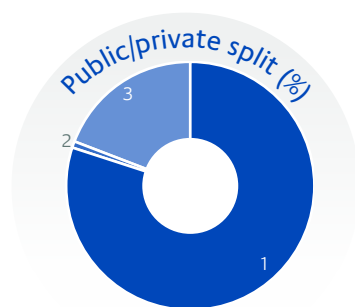
#### Divisional Chief Executive



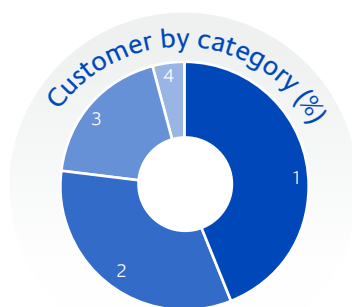
1. Marine and Technology	35%
2. Defence and Security	18%
3. Support Services	29%
4. International	18%



1. UK	76%
2. Europe	9%
3. Africa	6%
4. North America	3%
5. Australasia	2%
6. Rest of the World	4%



1. Public	80%
2. Regulated	1%
3. Private	19%



1. UK Defence	44%
2. UK Civil	33%
3. International Civil	19%
4. International Defence	4%

### Marine and Technology

Marine and Technology is the UK's leading maritime support business and the largest provider of engineering support services to the Royal Navy. With its broad range of engineering and technical skills, the division delivers a wide array of through-life engineering services to defence, commercial marine and energy markets in the UK and internationally.

#### Naval Marine

Submarine through-life support, refit and refuelling, warship maintenance and refit, Queen Elizabeth class aircraft carrier assembly and naval base management.

#### Energy and Marine Services

Engineering support to the oil and gas, offshore renewables, specialised manufacturing and commercial marine markets.

#### Technology

Providing specialised systems and technical services to improve capability in the UK and international defence and commercial sectors.

#### International

Through-life support of Victoria class submarines in Canada and ANZAC class frigates in Australia. Surface ship maintenance, repair and overhaul alongside dockyard management in New Zealand.

Royal Navy, Australian government, New Zealand government, Canadian government, DE&S, BAE Systems, Rolls Royce, Navantia, Daewoo Shipbuilding and Marine Engineering, Hyundai Heavy Industries, BP and Shell

Archie Bethel CBE

#### Employees

# 10,841

See p12 for the Operating review

## Defence and Security

Defence and Security is a major support provider to the UK's armed forces, delivering leading-edge integrated technical training and complex asset management. The division trains c 50,000 service personnel annually and provides management and support to c 35,000 military vehicles including armoured fleets, white fleet and construction fleets.

### Air

Operational airbase support, military flying training and engineering support for elementary, basic and fast jet training aircraft. In-barracks equipment support for frontline aircraft including Sea King, Lynx and Apache.

### Land

Secure access to assured onshore capacity and capability for through-life maintenance, repair, overhaul and upgrade support services for defence equipment. Asset management for the MoD's armoured fleet, white fleet and construction fleets. Army technical and mechanical trade training.

### Sea

Broad range of training activities for the Royal Navy and other international navies including engineering and firefighting training.

### Infrastructure

Integrated estate management and infrastructure support to the MoD in the UK and Germany.

Ministry of Defence and the British armed forces, international armed forces, BAE Systems, Agusta Westland and Rolls Royce

John Davies

### Employees

7,942

See p18 for the Operating review

## Support Services

Support Services has leading positions across several civil markets. The division has three core capabilities; it manages critical assets, delivers complex programmes and teaches vital skills for civil governments and blue-chip commercial organisations. The division is the UK's largest employer of nuclear qualified engineers and leading supplier of apprentice training.

### Managing critical assets

Support to assets, including vehicle fleets for the emergency services and the mining and construction industries, baggage handling systems, broadcast support and estate management.

### Delivering complex programmes

Nuclear site licence operations and decommissioning, major rail track renewal and the upgrade of high-voltage overhead power lines and communications infrastructure.

### Teaching vital skills

Management and delivery of apprentice training for Network Rail and training delivery for Volkswagen Group and the London Fire Brigade (LFB).

UK Government, commercial organisations including BMW and EDF, emergency services including the LFB and Metropolitan Police, regulatory bodies such as the Nuclear Decommissioning Authority and Network Rail

Kevin Thomas

### Employees

10,993

See p24 for the Operating review

## International

The Mission Critical Services business is a leading provider of helicopter and fixed-wing emergency services and crew change services for oil and gas operators in Europe and Australia.

In South Africa, Babcock is a leading supplier of engineering support services to the energy, mining and construction industries.

### Europe and Australia

Emergency medical services (air ambulances), search and rescue (SAR), firefighting, civil protection to mostly national and regional governments, surveillance, oil and gas (crew change, SAR), maintenance, repair and overhaul and design and completion.

### Africa

Sole distributor of Volvo and DAF equipment for infrastructure, mining and transport-truck sectors.

Construction, erection and maintenance of high voltage electrical infrastructure.

Engineering support for power stations and steam generation plants.

Crane hire to the infrastructure and construction industries.

### Middle East

Support to Royal Omani Air force.

Business development activities for wider Babcock Group and for other Babcock services in the region.

Spanish government, Portuguese government, Salvamento Marítimo, Xunta de Galicia, Protezione Civile, Ambulance Victoria, NHS and Police Scotland, East Anglian and Great Western Air Ambulances, FinnHEMS, Repsol, Maersk, BP, EnQuest, Eni, HeliDax, Volvo, DAF, Eskom and the Royal Omani Air Force

Bill Tame

### Employees

5,110

See p30 for the Operating review

## Chairman's statement



Mike Turner CBE  
Chairman

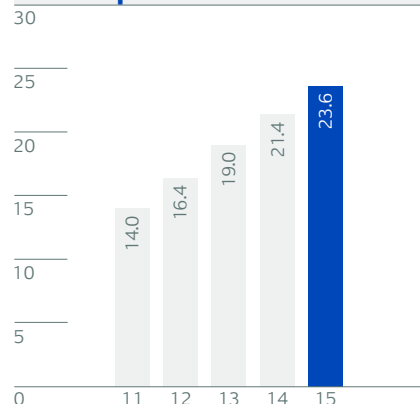
## Firm focus on growth yields strong results

I am pleased to present the 2015 annual report that once again contains record financial results. Our performance reaffirms our confidence in our business model, the choice of markets we operate in and our consistent focus on delivering growth, both organically and through acquisitions. This year's results build on our strong performance over the past decade.

This year we have achieved 27% growth in total underlying revenue to £4,503 million. Excluding the results from Avincis – now renamed Babcock Mission Critical Services – and other businesses acquired during the year, the Group achieved a 12% growth in revenue (at constant exchange rates). Total underlying operating profit including acquisitions increased by 37% to £519 million, or 11% excluding acquisitions and at constant exchange rates. This financial performance resulted in an increase in underlying basic earnings per share of 10.3% to 68.5 pence per share (2014: 62.1 pence adjusted for the 2014 rights issue).

### Full year dividend

**23.6p** + 10%



As a result of the Group's strong financial results and consistent delivery of cash, along with the strength of the order book and bid pipeline the Board continues to have confidence in the long-term future of our business. We are delighted therefore to recommend a 10.4% increase in the final dividend per share for 2015 of 18.1 pence per share (2014: 16.4 pence per share). If approved by shareholders, this will give a total dividend for the year of 26.3 pence per share (2014: 21.4 pence per share), an increase of 10.3%. The final dividend will be paid on 12 August 2015 to shareholders on the register at 3 July 2015.

### Governance and the Board

I believe our focus on using the depth and breadth of our engineering and technical knowledge and expertise to do what is right for our customers, meeting or exceeding their expectations, sets us apart from many in our sector. In the current economic environment, this has never been so important. As Chairman, I will continue to uphold the values of openness, honesty and transparency which I believe are central to our culture and to safeguarding our future. Throughout the year the Board has been committed to ensuring we adhere to and manage the Group in accordance with the highest standards of corporate governance. I refer you to the governance statement and Board committee reports for further detail on how we have been doing this.

Our strategy has been central to our successful and long-term track record of delivering strong financial results, a strategy which the Board regularly reviews and discusses to ensure all options for value creating growth, including acquisitions, are carefully considered.

A key event for the Board last year was the decision to acquire the Mission Critical Services business for c £1.8 billion (including debt) and undertake the associated rights issue, a process that

was supported by our shareholders. Since completing the acquisition of the Mission Critical Services business in May 2014, the Board has been carefully monitoring progress. We receive regular reports outlining its integration into the broader Babcock Group. Its financial performance is assessed for progress against our expectations at the time of the acquisition and we discuss the potential opportunities that it could provide as a platform for growth for the Group as a whole. We have been pleased with progress to date.

In August 2014, we decided to make some changes to the Board to strengthen the operational management of the Group. Bill Tame, who has been Group Finance Director since 2002, was appointed Chief Executive of the International division which includes the South African operations, the Middle East business development activities as well as Mission Critical Services. I was delighted to welcome Franco Martinelli to the Board to succeed Bill as Group Finance Director. Franco has worked alongside Bill as the Group's Financial Controller since 2002 and his appointment has provided a smooth transition for the Group's financial operations.

On 1 April 2015, we appointed Myles Lee as a Non-Executive Director. Myles was Chief Executive Officer of CRH plc between 2009 and 2013, having joined the business in 1982. I am very pleased Myles has agreed to join us and I am sure his background and experience in a company that has grown from a business largely focused on its domestic markets into one of the world's leading building materials companies will be of great value to us at this stage of our development.

### 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 this year.

We look to safeguard our future by taking on young people as apprentices, trainees or graduates, and training them in vital engineering and business skills. This year we have continued our commitment to the 5% Club, increasing the number of employees on structured training schemes. Not only are we encouraging the development of engineering skills within our business, we are actively involved in a number of schemes to promote STEM (Science Technology Engineering and Maths) activities to young people, and in particular girls, in schools and other educational establishments around our major sites. By doing this we hope to encourage more people into STEM careers to ensure in future we are able to recruit from the widest talent pool to sustain and develop the fantastic depth of knowledge and experience we have in our operations. During the year, I was particularly pleased to see our support for women in engineering and our ongoing support of STEM activities recognised by HRH The Princess Royal when she visited our facilities at Rosyth.

### Looking forward

Throughout this year the Board has overseen the continuing growth and development of the Group. We remain confident in the long-term prospects of the Group based on the strength of our business, the visibility we have of future revenues and the long-term growth prospects we have in the bid pipeline.

We therefore believe the outlook remains positive and we look forward to making further good progress in the 2015/16 financial year.



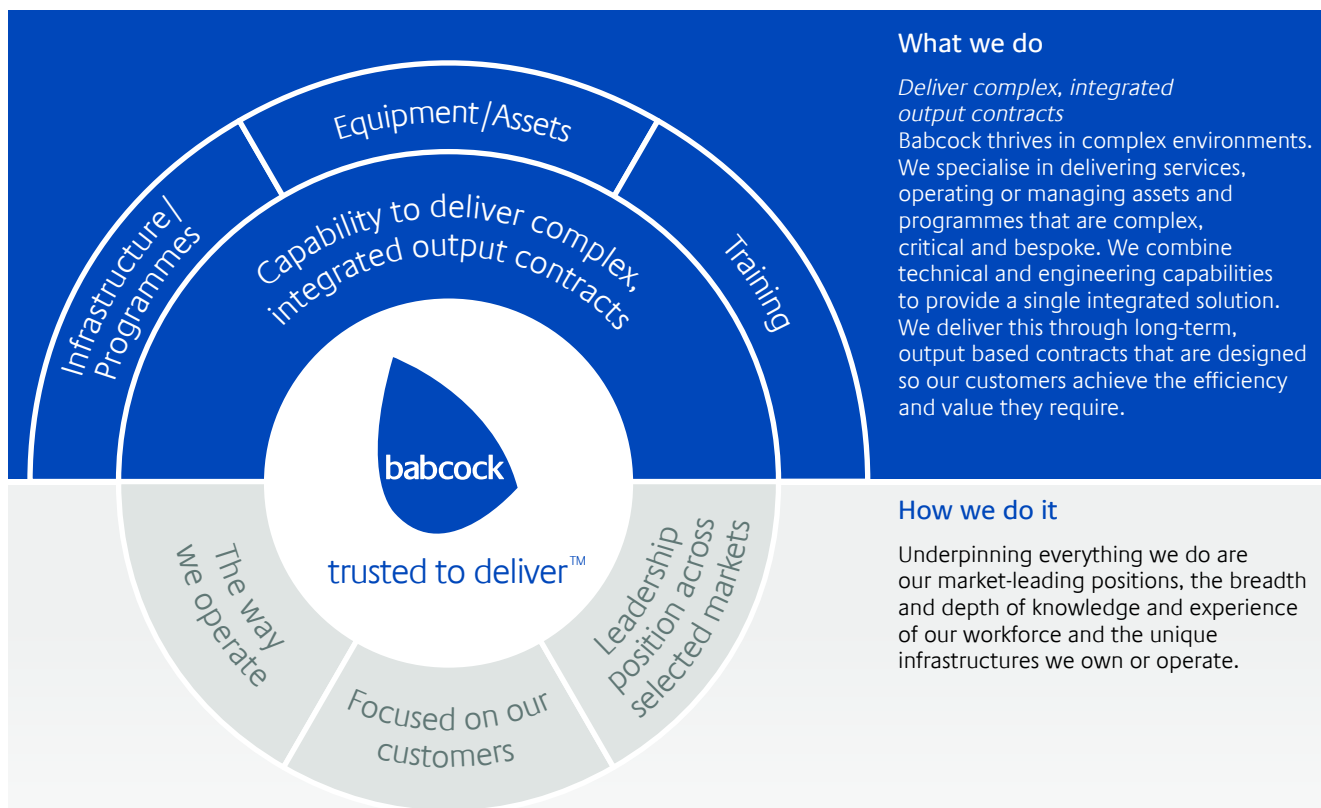
Mike Turner CBE  
Chairman

## Business model and strategy

# How we deliver value

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.

## Our business model



Our strategic objective is to grow from our current positions in both the UK and overseas, delivering sustainable value for our shareholders. To achieve this objective, we have created and will continue to grow a balanced portfolio of businesses based on our strategy.

See further detail on page 11

#### *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 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 in 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.

## Our strategy

Leading market positions

Preferred customer characteristics

Customer focused long-term relationships

Integrated engineering and technical expertise

Balancing risk and reward

Excellent health and safety record

## Delivering value

### 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.

## Chief Executive's review



Peter Rogers CBE  
Chief Executive

# Strengthening our position, sustaining our growth

2015 has been another good year for Babcock. The financial results have again shown strong progress. This is, in part, a result of the acquisition of the Avincis business (now renamed Mission Critical Services or MCS) early in the year, but I am particularly pleased by the strong and steady rate of organic growth our other businesses have continued to deliver. This has come not only from ongoing success in major contract wins but also from using the depth and breadth of our knowledge and understanding of our customers' operational requirements to provide them with additional support and services.

Since 2006, we have consistently delivered organic growth (at constant exchange rates), achieving an average of c 9% organic revenue growth and c 13% organic operating profit growth, growth that, over time, all our business units have contributed to. This clearly demonstrates our ability to grow our business by developing and leveraging leading positions in markets with long-term growth prospects and to use acquisitions or major contract wins to add skills and capabilities, further creating opportunities for growth.

In May 2014, we were delighted to welcome the c 3,250 employees from the Mission Critical Services business into Babcock. Over the summer, I was able to visit the majority of the operations in Europe and spend time not only with our employees but also with their customers. These visits underlined for me how clearly aligned the two businesses' strategies and business models are. The services our customers trust us to deliver are absolutely critical, saving lives, protecting communities and the environment and transporting people over long distances, often in hostile weather conditions. We provide a fully integrated support solution, state-of-the-art aircraft with bespoke configurations to meet our customers' requirements with specialised mission equipment, a certified in-house maintenance capability as well as 24/7 emergency co-ordination centres. This service is delivered by dedicated pilots, engineers, doctors, paramedics, rescuers

and divers and we have been working with some customers for over 20 years. The Mission Critical Services business is being fully integrated into Babcock and I am excited by the growth prospects within this business, despite the recent weakness in the oil price and the impact this has had on a small part of its operations. I believe the business will provide us with excellent opportunities to develop relationships with new customers across Europe and I believe this will create a longer-term platform for growth for the wider Babcock Group.

Throughout the year we have also welcomed other businesses into the Babcock Group through contract wins as well as acquisitions, all adding to the skills and capabilities of the Group. We believe this has further enhanced our established market positions and will underpin the sustainability of our business which is well positioned for future growth.

### A trusted partner

Throughout this year we have seen little change to the economic environment in our major markets. Our customers continue to experience reducing budgets and financial constraints, encouraging them to look at alternative ways of delivering their services at a reduced cost or delivering a broader range of services within existing budgets. For many of our customers, whilst cost is absolutely a vital part of their decision to outsource critical services, there are often many other considerations that mean they need to be confident they are working with a partner who can be trusted to deliver. These considerations include improving services, availability of assets or managing life extensions when in-service dates for new assets have been delayed.

Ensuring we fully understand and are focused on delivering our customers' requirements is a central part of our business model and corporate culture. I believe our track record of achieving operational efficiencies for our customers and sharing the financial benefits with them provides an excellent reference point for new customers. At times of economic and political uncertainty we think this is critical to our ongoing

business success, which is why we continue to see positive market conditions for the technical, complex and engineering based outsourcing solutions we provide.

### Strategy and business model

Our strategy and business model (pages 6, 7 and 11) have remained broadly unchanged since we first set about transforming the business in the early 2000's. They are central to the way we have managed and developed the Group and consistently delivered financial growth and enhanced earnings and dividends for our shareholders. We believe they also set us apart from many others in our sector.

The elements of our strategy which focus on our customers and 'the way we operate' section of our business model are particularly important when so many of our customers are local or central governments or regulated bodies reliant on public spending decisions. By aiming to work as a strategic partner alongside our customers we can ensure they benefit from working with us, so together we can enhance the expected outcome of a contract. We will continue to focus on delivering value-for-money solutions, meeting or exceeding our customers' expectations and designing contract structures which allow each of us to

share in the risk and rewards of contract outputs.

Health and safety is a core part of our strategy and is the first priority across all our operations. Our commitment to ensuring the health, safety and welfare of all employees and those who work with us or alongside us on our sites is unchanged.

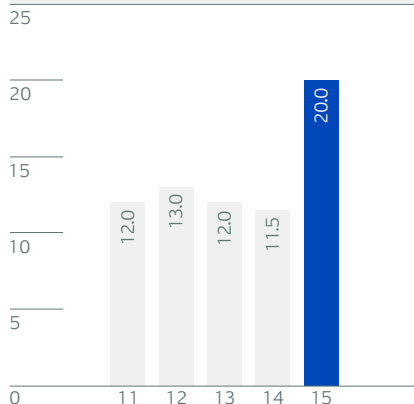
We believe our strategy remains vital to our future success. Only by consistently measuring future bidding or acquisition opportunities against our strategy will we safeguard the underlying strength of our business and the sustainability of growth in the short, medium and longer-term.

### Order book and bid pipeline

Over the past financial year we have seen the order book increase from c £11.5 billion at the end of March 2014 to c £20 billion at the end of March 2015. Throughout this year it steadily increased as we reached final signature on a number of major contract wins, including contracts for Magnox civil nuclear decommissioning, London Fire Brigade vehicle support, Defence Support Group military vehicle support and the Maritime Support Delivery Framework. During the first half, after completion of the acquisition, we incorporated the order book for the Mission Critical Services business, which today accounts

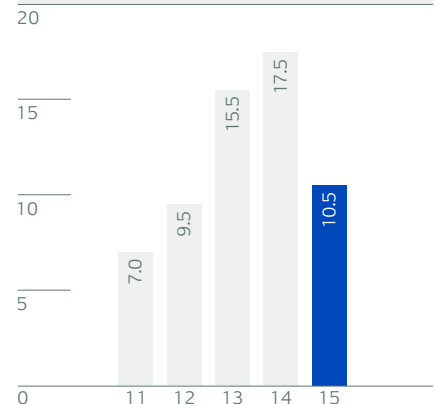
#### Order book history (£bn)

**£20.0bn**



#### Bid pipeline history (£bn)

**£10.5bn**



## Chief Executive's review *continued*

for c £2 billion of the total. The order book provides us with excellent visibility of future revenues and we started the 2015/16 financial year with over 80% of anticipated revenues for the year already contracted. We also have visibility of 50% of revenue for the 2016/17 financial year.

With the significant number of high value bid decisions announced during the year the bid pipeline has reduced to c £10.5 billion (2014: £17.5 billion). As well as the successful contract awards totalling c £12 billion which have moved into the order book, bids where we have been unsuccessful have been removed from the bid pipeline. The unsuccessful bids include Tranche 2 of the Next Generation Estates Contracts (NGEC), the Logistics

and Commodity Services Transformation (LCST) contract and the New South Wales Air Ambulance contract. These opportunities in total represented around £5 billion in the pipeline.

During the year, the Group achieved a win rate on new contracts of c 40% and on rebids of over 90% (excluding the NGEC). The Group performance is matched by the Mission Critical Services business which has achieved a win rate of c 55% on new contracts and of over 90% on rebids.

The bid pipeline now includes c £1 billion of opportunities from Mission Critical Services and throughout the year we have continued to see a number of major opportunities move into the bid

pipeline from tracking. These include opportunities in both our defence and civil markets.

The bid pipeline continues to represent the significant opportunities for growth within the Group, including bids at preferred bidder stage/sole source, c 70% of the opportunities are new business, with the remaining 30% rebids. The bid pipeline continues to include a number of significant opportunities with 55% (2014: 75%) comprising bids with a total contract value of over £100 million.

The bid pipeline continues to be supported by a healthy tracking pipeline of over £16 billion. 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.

### Outlook

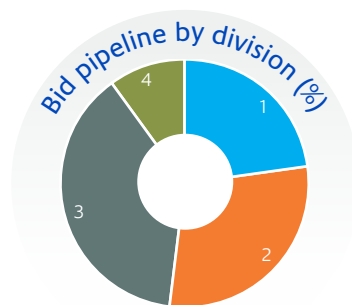
We continue to benefit from positive market conditions in both the UK and overseas, where demand for our technical expertise and our ability to deliver complex and critical programmes and projects remains high. We believe our move into new markets and geographies, our order book which continues to provide visibility and certainty of future revenues and our bid pipeline each offer significant further opportunities for growth.

The Board therefore remains confident in the long-term prospects for the Group and expects it to make further good progress in the 2015/16 financial year.

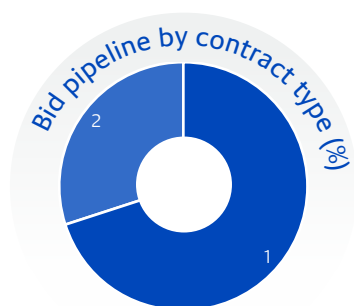
Peter Rogers CBE  
Chief Executive



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

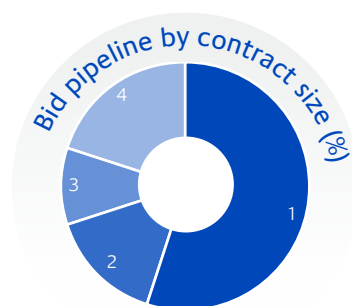


1. Marine and Technology	23%
2. Defence and Security	29%
3. Support Services	38%
4. International	10%



1. New business	70%
2. Rebids and extensions	30%

20% of pipeline is preferred bidder/sole source



1. >£100m	55%
2. £100-50m	15%
3. £50-25m	10%
4. <£25m	20%

## Strategy

### Our strategy

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.



**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.



**Preferred customer characteristics**

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 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.



**Integrated engineering and technical expertise**

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



**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.

Our strategy defines us as a business and it has enabled us to become the business we are today. We will continue to focus on our strategy to build further on our core capabilities, to meet or exceed our customers' expectations and to continue to create value for our shareholders and other stakeholders. Each of our divisions has its own strategy, based on the Group strategy, which underpins the Group's long-term strategic objective.

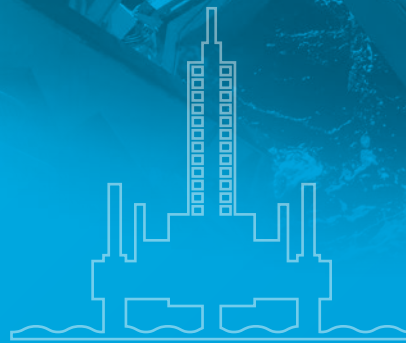
## Marine and Technology

# Building on long-term relationships and experience

The division is seeking to enhance and build on its established position as the UK's leading through-life support partner to the Royal Navy and in doing so, grow its naval marine presence internationally. The division is seeking to apply its engineering expertise in adjacent commercial energy and marine markets.

### Strategy in action

- Signed the MSDF to deliver services at Clyde and Devonport until 2020
- HMS Vengeance LOPR nears completion on time and in budget
- HMS Vanguard LIFEX planning underway
- Achieved record order book value for liquid gas transport systems
- Progressively securing equipment management contracts and similar programmes with MoD
- Awarded a five year support contract for WHLS and SSE on all in-service submarines
- Design, development and procurement contract for 'long-lead' Successor items



### Strategic supply partner

Babcock is working closely with BP to manufacture 73 subsea structures for the BP Quad 204 redevelopment project, West of Shetland, in one of the largest ever single subsea fabrication orders placed in the UK.

Recent significant investment in our Rosyth facilities enables us to deliver efficiently a scope that includes: detailed engineering; material procurement; integration of supplier equipment; fabrication and assembly; acceptance testing and load out support. All completed undercover, at one location with our non-tidal basin enabling easy load out and access to the North Sea.

The project management and manufacturing excellence has so far ensured BP's delivery of this critical equipment within a narrow offshore weather window, significantly contributing to the overall success of the programme.

[Link to Group strategy](#)



## Extending relationships in New Zealand

Building on an existing contract at Devonport dockyard in Auckland, Babcock is now working in partnership with the New Zealand Defence Force and Royal New Zealand Navy to deliver extended and enhanced services such as technical programme management, collaboration on capital acquisition programmes, improved availability of fleet assets, and continuous engineering support, through a new, output-based contract from March 2015.

Seven-year contract value

**NZ\$300m**

[Link to Group strategy](#)



## Queen Elizabeth class aircraft carrier support

In July 2014, Her Majesty The Queen named the first of two Queen Elizabeth class (QEC) aircraft carriers. Babcock is responsible for delivering whole-ship assembly of both vessels as part of the Aircraft Carrier Alliance (ACA) along with over 50% of the detailed design. Assembly, integration and commissioning of both vessels is taking place at Rosyth dockyard, which has just received the British Safety Council 5-Star award for

the ninth time. Following the ceremony the dock was flooded, and the largest vessel ever commissioned by the Royal Navy, was floated into the basin.

While assembly has started on the second vessel, Babcock strengthened its strategic partnership with the MoD through an initial contract, along with BAE Systems, to design the first phase of the support solution for QEC, as part of the wider 'Support Development Phase'.

The contract underpins our position, maintaining design and engineering influence, to support and optimise both vessel's availability and capability through the expected 50 year lifespan.

Weighing in at 65,000 tonnes

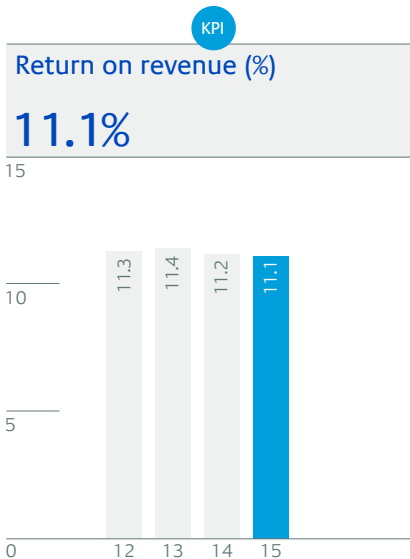
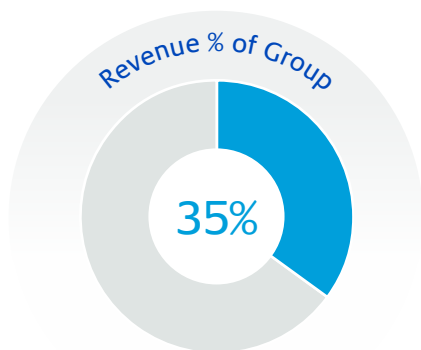
**In-service in 2020**

[Link to Group strategy](#)



## Marine and Technology

### 2015 performance highlights



### Market overview

Over the past year, our main market in the UK for the Marine and Technology division has remained positive as the Ministry of Defence (MoD) continues with its strategy to manage its critical naval infrastructure and assets by outsourcing, through a range of long-term partnership contracts and alliance programmes. The MoD's equipment programme continues to reflect sustained investment in naval platforms over the next decade, including the Queen Elizabeth class (QEC) aircraft carriers, the Type 26 frigates and the Astute and Successor submarine programmes. Following the General Election in May 2015, the UK government is expected to undertake a Strategic Defence and Security Review. We do not currently anticipate any significant impact to our existing naval marine contracts however, and believe any budget reduction could drive an increased focus on achieving further value for money from future support solutions.

The Surface Ship Support Alliance (SSSA) was established in 2009 to provide the best and most cost effective solutions for

the Royal Navy whilst maintaining the highest levels of availability. The SSSA will be the contracting mechanism to deliver all future surface ship support solutions. We believe the MoD's expenditure on surface ship procurement and support will be £18 billion over the next decade.

The Submarine Enterprise Performance Programme (SEPP), an alliance between the MoD, Babcock, BAE Systems and Rolls Royce, continues to drive availability and support efficiencies across the submarine enterprise. The MoD is forecast to spend £40 billion on the entire submarine programme during the next decade.

Building on its positions in the UK, the division continues to grow its international and commercial activities where we believe market conditions present opportunities. In Canada, we continue to monitor naval infrastructure and in-service support opportunities that are driven by the Canadian government's proposed renewal and expansion of the Royal Canadian Navy fleet through the Can\$33 billion National Shipbuilding Procurement Strategy. The Australian government is due to publish its Defence White Paper in June 2015, which is

expected to announce the transformation of the Defence Materiel Organisation and an increased focus on capital expenditure related to naval platforms, including the future submarine programme.

We continue to identify global opportunities in the commercial marine sector, which are well suited to our expertise in complex and critical engineering services. A predicted increase in demand for gas transportation is generating opportunities for specialised systems for gas transport ships and further opportunities are expected from ageing offshore oil and gas production infrastructure and increasing demand for offshore renewable energy. Increasing activities in the UK's nuclear new build and decommissioning markets are also driving demand for our engineering design and manufacturing capabilities.

Cyber-security remains a top priority for the UK government and it is working to increase cyber awareness across all business sectors. As businesses increasingly recognise the importance of cyber-security we anticipate future sustained growth in demand for our services in this area.

## Strategy

In the UK, our close working relationship with the MoD, through the 15 year Terms of Business Agreement (ToBA), continues to provide a strong platform to grow and develop our through-life naval support businesses. The Maritime Support Delivery Framework (MSDF) contract reinforces our position as the MoD's strategic partner at Her Majesty's Naval Bases (HMNB) Devonport and Clyde until 2020.

We expect to consolidate our position in the SSSA and the SEPP by working with the MoD to drive improved performance in both the submarine and surface ship support enterprises. Our contract at HMNB Clyde positions us well to meet the anticipated increase in demand for engineering services as the MoD seeks to establish HMNB Clyde as the UK's Submarine Centre of Specialisation and the base port for all submarines. We expect the introduction of new Royal Navy platforms over the next decade, e.g. QEC aircraft carriers, Type 26 frigates and Astute submarines, will continue to provide us with opportunities to exploit our technical expertise in the support and commissioning of naval capability.

Building on our UK home market positions, our international naval customer base is growing. Alongside our established naval support businesses in Canada, Australia and New Zealand, we continue to develop future naval opportunities around waterfront infrastructure and engineering capability. As well as identifying further potential commercial opportunities.

Following on from the successful design stage of the Weapon Handling System project for South Korea's Jangbogo III submarine programme we are also pursuing targeted opportunities beyond our core established international markets to provide equipment and engineering design services to foreign navies. Building on the success of the Irish Naval Service Offshore Patrol Vessel (OPV) programme, we aim to enhance our position as a provider of OPVs by targeting international design and build programmes.

In response to the cyber-threat environment we are developing a Managed Security Service business that will provide Security Operations Centre

services drawing on the cyber knowledge and capability of ContextIS.

Building on the success of the BP Quad 204 subsea infrastructure programme, we are focusing on growing our commercial marine business by providing integrated engineering, design and manufacturing services for major offshore energy operators. We believe our skills and experience in providing long-term asset management services in complex environments positions us well to penetrate the potentially significant offshore oil and gas decommissioning market. We will continue to work with Cavendish Nuclear to deliver complex manufacturing solutions to support both the civil nuclear decommissioning and new build markets.

In addition to protecting and expanding our UK and developing international businesses, we will continue to look for opportunities to acquire capabilities and businesses which are consistent with our growth ambitions and to which we can add value.

## Financial review

The Marine and Technology division had a successful year, reporting a total increase in revenue of 13%, to £1,562.5 million (2014: £1,377.3 million). Organic growth at constant exchange rates was 14% (2014: 13%). 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. The Technology and Energy and Marine Services business units have both delivered growth in their commercial activities for oil and gas customers, including BP and Total. Additionally, we have seen continued growth in demand for liquid gas transportation systems. These increases, along with growth in Australian naval support activities, have offset some reduction in volumes as a result of timing of activities on the Canadian submarine programme.

Operating profit increased broadly in line with revenue by 13% to £173.9 million (2014: £153.9 million). At constant exchange rates, organic growth was 14%. Operating margins remained broadly in line with last year at 11.1% (2014: 11.2%).

## Operational review

The division continued to deliver in-service support and deep maintenance to the Royal Navy's (RN) fleet of submarines and warships and maintain its role as the MoD's strategic partner at HMNB Devonport and Clyde. These activities are all carried out under the ToBA with the MoD, which runs until 2025. Through the long-term programmes and alliances we have with the MoD, we have been able to maximise availability of the fleet whilst remaining focused on the delivery of cost reductions.

## Trusted to deliver

The first Irish Naval Service Offshore Patrol Vessel built at our Appledore facility, was officially named and commissioned in May 2014. In March 2015, the second vessel started sea trials prior to commissioning. Building on these successes the Irish Naval Service exercised an option to purchase a third OPV.

# 2016

Scheduled delivery



## Marine and Technology *continued*

In September 2014, we concluded discussions with the MoD and signed the Maritime Support Delivery Framework (MSDF) contract. Working within the ToBA, MSDF confirms the continuation of our contract to deliver services at HMNB Devonport and Clyde through to 2020, replacing the previous Warship Support Modernisation Initiative (WSMI) contracts. MSDF will also cover a number of surface ship projects which will be delivered in conjunction with the SSSA. The contract is valued at a total of £2.6 billion, of which £600 million had already been included within the Group's order book as part of nominated roles under the ToBA. The new contract enables Babcock to provide continuity and development of the range of activities and services delivered to the MoD and RN, as well as deliver improved efficiencies and a further £250 million of cost reductions on the agreed programme of work.

Our role in the Aircraft Carrier Alliance (ACA) remains strategically important as we deliver both QEC aircraft carriers with our alliance partners. Significant progress has been made over the past year on both HMS Queen Elizabeth and HMS Prince of Wales at our facility in Rosyth. Assembly of HMS Queen Elizabeth was completed and, following the naming ceremony, she was flooded up and successfully floated into the basin during July 2014. Activities are now focused on the fitting out of the

vessel, installation of vital electrical and mechanical systems and the start of the assembly phase for HMS Prince of Wales. We are already working with MoD and the ACA to develop the long-term engineering support solution for the QEC carriers when they become operational from 2017 and 2023.

All current warship and submarine refit contracts are performing in line with our financial expectations and are aligned with the customer's programme milestones and KPIs.

We continue to play a central role in the SSSA with the completion of a major refit on the helicopter carrier, HMS Ocean, and the commencement of a significant reactivation package on the amphibious assault ship, HMS Albion. We will also be undertaking the life extension work packages for all of the RN's Type 23 frigates at our frigate refit complex in Devonport. Building on the strength of our UK position, we continue to identify opportunities to export our warship support capability.

We have maintained our position as the leading support partner for the UK submarine fleet by successfully supporting the Trafalgar and Vanguard classes, as well as the new Astute class submarines as they enter service. We are currently completing the Long Overhaul Period (Refuel) for HMS Vengeance, and are planning and preparing for the

Vanguard class life extension programme (VLIFEX) to ensure there is no disruption to the UK's ability to meet Continuous At Sea Deterrence. Preparation work is already underway for the first Vanguard class life extension package and refuelling on HMS Vanguard.

Planning and preparations for HMS Astute, the first Astute class submarine, are already taking place for her first deep maintenance period. Additionally, through the Astute Class Training Service we are providing high quality training solutions to the RN, which also presents opportunities to expand our role in submarine training in the UK and internationally.

The Vanguard class replacement, Successor future submarine programme, continues to present opportunities. Through the Technology business we are progressing activities to support the design phase, through-life support, planning and the key tactical weapons launch systems for Successor, which remains on schedule for Main Gate decision by the MoD in 2016. We continue to deliver weapons handling and launch systems to support the current Astute, Type 26 and QEC build programmes in the UK, as well as the submarine builds in Spain and South Korea.

As through-life support partners to the RN, planning work on the proposed solution for the dismantling of redundant submarines at our Rosyth and Devonport facilities continues to make good progress, with preparatory work starting for the demonstration pilot vessel at Rosyth.

The first of the offshore patrol vessels being built by our Appledore facility for the Irish Naval Service was commissioned into service in May 2014 and the second vessel is currently undergoing sea trials. These successes have led to the customer exercising an option for a third ship, which is currently under construction and due for delivery by July 2016.

Our contracts to support the Australian, New Zealand and Canadian navies are all performing well, achieving excellent KPI performance and delivering improved availability and efficiencies for our customers. In Canada, under the Victoria class in-service support contract, which is set to run until 2024, HMCS Chicoutimi

### Long-term support partner to MoD

Babcock works closely with the MoD to implement VLIFEX – the life extension programme for the Vanguard class submarines, originally designed for a service life of 25 years. The 2010 SDSR identified benefits gained from maximising the useable life of the class and optimising the design and build programme for the follow-on Successor class submarines, with an in-service date of 2029.

To meet the challenge, Babcock has adopted a programme providing both technical and management support, as well as a wider support solution, that delivers logistics, infrastructure, manning and training in an integrated programme. HMS Vanguard will be the first vessel to receive the VLIFEX package of work in 2016.

# £1.3 billion

Estimated value of VLIFEX



has returned to the Royal Canadian Navy after an extended docking work period and we are now working on the refit of HMCS Corner Brook. We have delivered the refit contract for the Canadian Coastguard ship, Louis St Laurent, on time and budget with our partners Chantier Davie Canada and are now working on the medium ice-breaker CCGS Des Groseilliers. We also continue to track future naval support and commercial opportunities in the liquefied natural gas market.

In Australia, we have consolidated our relationship with the Royal Australian Navy where we are successfully delivering in-service engineering support to the Collins class submarines and the ANZAC class frigates. We have recently established a teaming arrangement with Austal Ships to bid for the Pacific Patrol Boat programme. In New Zealand, we started a new contract on 1 March 2015 with the New Zealand Defence Force, which extends our previous dockyard contract for a further five years, with an option to extend for an additional two years. The new contract is worth approximately NZ\$300 million and provides an opportunity for us to broaden our responsibilities. We expect this to also generate further naval support opportunities.

Through our investments in equipment management operations and technology, we have been successful in securing initial maritime equipment management contracts under the MoD's Maritime Equipment Transformation programme and similar programmes, in support of a range of UK defence assets, totalling over £100 million. These programmes are at an early stage and we are very pleased with progress to date; further opportunities of over £300 million are in bidding and tracking phases.

Our independent technology consultancy businesses continue to deliver growth. ContextIS has been successfully integrated into the division whilst retaining its reputation to provide independent impartial advice. We continue to develop our consultancy businesses to support growth in the UK and overseas, particularly in response to the developing cyber-threat environment, but also by using our information management and data analytics capabilities to enable our clients to deliver higher availability from their assets.

In the past 12 months, we have continued to develop our presence in the oil and gas market. The former LGE business is also making good progress on a number of liquid gas system projects having won orders worth £320 million since acquisition. We are nearing completion of the BP Quad 204 programme, manufacturing and delivering 73 subsea modules and have also completed work on the Total Ellon Grant project. Additionally, we have successfully delivered an integrated 'walk to work' solution for Total which allowed 18,000 safe, personnel transfers to the West Franklin and Elgin B platforms.

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## Sustainability

The Marine and Technology division employs over 10,500 highly-skilled men and women, and has a reputation for engineering excellence and a customer-focused approach. In line with Group strategy, the health, safety and security of every employee, contractor, customer and visitor to our facilities is our utmost priority. We demand the highest standards of industry-compliant, health and safety best practice and seek to minimise environmental impact wherever possible.

In the last financial year, we have focused on a number of safety improvement initiatives, such as the Safety Improvement Programme, the Safety Lens employee engagement programme and particular emphasis has been made on the Visible Leadership Programme at all sites. Our facility at Rosyth has been honoured with the British Safety Council's 5-Star award for the ninth time.

The division continues to develop a security and information assurance culture at all sites, using a strategic risk-based approach which aligns security with the 'Home Safe Every Day' business objective.

The division needs to attract and retain a highly skilled workforce to support our current operations as well as our growth ambitions so we remain committed to the recruitment and development of apprentice and graduate employees. In 2014, we welcomed another 150 apprentices and 87 graduates into

the business. As well as developing the potential of our own employees, a schedule of Science, Technology, Engineering, and Mathematics (STEM) community engagement activities, designed to engage and nurture enthusiasm around careers in STEM subjects to children and young people is embedded within our organisation. In July 2014, Marine and Technology division Chief Executive, Archie Bethel, endorsed the Institution of Primary Engineers and the Institution of Secondary Engineers' new programme launch at a high-profile event held in the House of Lords.

The fair and equal treatment of all our employees is an issue we strongly believe in. We have established a divisional Diversity Working Group to drive the Group-wide Respect cultural change programme, which regularly liaises with business leaders to promote fairness and excellent conduct in the workplace. Further to this, we hosted two in-house diversity conferences with key guests and speakers, along with the first Women in Science and Engineering event to be held outside of London with HRH The Princess Royal speaking at the event.

We also strive to minimise the impact our day-to-day operations have on the environment by using industry-standard best practice procedures alongside environmental regulations, including ISO 14001 certification.

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## Outlook

In the UK our long-term relationship with the RN and MoD as their trusted naval support partner continues to provide us with excellent long-term visibility of revenue. We believe our unrivalled technical expertise and the ToBA provide us with an excellent platform to work with the RN to maximise the availability of their assets and safely reduce cost. We continue to develop our integrated engineering expertise into the commercial marine market both in the UK and overseas. We believe the outlook for the Marine and Technology division remains positive as we continue to track significant future opportunities to support long-term growth both in the UK and internationally.

## Defence and Security

# 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 in complex and critical engineering and training support services.

### Strategy in action

- Acquisition of the Defence Support Group
- Contract to deliver services to the Defence College of Technical Training over five years
- Additional work programmes on the close-out of Regional Prime contracts
- Extensions to the Hawk T1 and T2 engineering and support contracts
- AirTanker air-to-air refuelling in-service date milestone met
- International business unit established to support growth plans



### Expand internationally

Following the success of our model with BAE Systems in delivering the UK Hawk T1 and T2 contracts, we signed a charter with BAE Systems to jointly pursue opportunities to support the Hawk, in-service, with overseas customers. Several opportunities are already being explored.

The division has also established an International business unit to support development and growth outside the UK and this is now well positioned to capitalise on Mission Critical Services' presence in Europe.

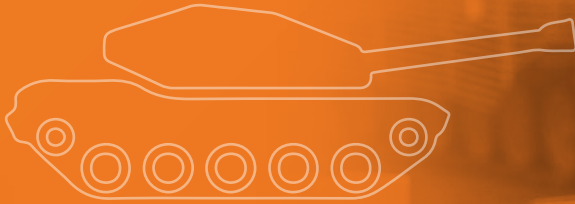
#### International markets

**£1.2 billion**

Potential target revenue  
(Canada and Australia)

[Link to Group strategy](#)





## DSG – a business to build on

In March, we completed the acquisition of the Defence Support Group (DSG), which maintains, repairs and overhauls a large range of military vehicles, from lightweight Land Rovers to Challenger main battle tanks, ensuring the Army is able to train and ready to deploy. This service will be delivered through a new output-based, ten year contract with options to extend for a further five years.

Babcock currently provides world-class fleet management and equipment support to the MoD, through a wide range of critical and complex engineering and training contracts. The addition of DSG enables us to expand our presence across the British Army and drive efficiencies in the management of their vehicle fleets.

Estimated contract value

**£2 billion**

[Link to Group strategy](#)



## Delivering technical training

With the new five year Defence College of Technical Training contract, Babcock is responsible for the training support, delivery and equipment support at each of the two MoD schools, as well as the provision of other functions including asset management, administrative, logistic and medical support.

Hours of training delivered

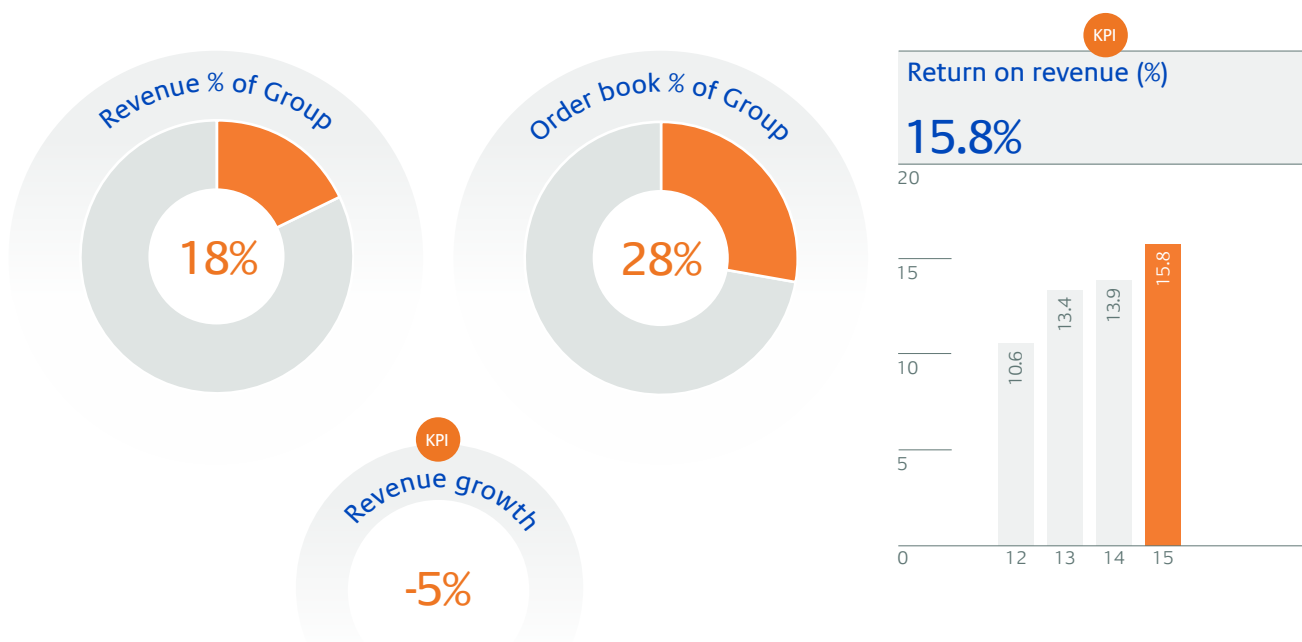
**96,686**

[Link to Group strategy](#)



## Defence and Security

### 2015 performance highlights



### Market overview

The UK government's defence transformation programme, known as Future Force 2020, has achieved many of its original aims through defence reform. These include the resizing of the armed forces and delivering a new materiel strategy through competitive outsourcing programmes. In the 2015/16 financial year, we will see the formation of a new parliament followed by a Comprehensive Spending Review and a Strategic Defence and Security Review to make decisions on the future of the UK's forces and determine further savings across defence spending.

We expect the MoD will continue to seek to maintain defence outputs on Future Force 2020 plans without reducing or compromising its capabilities, whilst delivering future cost savings. The increasing focus on output is aligned with our business model and the strength of our relationship with customers will enable us to provide solutions to this challenge during a period of ongoing fiscal pressure. We expect future opportunities will arise in complex

engineering support, fleet management and provision of training across the armed services. We therefore remain focused on an estimated addressable market of c £4 billion annual spend.

Beyond our domestic market, there is improved visibility of international defence markets. We have identified a number of emerging opportunities, particularly in Canada, Australia and Europe, where Babcock is already established. These countries display varying degrees of maturity in their outsourcing of defence support to drive financial and operational efficiencies and improved availability of assets, and we believe these markets offer significant potential growth.

### Strategy

Our strategic actions of 'win, develop and expand' remain the focus of our activities. Despite the changes in the defence infrastructure markets and the subsequent loss of the Next Generation Estates contracts (NGEC), successful wins in major UK bids, such as Defence Support Group (DSG) and Defence

College of Technical Training (DCTT) with the development of our strong competitive positions on pipeline opportunities, provide a solid foundation for further business growth. During 2015, a number of significant contract extensions and competitive rebids will be key areas of focus to ensure that the existing order book is replenished.

In response to the growing opportunities in international markets, we have established a dedicated International business unit to deliver growth through a pipeline of opportunities in Babcock markets where we can leverage our UK capability and experience into first generation outsourcing opportunities. The initial focus is Canada and Australia, where we believe governments exhibit the appropriate conditions and political indicators for Babcock to have significant opportunity to develop a sustainable business. We are also working closely with Mission Critical Services (MCS) to develop opportunities to drive growth in Europe.

We will continue to evaluate acquisition targets both in the UK and overseas and we anticipate that these opportunities will also create scope to leverage our

current capabilities into adjacent non-defence sectors.

## Financial review

Revenue for the Defence and Security division, including the Group's share of joint venture revenue, reduced, as anticipated, by 5% to £812.8 million (2014: £852.6 million). This is a result of the completion of the East and South West Regional Prime contracts at the end of January 2015.

Despite a reduction in revenue, total operating profit for the division increased by 9% to £128.7 million (2014: £118.6 million) benefiting mainly from milestone achievements on the Future Strategic Tanker Aircraft (FSTA) programme and final contract adjustments at the end of the Regional Prime contracts. As a result, operating margins for the division increased to 15.8% (2014: 13.9%).

## Operational review

Our Air business has continued to perform well and deliver a strong operational performance for the Royal Air Force (RAF) with all contracts performing in line with our financial expectations as well as meeting or exceeding contract KPIs. Support to military flying training has been delivered through the Hawk T1 and

T2 support contracts, both of which have been extended. The award of the Hawk T2 follow-on contract is being negotiated on a sole-source basis and we anticipate contract award later in 2015. We are also engaged in the competition for future support to the Hawk T1. Whilst support to the Hawk aircraft in the UK has been the primary focus over the past year, we have signed an agreement with BAE Systems to pursue opportunities jointly to support the Hawk for overseas military customers and several opportunities are already being explored. Elsewhere, we remain committed to supporting the Tucano aircraft and have confirmed our intention to compete for the next support contract to deliver the service from April 2016.

Both of our Air joint ventures, Ascent (delivering the UK Military Flying Training System) and AirTanker (delivering the FSTA programme), have made significant progress over the last year. Ascent has received customer approval for the fixed-wing flying programme and contract award is expected later this year. AirTanker, already established in the strategic transport role, met its air-to-air refuelling in-service date during 2014 and is now delivering fully on this important role, including support for the UK and Falkland Quick Reaction Alert posture, to refuel fast jets, scrambled to protect UK airspace.

Building on last year's success, when we reported that the Air business had secured a contract to support Army Air Corps Apache helicopters, we have now also secured a similar contract to support Lynx helicopters. The business will build on this capability in military rotary-wing support through collaboration with MCS in this sector.

On 19 November 2014, we were announced as the preferred bidder for the acquisition of the DSG, the MoD's civilian workshops, for a consideration of £140 million. These facilities provide maintenance, repair, overhaul, storage and spares procurement services to land equipment, ranging from small arms to main battle tanks, delivered from seven main sites across the UK. The acquisition of DSG, which employs 2,000 staff, completed on 31 March 2015, included a ten year contract for service provision and transformation, expected to be worth c £2 billion, with options to extend the contracts for up to five years.

The Phoenix programme continues to deliver savings to the MoD through the provision of effective fleet and supply chain management services, for the UK 'white fleet' of vehicles. Since contract award in 2011, the programme has been credited by the MoD as having saved in excess of £40 million. Our contract hire team enjoyed further success in 2014

## Royal School of Military Engineering

Our training business at RSME has continued to operate with high performance, the 2014/15 financial years have seen no contract KPI failures and 50% of the courses have been transformed, leading to significant improvement in output whilst reducing course lengths by 24%. Furthermore the £260 million new build construction programme has just been successfully completed.

Pass rate at RSME

# 100%



## Defence and Security *continued*

and 2015, winning additional competitions to provide coaches, trailers and other vehicles with a total contract value of £27 million.

Performance of our ALC joint venture with Amey remains strong, with the C-vehicle contract acknowledged as an effective and flexible service in the provision and support of the MoD's fleet of 2,000 construction vehicles worldwide. ALC implemented changes within the contract as part of an MoD Private Finance Incentive efficiency review, which included the addition of RAF construction equipment and the adjustment of fleet numbers to meet military requirements better.

Within our training operations, we have started the implementation of the DCTT, Electro-Mechanical Training contract, secured in July 2014. The new contract, expected to be worth up to £180 million over five years, with two single year extensions realigns Royal Electrical Mechanical Engineers and Royal Navy (RN) schools under a single training organisation and includes the relocation of training activity from Bordon and Arborfield to Lyneham, Wiltshire. Planning is well advanced for the move to Lyneham to ensure the first training activities can start there by November 2015. We have also been advised that the MoD intends to contract the extension to the Training, Maintenance and Support Services contract at Bovington on a non-competitive, single source, negotiated process.

At the Royal School of Military Engineering (RSME), our training business has continued to operate at the highest level, with no KPI failures in the financial year and a 100% pass rate for the training courses we delivered. Additionally, over 50% of the courses have been transformed, leading to a significant improvement in output whilst reducing the average course length by 24%. As part of the original contract, we were required to deliver the major, seven year, build and refurbishment phase of the construction programme with a total contract value in excess of £260 million. We successfully completed this phase in 2015.

Delivery of training to the Royal Navy via the Fleet Outsourced Activities Project (FOAP) training programme has entered its third year. The contract continues to operate below the target cost, delivering efficiency savings to the MoD via a range of initiatives. We have continued to seek opportunities in international markets. Following the successful delivery of the Hunter Training Project for the Royal Saudi Naval Forces, our customer, BAE Systems, has recently announced that it has signed a follow on contract and we will deliver further training, valued at £37 million over the seven year programme.

During the year, our Infrastructure business delivered injected works programmes arising from the Regional Prime contracts. Through the Single Living Accommodation Modernisation contract we handed back the 20,000th, fully compliant bed space during the period,

including the handover of the largest building in the entire programme, the 270 bed, Falklands block accommodation at Nelson barracks, Portsmouth.

During the first half of 2014, we learnt that the Infrastructure business had been unsuccessful in its bids for the Defence Infrastructure Organisation's (DIO) NGEC. Whilst it is disappointing not to play a significant role in the future management of the MoD's built infrastructure, we recognise that the changes to the customer requirements in this market sector mean it is no longer suited to the Babcock business model and the delivery of complex and critical support. The failure to secure new business within the NGEC programme confirmed our evaluation of the sector's development in recent years, to one of transactional and low margin activity, in an increasingly competitive environment. We will not be pursuing any similar activities in this sector in the UK. Operations to support and manage the British Forces estate in Germany have been progressing as planned and the contract continues to perform in line with our expectations.

A priority during the second half of the year was on the successful demobilisation of the two Regional Prime contracts at the end of January 2015, ensuring there was no deterioration in service levels and we achieved an effective handover of operations and the transfer of around 1,300 employees to the DIO's new suppliers. Following the termination of the Regional Prime operations, we have realigned our remaining infrastructure support activities within the business units best placed to deliver services to our Air, Land and Sea customers.

During the 2014/15 financial year, the division had success winning new contracts and rebidding existing contracts, whilst recognising disappointment in not being selected to operate the Logistics and Commodities Service Transformation programme or the NGEC programme. The division remains focused on its bidding activities, with significant attention being placed on securing contract extensions during the 2015/16 financial year. The Phoenix II competition is now in progress and in the security sector our current contract is being rebid as three separate service streams and we have been involved in all three competitions. The outcome of the

### Phoenix white fleet

Babcock has been providing fleet management services to the MoD's white fleet for 14 years. At the start of the current contract in 2011, a restructuring of the customer's requirement and the re-competition for the rental contracts resulted in £43 million cost savings over the four years of the contract life. Our smart procurement activities have delivered further savings of £24 million and in 2014 our capability was recognised with a joint MoD/Babcock award for excellence in acquisition.

**£67 million**  
four year saving to customer



## Apprentice training

Aircraft maintenance apprentices, Sam and Aby, are two of eight apprentices recruited by the Defence and Security Air business from Hartlepool College to join our aviation apprenticeship programme working on Tutor, Tucano or Hawk aircraft. They have been identified as outstanding talents and in addition to completing the two year apprenticeship programme are being fast-tracked by Babcock to become Civil Aviation Authority licensed aircraft engineers.

Training our apprentices with internationally recognised academic, vocational and professional qualifications is essential to grow our business. Our apprentices represent an investment in talented individuals, arming them with the skills and knowledge Babcock needs for today and the future.

## 58% increase

in Defence and Security apprentices, to 71

Phoenix and the Security competitions is anticipated during the 2015/16 financial year. The Defence Fire and Rescue Project moved into a formal bid process during the second half of the year and we continue to track opportunities in military training in the UK and the potential appointment of an Army Training Development Programme partner to help the Army transform military training and equipment support to both the Regular and Reserve Forces.

## Sustainability

To deliver continued success within the Defence and Security division we are reliant on our highly skilled and qualified work force and we must attract and retain the brightest and the best to sustain and grow our business. Our graduate and apprenticeship schemes provide young people access to the engineering sector. Our graduate programme brings real benefit to both the graduate and the operational delivery teams as they get hands-on experience operating as embedded members of the teams to develop their skills. In addition, our graduates work closely with a number of universities to support undergraduate careers and knowledge sharing events.

We continue to embed and expand our apprenticeship programmes, forging stronger relations with Hartlepool College and extending opportunities for example at RSME Minley, where apprentices work alongside the delivery teams in the

Infrastructure and Training businesses. Of particular note this year is the approval from Excellence, Achievement and Learning Limited for a bespoke aircraft engineering pathway for apprentices in our Air business unit areas.

Our primary safety focus in the past 12 months has been to initiate and regularly refresh safety programmes which continue to focus on our ethos of 'all accidents are preventable'. Our 'Target Zero' and 'Don't Walk By' programmes continue to reduce both our accident numbers and severity rate. Overall total incident numbers have decreased from 297 in the previous year to 209 this year, with consequent Accident Frequency Rate reduction from 1.79 to 1.36 – a 24% improvement. These programmes are also used by our supply chain and our clients to promote a safe working environment for all. A further, behaviour focused initiative, 'We said – we did', aimed at challenging unsafe acts has been fully integrated at a local level into our operational delivery teams.

In support of the Group's respect agenda, the division seeks to be an environment that is receptive to new ideas drawing on the diversity of our work force, through numerous engagement activities and dialogue events. An employee engagement survey has informed our action planning this year. We have introduced new categories, extending our employee award programme in which we publicly celebrate the success

of individuals within our business. We have also conducted listening forums across the division, so we can better understand, consider and make recommendations on how to develop the diversity and respect agenda in the workplace. There is a strong focus on talent and on ensuring individuals, identified with leadership potential, are provided with opportunities to develop their skills across a range of business activities. At middle and senior leadership level, managers are participating in the Group's bespoke development programmes with the University of Strathclyde. In addition, Group training programmes delivered to 620 first line managers have been very effective in enhancing the skills of these managers who interface directly with our customers.

## Outlook

The Defence and Security division has an excellent track record of delivering operational and financial efficiencies through its existing contracts. We are well positioned to meet the current and future demands and expectations of our main UK military customers. This is reflected in our pipeline of major new outsourcing programmes that are being progressed by the MoD. We are also looking at long-term opportunities for the division, establishing a presence in key international markets where, we believe, we can build on our UK expertise and capabilities.



## Support Services

# Trusted to deliver in complex and critical markets

In line with the Group's strategic objectives, the Support Services division is delivering growth in its businesses, in both the UK and overseas, by developing and building upon its core capabilities. It continues to differentiate itself in its chosen markets by successfully integrating complex engineering and technical expertise to deliver added value to its long-term customer relationships.

### Strategy in action

- Cavendish Fluor Partnership Ltd signed decommissioning contract for 12 Magnox and RSRL nuclear licensed sites
- London Fire Brigade, 21 year, fleet management contract started November 2014
- Ten year contract mobilised to support Lafarge's Canadian Readymix fleet
- NTI set up a new training facility in Oman
- Cavendish Nuclear signs Lifetime Support 16 year service contract with EDF
- Cavendish Nuclear and Balfour Beatty signed Phase 3 of a decommissioning support facility build contract



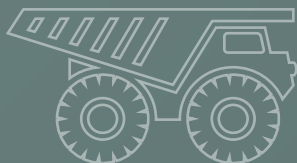
### Rail – continuous development

Across the UK, Babcock has successfully mobilised the plain line track framework in new geographies, undertaking a large scale programme of change to integrate staff and embed Babcock operating methodology. This year we have also mobilised the new electrification projects worth £900 million as part of Network Rail's National Electrification Framework programme. The ABC joint venture, between Alstom, Babcock and Costain is leading in two national electrification programmes and substantial levels of project work are now underway; additional electrification work has been secured through the Edinburgh and Glasgow Improvement Programme.

Plain line track works per year

**200km**

[Link to Group strategy](#)



## Building customer focused, long-term relationships

Working in partnership with the London Fire Brigade (LFB), we deliver over 200 training programmes for c 5,000 firefighters from two new state-of-the-art training facilities at Park Royal and Beckton. We are delivering 97,000 delegate days of training each year and working with the LFB to save a third of their total training spend. Babcock has built on this partnership further, with the 21 year contract signed this year to manage and maintain the LFB's vehicle fleet of over 500 vehicles and 50,000 pieces of specialist equipment, and increasing the fleet's resilience and efficiency. The addition of MacNeillie, our new leading specialist vehicle converter, will also strengthen Babcock's through-life asset management capability for the LFB.

LFB contracts until  
**2036**

Link to Group strategy



## Complex and critical with Cavendish Nuclear

In September 2014, Cavendish Nuclear consolidated its position as the UK's leading nuclear services company following the share transfer of the Magnox and RSRL site licensed companies to our joint venture, Cavendish Nuclear Fluor Partnership Ltd. Under this arrangement the joint venture is managing 12 licensed sites across the UK, with a highly skilled workforce of 3,500 and is saving the taxpayer more than £1.5 billion, over a 13.5 year period.

During 2014, the Cavendish Fluor Partnership Ltd team started an

intensive 12 month consolidation period, rolling out its initial plans to implement ten strategic programmes. The programmes will safely deliver the contractual cost savings by optimised schedules and employing a standardised engineering approach across all the sites. Proven technical innovation will also feature, building on world-class experience and techniques from both partner organisations.

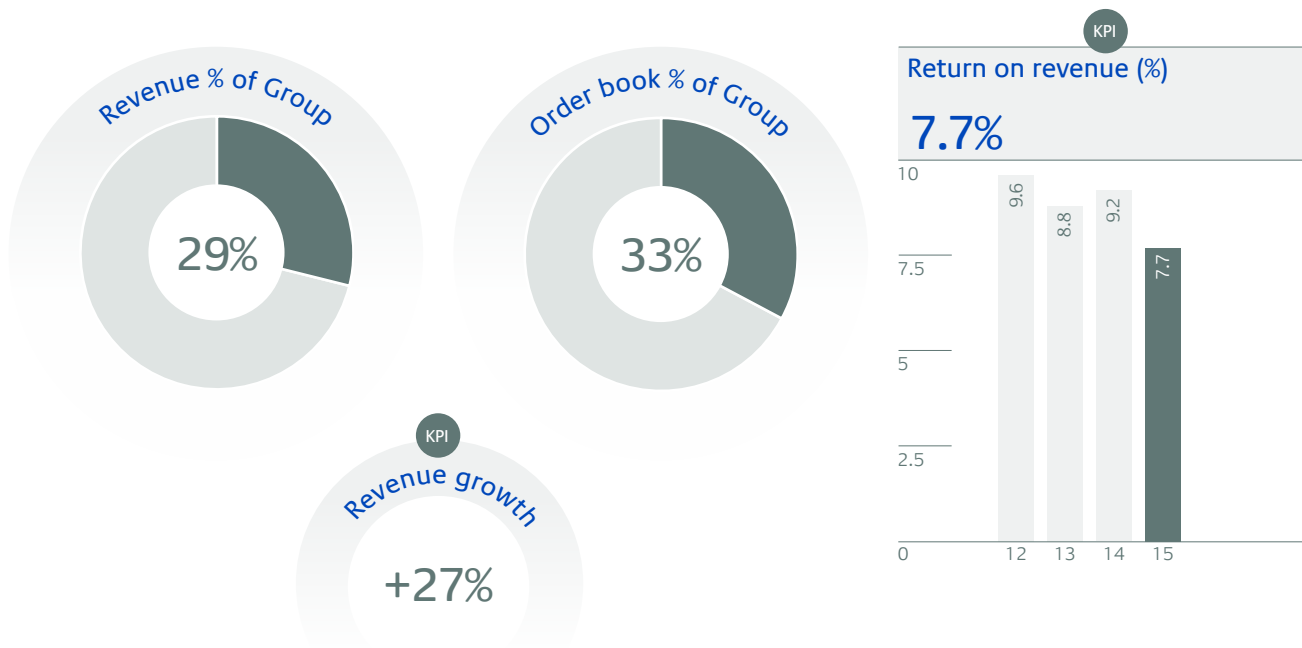
Total contract value  
**c £4.2 billion**

Link to Group strategy



## Support Services

### 2015 performance highlights



### Market overview

The markets served by the Support Services division remain attractive as existing and potential customers seek to reduce their costs and maximise service levels. With the UK government now in the fifth year of what is projected to be a ten year fiscal consolidation period, we expect that demand for public sector outsourcing will continue into the foreseeable future. The division is responding to this demand by developing new solutions to maximise service quality and volumes, whilst minimising cost of service delivery for the customer.

The division continues to pursue outsourcing opportunities in the nuclear, complex fleet management and training markets and the scale of the addressable markets open to us remains substantial. We have sized the addressable market opportunities at £14 billion annual revenue, which includes £1.8 billion in the UK civil nuclear market and £3.0 billion in global mining and construction fleet management.

Both public and private customers are becoming increasingly accustomed to

outsourced solutions, with many services being delivered through second and third generation contracts. However, customers continue to market-test the services they outsource and this can result in increased pressure on margins in both contract delivery and competitive bids. We have responded to this challenge by seeking to differentiate ourselves from competitors through innovations in engineering, technology, customer analysis and information-rich services. This positions us to deliver market-leading engineering and technical support solutions, at optimal cost in our markets.

### Strategy

In order to maximise opportunities in these markets, the division's proven strategy continues to be the delivery of profitable growth through a focus on specific markets and capabilities. The division's strategy is aligned with the wider strategic objectives of the Group. We continue to focus upon the delivery of integrated engineering and technical expertise through long-term customer relationships. The alignment across the

Group is delivering synergy benefits through customer account management and maximising the benefit of investment in core capabilities.

Our growth markets, including nuclear, complex asset management and technical training, continue to be supported by a strong order book and bid pipeline opportunities. Each core market sector is underpinned by a clear strategic plan to deliver growth, supported by organic investment and acquisitions, to enhance our service capabilities and market coverage.

The division continues to make headway in targeted international markets, underpinned by existing divisional capabilities. Success has been achieved in expanding our activities within our existing international footprint and contracts won in new geographies.

As a service business, our people are critical to the success of our strategy. In support of this we have launched 'being babcock', a set of principles that outline the behaviour we expect from all our people and that will reinforce our 'trusted to deliver' reputation as we seek to grow our business.

## Financial review

The Support Services division has continued to deliver strong growth in revenue, which increased by 27% to £1,316.4 million (2014: £1,040.1 million), of which 23% was organic growth. This has mainly been a result of growth achieved in Cavendish Nuclear, particularly from the Magnox decommissioning contract which started on 1 September 2014, as well as from the Critical Services business which saw increased activities across all its business streams. The division also benefited from a full period of results from Conbras in Brazil as well as growth from the NTI and Skills2Learn businesses which offset lower volumes in the Network Engineering business.

Operating profit, including jvs, increased by 19% to £100.9 million (2014: £85.1 million). Included in these results is £8.5 million profit on disposal of the division's equity holding in Greenwich Building Schools for the Future jv and a provision of £4.1 million made against overtime holiday pay. As indicated previously, and as a result of the Magnox contract and the other new, long-term contracts, the division has started during the past two financial years, operating margins reduced to 7.7% (2014: 8.2%). For the 2015/16 financial year, taking into consideration a full year of Magnox and the impact of the sale of both Greenwich

and Lewisham BSF holdings, we expect margins are likely to be reduced to c 7%.

## Operational review

Cavendish Nuclear has continued to strengthen its market position as the UK's leading supplier to the nuclear industry during the period. Cavendish Nuclear remains focused on site operations, maintenance, decommissioning and new build.

Following the formal award of the Magnox and RSRL decommissioning contract in September 2014, prior detailed planning and mobilisation activities ensured a smooth and efficient start to the contract. The Cavendish Fluor Partnership – in which Cavendish Nuclear is the lead partner – continue to work through the 12 month consolidation phase embedding the new contract programme. This contract continues to demonstrate Cavendish Nuclear's capability as a trusted delivery partner of the Nuclear Decommissioning Authority (NDA) to carry out complex decommissioning work across its estate.

At Dounreay, good progress has been made on the programme with key milestones being achieved on schedule. Significant additional programme work scope is also being introduced, in response to a change in the national strategy for the consolidation of nuclear materials, and as a result the site closure

plan will be extended to 2029. Dounreay continues to challenge itself against a declared objective to be recognised as the pre-eminent reference site for decommissioning in Europe.

At Sellafield, in partnership with Balfour Beatty, we are constructing a major new decommissioning support facility. Phase 3 of the Silos' Maintenance Facility contract was awarded in June 2014, worth a total of £160 million over a three year period. We have continued to strengthen our position on the Design Services Alliance Framework and successfully rebid for the Environmental Laboratories contract worth £45 million over the next ten years.

Cavendish Nuclear signed a 16 year, £600 million contract with EDF in January 2015. The Lifetime Enterprise Agreement means Cavendish Nuclear will continue to provide fuel route and other technical services to EDF Energy's seven advanced gas-cooled reactor stations and services to its pressurised water reactor at Sizewell for the remainder of their operating lives.

Cavendish Nuclear continues to pursue opportunities in the UK nuclear new build sector. It submitted the bid for delivery of the Balance of Nuclear Island work at Hinkley Point C. In the meantime we continue to work with EDF to understand the scope of work to be delivered under this contract.



## Cavendish Nuclear

In January 2015 Cavendish Nuclear signed two major agreements with EDF Energy to support the continued operation of its nuclear power stations, which provide around a sixth of the UK's electricity. Under the Lifetime Enterprise Agreement, Cavendish Nuclear and EDF Energy will work in collaboration to support the ongoing operation of the power stations and support plans to extend the reactors' operational lives, providing long-term security for UK electricity supplies and the jobs of some 400 Cavendish Nuclear employees across the UK.

**16 years**  
remaining operating life

## Support Services *continued*

Cavendish Nuclear delivered a number of projects for Hitachi-GE Nuclear Energy, in respect of the development of its strategy for the construction of an advanced boiling water reactor for its Horizon programme. The business continues to explore options for a long-term involvement in the project.

Critical Services has delivered year-on-year revenue growth of over 10%, excluding the recent acquisition of MacNeillie, and has met or exceeded operational and availability KPIs across all its contracts as well as achieving financial efficiencies for its customers.

Building on existing contracts, the business has continued to secure new business wins in North America. The Mining and Construction business has continued to grow over the past 12 months with the mobilisation of the Lafarge Readymix contract in Western Canada for 700 assets with a contract value estimated at c £60 million. In addition, the business has also secured a ten year contract with Holcim as a new customer in the eastern United States. New business has been secured in the UK, with the award and mobilisation of the Lafarge Tarmac contract in respect of 700 vehicles over 208 sites across the UK, which is expected to be worth c £8 million per annum.

Contracts for the Metropolitan Police and Highways Agency, as well as the New Dimensions contract have performed well and, building on this success, the business is pursuing a

number of new opportunities in this market. The Metropolitan Police Service has started the process for re-tendering the contract for fleet maintenance services and our team is fully engaged in this process. The existing contract is due to end in March 2016.

In January 2015, Critical Services acquired MacNeillie, the leading specialist vehicle converter. MacNeillie will strengthen the Critical Services' whole life asset management capability and we believe this will create opportunities for both Babcock and MacNeillie's existing customers as well as new customers.

At Heathrow we continue to manage the operations and maintenance of all the baggage handling equipment across the estate and successfully deliver maintenance for British Airways' fleet of ground support equipment. Through an extensive efficiency programme we are delivering savings to Heathrow Airports Limited, in line with our contract.

Our Skills and Learning business has seen a year of steady progress. In the training sector, our contract with Volkswagen Audi Group to deliver training to its dealer network through its National Learning Centre has started well. In the emergency services sector, our contract with the London Fire Brigade (LFB) continues to perform well. Two new, state-of-the-art, dedicated training facilities, designed and built by Babcock, have been opened in Beckton and Park Royal, transforming the quality of training for London firefighters. Significant

progress has also been made in our programme of course redesign, including the initial training provided under the Firefighter Development Programme.

With support from the LFB and the Trades Union, this flagship course has been redesigned to be delivered in ten weeks, down from the existing 17 weeks, whilst maintaining the quality output.

To reinforce this long-term relationship, the signed 21 year contract to support LFB's fleet of 500 vehicles and 50,000 pieces of equipment has started well. We are continuing to drive improved availability of the fleet and extensive redevelopment, and improvements to the Ruislip technical facility have already begun to support the delivery of this contract.

We are in the process of re-tendering our contracts with BMW, to provide training to its UK dealer network, and with Network Rail, to deliver their advanced apprenticeship programme.

We have successfully integrated the two acquisitions made in the Skills and Learning business during the last financial year into the wider business, both acquisitions are performing ahead of expectations.

In Oman, NTI is operating at full capacity in Muscat. It started new contracts with Petroleum Development Oman in February 2015, worth just under £10 million, to provide technical skills training to young Omanis. We have expanded two training centres to

### MacNeillie

In February 2015, Babcock acquired MacNeillie, a leading specialist vehicle converter which will benefit from significant growth opportunities that our scale, broader customer portfolio and international operations can offer. MacNeillie is a long established supplier to the emergency services, civil service, military and other security focused companies which in turn will strengthen Babcock's through-life asset management capability.

**100+**  
years' experience



accommodate the increase in demand. Additional opportunities also exist in Oman and the wider Gulf Cooperation Council region to export our UK training capability in the emergency services and rail sectors.

The Skills2Learn business has also secured new contracts for its immersive e-learning products with a number of new customers, including some existing Babcock customers. We have also been able to provide these services to other Babcock divisions, including the provision of support to the Defence and Security division with the redesign of its training programme for the Royal Navy.

During the year, the Rail business has been engaged in significant demobilisation and mobilisation activities following the award of framework contracts for conventional plain line track works in new geographies, as well as new electrification framework programmes. We managed a smooth transition and maintained a high quality of delivery as work started under the new arrangements. The ABC JV between Alstom, Babcock and Costain is delivering work through the two national electrification programmes as well as the Edinburgh Glasgow Improvement Programme (EGIP). During this year, the EGIP project moved from design phase to delivery phase. Future prospects for the electrification market look promising, with further growth expected.

Our Power business has seen a significant reduction in demand for refurbishment and new build schemes from National Grid and the lower demand has increased competition in the market, impacting revenue and margins. However, in the year this has largely been offset by demand from other distribution and transmission network operators, for example SP Energy Network.

In the Integrated Services business, Conbras, in Brazil, is performing well with current contracts all performing as expected. The business has a number of new opportunities that it is currently pursuing in its existing markets as well as in new sectors. In this year we started delivering facilities management, baggage and air bridge maintenance services to São Paulo-Guarulhos International Airport and we believe there are further opportunities for expansion in the Brazilian airports market. We have been awarded a seven-year

contract by the London Borough of Richmond upon Thames to deliver an integrated property and estate management solution which is expected to be worth c £56 million over a seven year period, with the option to extend the contract for a further three years. The BBC World Service contract continues to perform well and we have strengthened our Media Services business with the acquisition of WRN Broadcast which provides innovative solutions to deliver television and radio content to any platform or device anywhere around the world.

## Sustainability

The introduction of 'being babcock' provides a clear framework to drive positive behaviour across the division and ensures our strategy and business performance is sustainable in the long-term. We have created professional practice communities to develop personal and corporate capabilities by connecting people across the division to share knowledge and experiences. This programme is supported by a dedicated knowledge base, training and development opportunities.

Organic growth is supported by continued investment in business development and bidding capability. Major bid support has been enhanced through improved processes, resources and guidance, together with bespoke training programmes to further develop business winning skills. In addition, we continue to operate a structured account management and planning process for our major customers.

We are committed to identifying, developing and deploying talented individuals by giving them a range of opportunities to help build their experience, knowledge and skills. Our talent development programme now has 108 senior leaders participating in leadership and development programmes. To date, 59 of these senior leaders have been promoted or moved to new roles within the division or the wider Group.

In September 2014, 45 graduates joined our divisional, two year graduate programme, taking the total number of graduates on our programme to 88. We have 49 apprentices developing skills, ranging from motor vehicle, grounds

support, civil engineering and mechanical engineering. Our aim is to ensure that Babcock is a more inclusive place to work. This year, we have introduced a divisional diversity and inclusion charter and policy, invested in inclusive leadership training for line managers and offered a number of internships to talented, disabled students as part of Leonard Cheshire's Change 100 scheme.

In September 2014, we launched a two year charity partnership with St. John Ambulance which is supported by the division's staff with all business units participating in local and national programmes, and fund raising efforts.

Our 'never compromise on Health and Safety' principle is core to how we operate. As such, we have rolled out a bespoke health and safety framework and a series of operational standards that are bringing more consistency to how we operate across the division. We design programmes, tailored to reflect our varied operations. We ask employees to challenge unsafe behaviour in our 'don't walk by' programme and praise safe behaviour. In support of this, we have trained the division on how to have productive safety conversations, under the brand of 'Face2Face'.

Our performance continues to show year-on-year improvement, with our 'over three-day lost time' and 'all injury' frequency rates improving by 16% and 15%, respectively. The challenge to improve on this performance grows each year and the division continually seeks opportunities to improve our safety culture and systems.

## Outlook

The demand for outsourcing within our selected markets remains high. We believe our track record of delivering complex projects, the depth of our technical knowledge and our understanding of our customers' requirements set us apart from others in our sector. We seek to underpin our position by the continued enhancement of our technical capabilities and the development of our people. We therefore remain confident the division is well placed to pursue the significant opportunities available to it in the UK and overseas.

## International

# Delivering growth and international expansion, safely

The division's key strategic principles remain delivering highly complex and bespoke engineering services which are mission-critical, strongly focused on the customer, have benefits of scale and are above all, safe. We continue to build upon brand recognition and long-term synergies, and will establish capability awareness using market-leading positions to create growth opportunities for the wider Group.

### Strategy in action

- Avincis became a part of Babcock in May 2014, and was renamed Mission Critical Services
- Awarded a ten year contract to provide air ambulance services in Australia
- Won a six year rebid to provide firefighting for the Italian Government
- Acquired Scandinavian AirAmbulance
- Created HeliOffshore, a global safety trade body for the offshore industry
- Gained a market share increase in Volvo equipment produced in China
- Won a significant order for pipework for Kusile power station in South Africa
- Growing market share for DAF truck sales

### Above all, safety

In South Africa, the Disabling Injury Incident Rate has fallen to 0.17, against a country benchmark of 0.78, and our RIDDOR is at 0.03, making Babcock one of the safest companies to work for.

MCS is also committed to the highest levels of safety, operating a world-leading integrated safety management system. Babcock has contributed to a significant improvement in air safety, with MCS being air accident free for over 12 months. Safety leadership, integrated systems and processes support our drive to continuous improvement and development of optimal training programmes for our staff.

### Home Safe Every Day

[Link to Group strategy](#)



## Market-leading HEMS

MCS has just been awarded a contract by the government of Victoria and Ambulance Victoria, to provide HEMS in a ten year contract. MCS currently operates two aircraft, flying 1,200 hours annually. The contract will see an additional six helicopters, and a back-up, fully operational in 2016. During the six year relationship to date, MCS has flown 330 missions, responding in under ten minutes. The contract makes MCS the largest HEMS operator in Australia.

area covered

**250,00km<sup>2</sup>**

[Link to Group strategy](#)



## Supporting defence partners

Since 2008, MCS has been in partnership with Défense Conseil International, 49% owned by the French MoD, to purchase, upgrade and service 36 helicopters for the French Army and provide flying hours for army pilot training at the Héli-dax base. The Héli-dax contract enables high safety and quality standards, secure visibility

over the contract duration and therefore cost efficiency. Contracts such as these, and Business Development Directors in place across Europe, allow us to establish capability awareness to wider international audiences and promote Group-wide growth opportunities with preferred customer characteristics.

Contract length

**22 years**

Contract value

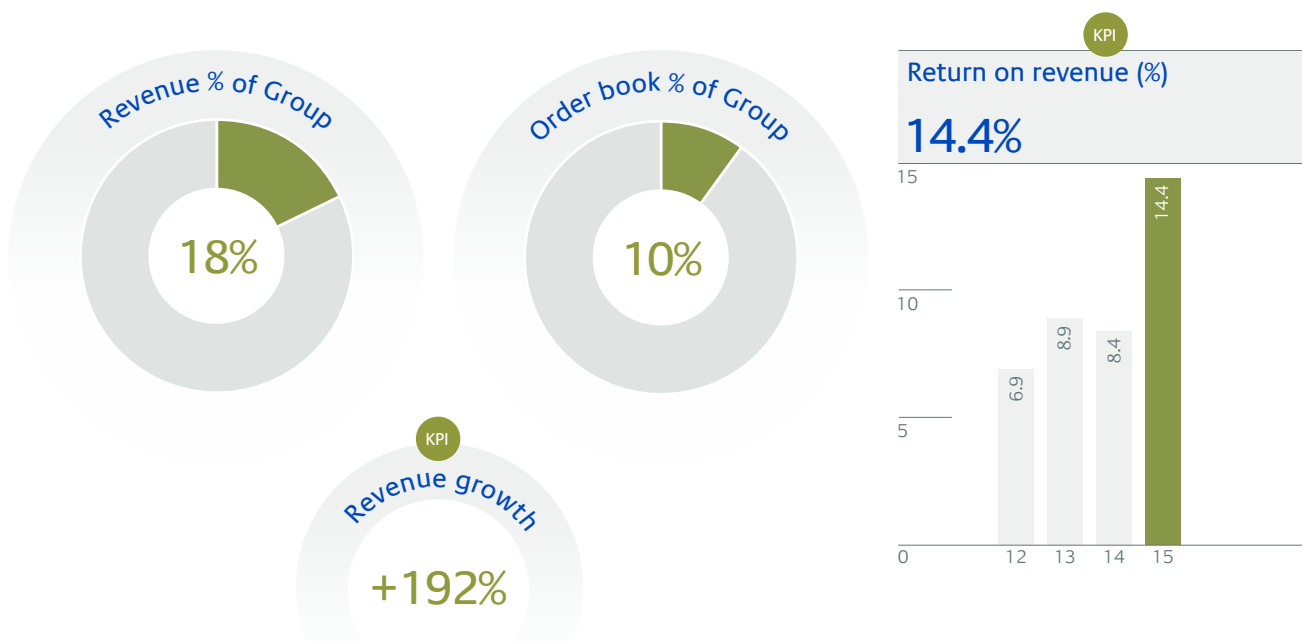
**£140 million**

[Link to Group strategy](#)



## International

### 2015 performance highlights



### Market overview

#### Mission Critical Services (MCS)

The emergency services market, which accounts for over two thirds of the MCS business and delivers vital and politically sensitive services, remains attractive and continues to create opportunities. The market is increasingly supported by positive trends in the macro-economic situation affecting our Southern European customers in particular. We see the possibility of further outsourcing in this sector, particularly in the provision of search and rescue services, which are currently performed by the military in many countries. We continue to see opportunities from future military outsourcing in the maintenance, repair and overhaul (MRO) market, particularly in France where we currently operate a joint venture with Défense Conseil International to provide the purchase, upgrade and full maintenance service of 36 helicopters for the French Army.

The majority of MCS' oil and gas business, which accounts for less than a third of total MCS revenue, is experiencing only limited impact from the fall in the oil price, with some delays to the award of contracts for new projects and to exploration activity. However, in MCS' markets in the UK North Sea and Australia, where activities support existing production facilities, there has been no significant change to the long-term contract structures.

#### South Africa

In 2014/15, the South African economy experienced ongoing weaknesses in the Rand and inflation has led to subdued consumer spending and GDP growth dropped from 2.5% to 2.1%, impacted by low global commodity prices and a lack of consistent power supplies. Extended strikes in the mining sector and the slowdown in Asian economies, particularly in China, have affected coal, copper, platinum and iron ore prices – all traditionally South African export

products – and consequently have reduced mining activity. However, despite these headwinds, our core markets and activities supporting power generation, distributing Volvo and DAF equipment and providing plant hire have seen good growth in Rand terms.

As the aging Eskom power stations struggle to meet demand there have been staged power outages to protect the grid, which has led to an increased demand for generation support, breakdown and preventative maintenance as well as life extension programmes. Over the next five years we expect new opportunities to arise as new power stations are commissioned.

Although the new construction equipment market has remained flat, equipment owners have sought efficiencies by extending the life of their equipment fleets and demand for parts and service has also increased. The market for specialist production machines has increased. In the near-term,

we expect demand for new equipment and for plant hire to increase based on indications from the South African Finance Minister that the planned infrastructure spend programme will progress in 2015.

## Strategy

### Mission Critical Services

The MCS strategy is fully aligned with the Babcock strategy and we will now build on this to grow. In addition, specific strategic actions will be put in place to enhance returns. We have built close relationships with our customers through our locally branded operating companies, all of which have been trusted to deliver the most sensitive of life-saving operations for many years in highly regulated environments.

MCS' businesses are well positioned for growth across all our lines of business. Realising growth potential in existing markets will require MCS to deepen customer relationships, retain our industry-leading, emergency, medical and firefighting expertise, gain new outsourcing opportunities and adopt Babcock best practice in bid management. We can build on our unparalleled expertise by entering into new markets through customer and supplier-led opportunities, extending our portfolio through new technology and innovation and taking existing lines of business into new geographies.

Our strategy is also to build on existing customer relationships and market knowledge to create growth opportunities for the wider Group. The initial focus will be on Spain, Italy and France, where we have already recruited local Business Development Directors, who are working to identify new markets and opportunities where Babcock can add value. Using MCS' local reputation and relationships we can establish awareness of Babcock's broader capabilities.

### South Africa

For the equipment business our strategic focus is on continued market share growth for our Volvo construction equipment, in particular there is increasing demand for the new Chinese built Volvo equipment. We will seek to grow our positions in Zambia, Namibia, Botswana and particularly Mozambique where activity in the oil and gas markets is increasing and will support demand for our products.

As Eskom, the national power company, continues to struggle to meet increasing demand this opens up opportunities for us. In these market conditions, our strategy is to increase outage efficiencies and sell our engineering expertise on life extension programmes and maintenance to both Eskom and industrial power markets. We will seek to increase demand for plant hire in this market, building on a strong second half following strikes which affected demand in the first half.

The market for external training is growing throughout the region and we are currently exploring opportunities in South Africa and Mozambique, in partnership with the new government. Though our plans to expand into external training have been delayed until later in 2015, we continue to develop our existing apprentice training school and currently have 120 apprentices undergoing full-time training.

## Financial review

The significant growth in revenue, operating profit and margin for the International division as a whole, has come from the inclusion of the MCS business unit (formerly Avincis) acquired on 16 May 2014. The International division reported total revenue of £811.4 million (2014: £277.6 million), total operating profit of £116.8 million (2014: £23.2 million) which resulted in an operating margin of 14.4%.

Within the total divisional results, MCS reported revenue of £536.9 million for the period since acquisition, achieving our expectation of 22% growth on a full year pro forma basis. This was driven by new emergency medical services (EMS) contracts in France, growth from renewal of EMS contracts in Italy and new firefighting contracts with both the Spanish and Portuguese governments and the acquisition of Scandinavian AirAmbulance (SAA) that was completed on 30 June 2014.

## Mission critical response

MCS has delivered HEMS to the citizens of northern Italy for the past 20 years. Working for the local government, the company operates four custom configured helicopters from four permanent bases. Our trained specialist crews respond in under five minutes to a wide range of emergency calls, from road traffic accidents to heart attacks. Last year we flew 1,500 flight hours, covering an area of 22,500km<sup>2</sup>.

**2,600**  
Missions in 2014



## International *continued*

The Oil and Gas businesses achieved good growth from contracts awarded in the previous financial year which started operating during this year in Australia and in the UK North Sea.

MCS operating profit was £95.7 million which resulted in an operating margin of 17.8%. As MCS benefits further from being part of Babcock, for example by being able to access improved operating lease terms and increased procurement savings, we expect to achieve further improvements in operating margin.

The South African operations have made further good progress, achieving a 10.5% increase in revenue in local currency, although results in Sterling remained flat on last year at £274.5 million (2014: £277.6). Growth in the business was driven by strong equipment sales as well as an increase in parts and servicing and strong demand for the powerlines business, which offset stable power generation activities and reduced demand for crane hire during the first half.

Operating profit in South Africa increased by 15% in local currency and by 3% in Sterling terms to £24.7 million (2014: £23.9 million), which resulted in an operating margin of 9% (2014: 8.6%), the increase being driven by the growth in Powerlines activities and set up costs for new businesses outside of South Africa in the previous year.

### Operational review

#### Mission Critical Services

Since acquisition, MCS has continued to make good progress as part of Babcock with all contracts meeting or exceeding our customers' requirements.

Over the last financial year, MCS has maintained a high total contract win rate of over 70% and over 90% for renewals. Thirty-six contracts and extensions have been won over the past 12 months with a total value of around £550 million.

In the Emergency Medical Services business, Australian Helicopters is mobilising for the start of a new ten year contract to provide air ambulance services awarded by the Victoria government and Ambulance Victoria. The agreement sees the supply of six new, twin-engine helicopters and includes a dedicated back-up aircraft to maintain services when heavy aircraft maintenance is required. The new helicopters will be operational from January 2016 and will be located at bases in Essendon, Warrnambool, the Latrobe Valley and Bendigo.

We currently operate two helicopters for Ambulance Victoria and have supplied the service for the past six years. During the year, we learnt that we had been unsuccessful in our bid to deliver Helicopter Emergency Medical Services

(HEMS). Despite the unsuccessful bid for the New South Wales Air Ambulance contract this year, the addition of the Ambulance Victoria contract will make MCS the largest operator of HEMS in Australia.

We have been awarded a four year contract, with a potential two year extension, to provide HEMS in Spain's Galicia region, following a competitive tender. This service has been operated by Inaer Spain for the Public Foundation of Health Emergencies since 1990.

In France, we have won a number of contracts to provide regional HEMS, including a six year contract to deliver helicopters for medical transfer and emergency missions for Nantes, Angers, La Roche-sur-Yon, Brest and St Brieuc in western France. The contract forms part of the French Ministry of Health's new process of placing regional contracts, which have introduced the requirement for additional technology, such as mandatory autopilot and night vision goggles (NVG), where Inaer France is the only French operator certified to use NVG.

In Italy, we were awarded a six year renewal to provide HEMS in the Alto Adige region. This contract utilises new aircraft from Airbus Helicopters operated from bases in Bolzano and Bressanone. The renewal amalgamates two existing HEMS contracts in a region where Inaer

### Committed to search and rescue

MCS has responded to 460 calls in under ten minutes for North Sea offshore search and rescue contracts. Specialist pilots, engineers and medically trained winch crew fly a range of 200 nautical miles, using two specially configured aircraft. MCS have been 'trusted to deliver' in a contract lasting nine years. A new five year contract was signed to continue the service, which started in April 2015.

# 1,500

Flight hours, annually





## Developing technology to support growth

Partnering with European agencies and industrials, MCS has designed and developed EINFOREX: an intelligence, surveillance and reconnaissance system for tackling fires. The trademarked Babcock product enables better emergency response and management and, offered with new contracts and as a bolt-on to existing contracts, is driving new business and customers. This commercial product gathers intelligent data, sent in real time to command and control centres, allowing much improved decision making, enhancing efficient firefighting tactics and ground safety for firefighters.

Italy has provided a continuous service since 2000. Additionally, we are currently preferred bidder for an eight year renewal of the contract to provide HEMS in the Emilia Romagna region, from bases in Bologna, Pavullo, Parma and Ravenna. This contract combines four existing contracts in a region where Inaer Italy has delivered HEMS for around 20 years.

In the UK, through Bond Air Services, we continue to operate services for air ambulance charities, with two seven year contracts for Thames Valley and Chiltern Air Ambulance, and Hampshire and Isle of Wight Air Ambulance, announced in September. These contracts extend existing relationships and enable the charities to provide a full, round the clock service.

In the Emergency Services' surveillance business, Bond Air Services won a two year renewal for the provision of services for Police Scotland. We also provided an additional helicopter to support the Commonwealth Games in Glasgow. In Spain, we were awarded a two year extension from Agencia Estatal De Administracion Tributaria to provide surveillance for the customs authority throughout mainland Spain. The Italian firefighting business won a six year contract for the provision of firefighting services for the Italian Central Government with 19 amphibious water-bombers spread across the country.

In June 2014, the acquisition of SAA was completed. SAA operates 22 aircraft, from bases across Sweden and Finland and is one of Scandinavia's largest air ambulance companies, delivering primary and secondary emergency medical services across Sweden and Finland. The business has a strong management team and integration is progressing well and has performed in line with our expectations since acquisition. We are now evaluating further opportunities in Norway and Denmark.

In our Oil and Gas business, we have increased our geographic footprint with strategic, customer-led entries into new regions.

In Australia, we have begun to operate services for ConocoPhillips, in support of its offshore activities. In Spain, the business was awarded a five year extension to its existing contract with Enagas in November. In the UK, we were awarded a three year renewal from Eni and Centrica to provide services for their offshore installations in the southern North Sea, operating two aircraft from Blackpool, as well as a contract with Maersk and a new contract to provide oil and gas search and rescue services in the North Sea. We have also been awarded a three year extension to our contract to provide crew change services from Sicily for Edison's offshore operations. Plans are in hand to build on the existing oil and gas expertise and customer relationships within the wider Babcock Group.

MCS is already benefiting from its integration into the broader Babcock Group, with its processes and reporting now aligned and the Group's expertise helping to roll out engineering, safety, procurement and IT systems which will allow the business to drive efficiency. With significantly greater abilities to lease and finance aircraft at lower cost, the pipeline of opportunities remains stable and robust and MCS is utilising Babcock's experience to optimise bid management systems. The fleet optimisation project currently being undertaken is designed to capture cost savings through improved training efficiencies for pilots and engineers and improve inventory management as well as reduce operational complexity. For example, our largest operating company in Spain has 26 aircraft types in its current fleet. Our goal is to reduce those to 16 aircraft types by the 2019 financial year.

As well as working with the South African business to support potential opportunities for MCS in Mozambique, MCS continues to work with other Babcock divisions to help facilitate growth through existing MCS customer relationships, operational credibility and administration in the geographies in which it operates.

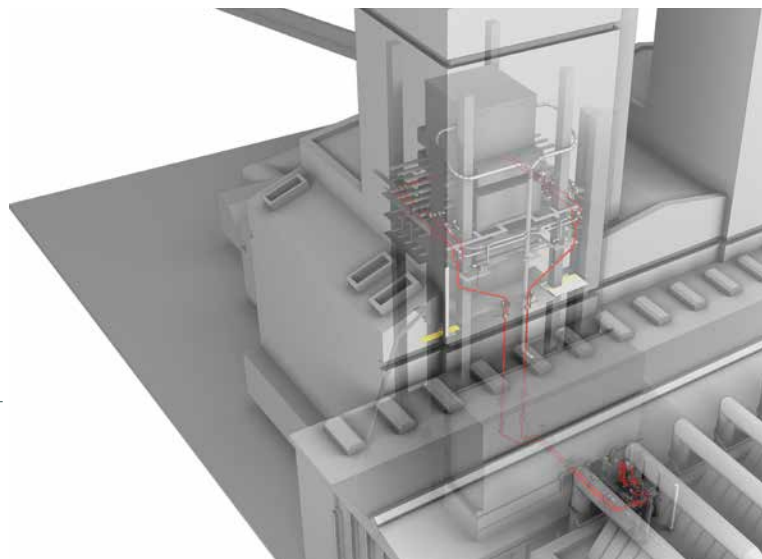
## International *continued*

### Integrated engineering firsts

Eskom contracted Babcock to redesign the first full main steam system on the Matimba power station. The project called for a logistically complex approach to ensure the work was completed in the least time, as the return of supply was critical to national power demand. The team re-engineered the plant using 200 3D scans to inform detailed fabrication drawings, calculations and stress analysis in under three months. The replacement was successfully carried out during a routine overhaul cycle, minimising downtime.

487m of pipework, running at

# 545°C



### South Africa

During this year, there been strong demand for equipment in South Africa and Mozambique despite the impact of mining strikes and low global commodity prices. We have experienced increasing demand for the Volvo Chinese value brand products which were introduced last year and growth has been supported by further penetration into the neighbouring markets of Zambia, Namibia, Mozambique and Botswana. During the year, our share of the construction equipment market increased to just under 10% and we are now the largest provider of Chinese construction equipment in the region.

Sales of DAF trucks have improved through our dealerships across South Africa and we continue to develop relationships with fleet operators to support further growth. After a lengthy absence from the South African market, the brand is gaining renewed traction and market share has grown from 1% to 3%. This has been helped by the establishment of our own finance company which is able to obtain external bank finance and offer finance leases to our DAF customers.

Growth in the Rentals business has been steady, although demand for cranes was held back slightly by delays in maintenance activities by one of our major private energy customers. As wage settlements were finalised and strikes ended, demand for cranes has increased.

During the year, Eskom postponed a number of scheduled outages in an attempt to balance maintenance activities with the increasing demand for electricity. We continue to work with Eskom to develop more efficient working practices for both planned and unscheduled outages to support the demands on generating capacity. Going forward, Eskom have announced that maintenance activity will be increased to improve operating efficiencies on ageing plant.

The business continues to pursue opportunities in the new build power station market, winning a significant order for pipe work on the new Kusile power station. We anticipate successful completion of this project leading to other project opportunities. As investment into new transmission lines continues, there has been increasing demand for the Powerlines business, which has been working at full capacity throughout the year. The business also continues to bid on new opportunities and nine bids are currently under evaluation.

### Sustainability

#### Mission Critical Services

Our primary focus is safety, which remains at the heart of everything we do, assuring safe operations across the business. We are implementing a world-leading integrated safety management system that controls the risks to our customers, our people, our business and the environment. Our strategic focus is on real-time operational performance monitoring and risk management and we have continued to implement initiatives such as flight data monitoring, visual monitor safety performance indicators and fatigue risk management. We are benefiting from the experience and expertise of the wider Group in health and safety management systems and processes, in particular we are working to ensure that we have a best-in-class safety culture.

This year, we developed a comprehensive safety training oversight organisation which draws together the systems and processes used in each of our local operating companies. This has been developed to meet local needs and individual national, aviation authority legislation. From this, an MCS-wide training oversight organisation will be created to provide end-to-end evidence based training, which meets the highest safety standards. The aim is to develop

and install common systems and standards across the business, enabling greater inter-operability amongst individual MCS companies. Additionally, the organisation serves the business' strategic training development needs, in a market that is increasingly competing for crew resource.

In October, working together with four other helicopter operators, we launched HeliOffshore, a new global industry association for organisations with an interest in safety in offshore helicopter transport, for the oil and gas industry. HeliOffshore will use cross-industry cooperation as a platform for enhancing the industry's overall strong safety record, sharing best practices, developing and applying advanced technology and encouraging common global flight standards. Since its launch, the organisation has continued to attract interest and applications for membership from over 70 organisations including OEMS, oil companies, operators and suppliers.

In Spain, Inaer has continued to build on its world-leading expertise in HEMS and firefighting. This year the company increased its long-standing collaboration with the University of Alicante to develop its first specialist HEMS and airborne medical assistance course. This new course is one of the most demanding international training programmes in the

field of airborne emergency medical care. Experts from Inaer have taught modules for Europe's only post-graduate degree in Forest Fire Science and Management, organised by the Universities of Lleida, Cordoba and Leon. The degree is designed to give students a thorough understanding in the control of forest fire; including how to predict its behaviour, prevention, extinguishing strategies and technology.

### South Africa

This year, our health and safety records have been exceptional. Babcock in South Africa remains one of the safest companies to work for, for all employees including a large number of temporary workers. The Disabling Injury Incident Rate has fallen to 0.17 against a country benchmark of 0.78 and our RIDDOR is at 0.03. We continue to focus on rolling out the Babcock Safety Lens programme on the path to 'Zero Harm'.

We also participate in a number of corporate and social responsibility programmes such as

- supporting 22 underprivileged children through private high schools
- sponsorship of three full-time student bursaries at South African universities
- support for a children with aids orphanage
- annual funding for nine science and mathematics teachers, working in underprivileged areas, to upgrade their skills.

We support the development of our employees and this year four managers are being registered in the Babcock MBA programme.

### Outlook

We continue to see significant prospects for growth as MCS progresses bids in the pipeline and opportunities in tracking that have yet to come to market. We are looking to build on our long-term relationships with customers, and on our proven expertise and technology focus to create further opportunities for growth. We are also developing a number of opportunities in new geographies, such as Africa and South America.

For the South African business, the primary focus remains the growth of market share in the commercial transport and construction equipment market, as well as expansion in our export markets. Continuing strong demand is expected for the Powerlines business and the power generation support market, including the supply of portable diesel generator sets. Furthermore, we will be exploring opportunities in the training sector and aviation support.

Across the International business units, we are making good progress in a number of areas where we are building on the financial, operational and bidding expertise of the wider Group.

### Maritime safety

MCS in Spain has developed a 25 year relationship with Salvamento Marítimo, operating 14 specially configured aircraft over 13 bases, using proprietary technology to ensure the 1,250 missions to date have been successful. With around 300 technical staff, fully integrated with the customer, we have ensured the response time remains under ten minutes.

# 5,800

Flight hours in 2014



## Key performance indicators

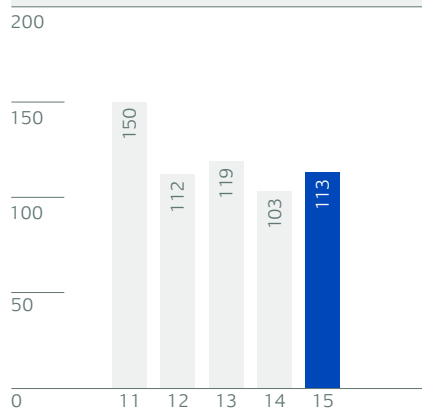
# The areas we focus on

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.

**KPI** Key performance indicator

### Operating Cash Flows (OCF) conversion rates (%)

**113%** **KPI**

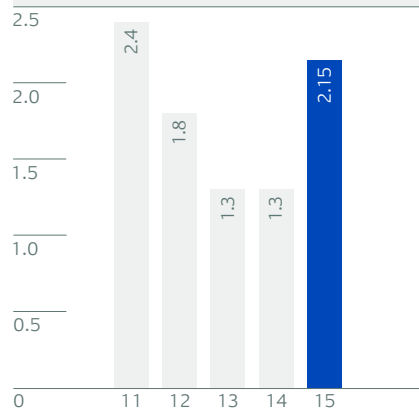


#### Description

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)

**2.15x** **KPI**

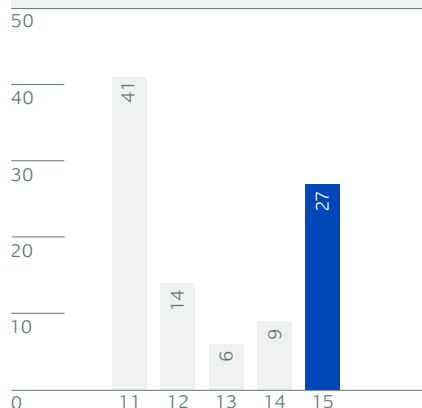


#### Description

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

### Revenue growth (%)

**27%** **KPI**

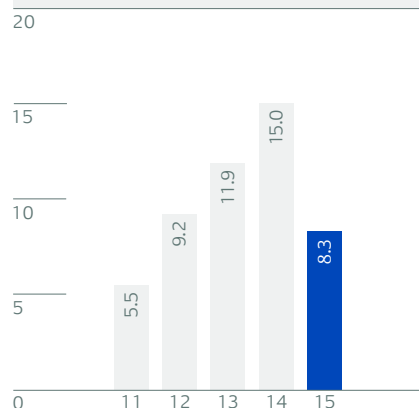


#### Description

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)

**8.3x** **KPI**



#### Description

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

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.

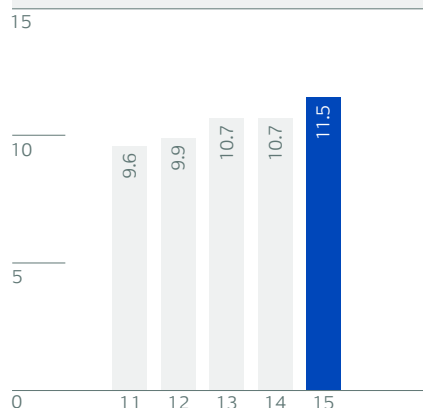
#### Revenue growth

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

## Operating return on revenue (%)

11.5%

KPI



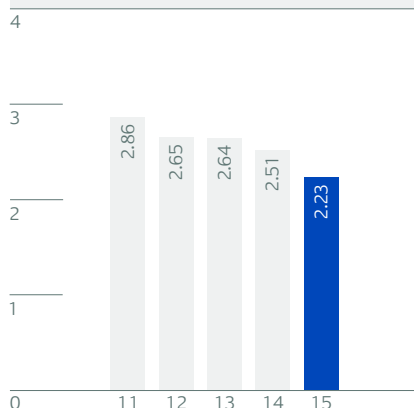
## Description

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

2.23

KPI



## Description

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.

## Environmental quality

44%

## Description

Percentage of the Group's operations with environmental management systems ISO 14001 certified.

## Number of graduates

530

## Description

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

## Number of apprentices

622

## Description

Number of apprentices currently on apprenticeships across the Group.

## Senior management retention

96%

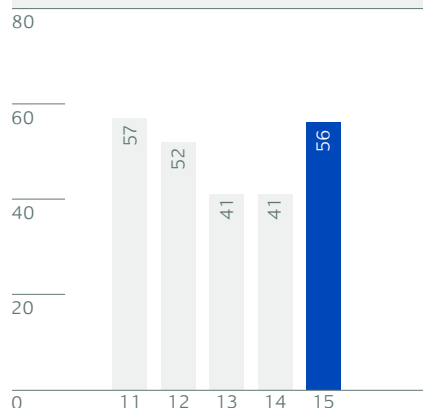
## Description

Percentage of senior managers at the beginning of the financial year still employed by the Group at the end of the year.

## Gearing ratio (%)

56%

KPI



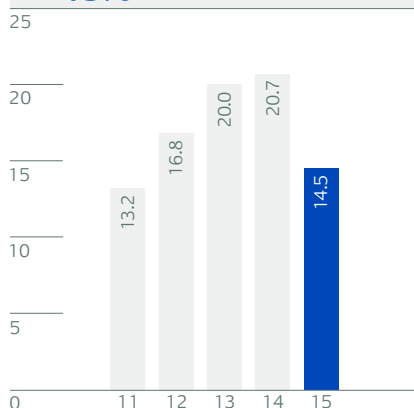
## Description

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) (%)

14.5%

KPI



## Description

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).

## Financial review

# Another year of strong financial performance



Franco Martinelli  
Group Finance Director

## Statutory to underlying reconciliation

	Continuing operations – statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	Exceptional items £m	Continuing operations – underlying £m
<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
<b>31 March 2014</b>									
Revenue	3,321.0	226.6							3,547.6
Operating profit	233.1	21.9			38.8	59.2		24.9	377.9
Share of profit from jv	20.9	(21.9)	25.1	7.0	(37.3)	6.2			–
Investment income	1.5				(1.5)				–
Net finance costs	(36.7)		(25.1)						(61.8)
Profit before tax	218.8	–	–	7.0	–	65.4	–	24.9	316.1
Tax	(30.8)			(7.0)		(15.2)	(2.4)		(55.4)
Profit after tax	188.0	–	–	–	–	50.2	(2.4)	24.9	260.7

## Overview

The strength and stability of Babcock's operations are once again reflected in the financial results for the 2014/15 financial year and the delivery of further growth in revenue, operating profit and earnings per share. This year's revenue growth has come both organically, through major contract wins and by expanding and enhancing existing contracts, and from acquisitions made during the past year. Similarly, operating profit growth has been driven both organically and through acquisitions.

The integration of Avincis, renamed Mission Critical Services (MCS), has progressed well and its financial results are included within the Group's results from 16 May 2014. During the year we have also invested a further £200 million in acquisitions, strengthening and enhancing the Group's capabilities and market positions to support and create opportunities for long-term growth.

We continue to focus on maintaining a secure financial base to support our future growth ambitions. Delivery of cash remains an important KPI 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%. This resulted in cash conversion after capital expenditure of 83%. During the 2014/2015 financial year we refinanced the debt acquired through acquisition, achieving in excess of the £35 million of interest synergies targeted, to maintain an appropriate balance within the Group's funding arrangements as well as sufficient headroom to fund future growth.

Over the year, the order book has increased to a record level of £20 billion and this, along with a £10.5 billion bid pipeline, provides considerable visibility of future revenue streams and across the Group we have continued to invest in bidding activities to deliver medium and long-term organic growth opportunities.

## Income statement

Total revenue for the year was £4,503 million (2014: £3,548 million) an increase of 27%, this includes £536.9 million of revenue from MCS, which represents a growth rate of 22% for this business from the prospectus.

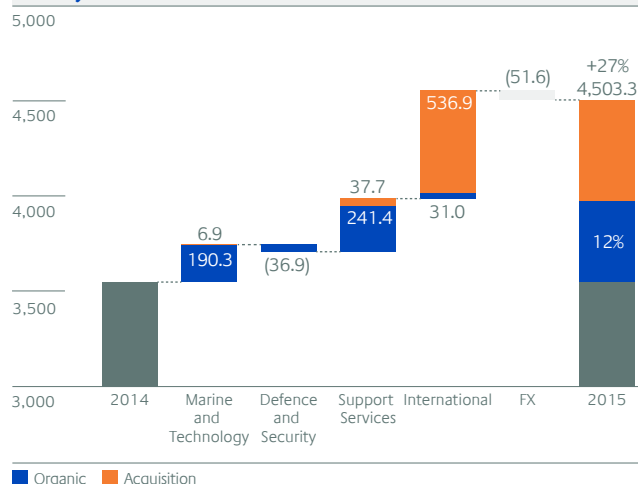
The Babcock businesses, excluding acquisitions, delivered revenue growth at constant exchange rates of 12% (2014: 11%). The main contributor to this growth was the Support Services division which reported a 23% growth in revenue, benefiting from the increased activity in its subsidiary Cavendish Nuclear as a result of the Magnox civil nuclear decommissioning contract, as well as increases in its fleet support activities. The Marine and Technology division achieved organic revenue growth of 14% at constant exchange rates. Organic growth was driven by increased volumes in warship refit activities including the Queen Elizabeth class (QEC) aircraft carrier programme and growing commercial and technology activities. Strong growth from the Marine and Technology and Support Services divisions offset the anticipated 5% fall in revenue in the Defence and Security division following the completion of the East and South West Regional Prime contracts.

Within the International division, the South African business achieved a 10.5% increase in revenue in local currency, however this translated into flat revenue in Sterling terms.

### Bridging analysis revenue growth (£m)

**£4,503.3m**

**+27%**

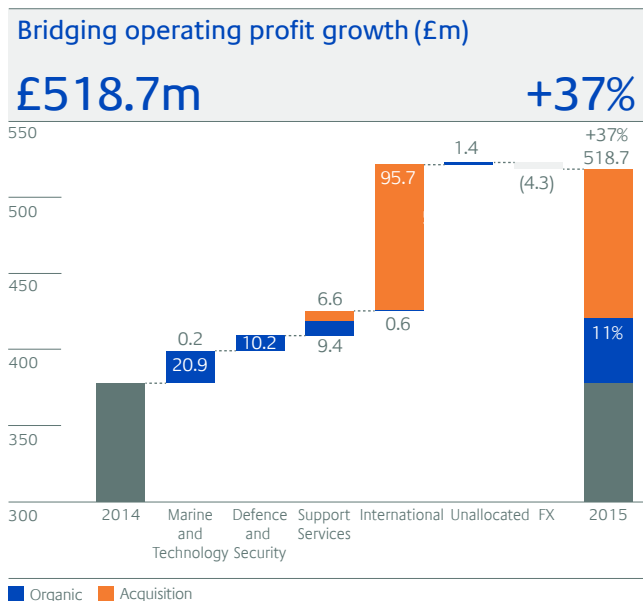


Total operating profit increased by 37% to £518.7 million (2014: £377.9 million), this includes £95.7 million of operating profit from MCS.

The Babcock businesses achieved organic growth in operating profit of 11% at constant exchange rates. The total Group operating margin increased to 11.5%, benefiting from operating margins within the MCS business of 17.8%. Excluding the MCS business, the Babcock businesses maintained a stable operating margin of 10.7% (2014: 10.7%).

For the Marine and Technology division, operating profits increased in line with revenue at 13% and the Defence and Security division achieved a 9% increase in operating profit despite reduced revenue as a result of milestone achievements on the Future Strategic Tanker Aircraft (FSTA) programme and final contract adjustments on the ending of the Regional Prime contracts. For the Support Services division, operating profit growth was 19% but margin was diluted by the effect of low margin take in the early stages of new contracts, particularly within its subsidiary Cavendish Nuclear and the Critical Services business. The Group benefited from £8.5 million profit on disposal of the Greenwich Building Schools for the Future Private Finance Initiative (PFI), reported within the Support Services division, however, this was substantially offset by a provision of £7 million which we have taken in respect of overtime holiday pay (Marine and Technology £2.3 million, Defence and Security £0.6 million and Support Services £4.1 million). Despite a 15% growth in operating profits in local currency in the South African business, ongoing weakness in the Rand resulted in a 3% increase in operating profits in Sterling terms.

## Financial review *continued*



As the Group increases the proportion of its revenue from international operations, particularly in Europe, the impact of movements in exchange rates has a greater effect on the Group's results. A 10% movement in the Euro equates to a £6.0 million change in operating profit and a £4.0 million change in profit before tax. A 10% movement in the South African Rand equates to a £2.4 million change in operating profit and a £2.3 million change in profit before tax. The average rates used for translation of 2014/15 underlying revenue and profit were £/€1.28 and £/ZAR17.8.

During the year, a net £2.3 million of provisions were charged to the income statement. Over the last five financial years the net provision charge was £8.6 million, or an average of 1% of underlying operating profit excluding jvs. Provision utilisation in the period included £14 million related to acquisition deferred considerations and disposal costs and £9 million related to exceptionals.

Net finance costs were £101.0 million (2014: £61.8 million), reflecting the increase in total Group debt following the acquisition of MCS. The Group net finance costs were £59.0 million (2014: £25.8 million) and we expect this to reduce going forward in line with the decrease in the average amount drawn on the Group's revolving credit facilities and improved finance terms, which have reduced to a marginal rate around 2%. The Group's share of joint venture net interest expense increased to £31.0 million (2014: £25.1 million) partly as a result of fair value movements on interest rate swaps of £2 million, but also, as anticipated, as the FSTA and UK MFTS PFI contracts continue to deliver assets into service for the

customer. During 2014/15 the FSTA PFI delivered four tanker aircraft and the related non-recourse debt was drawn down under the PFI facilities. The IAS 19 pension finance charge was £11.0 million (2014: £10.9 million).

During the year, we have refinanced the debt acquired with the MCS business. We repaid and cancelled two revolving credit facilities for €145 million and £25 million, as well as the €470 million and £260 million high yield notes. We successfully issued a €550 million bond, the proceeds from which were used to pay off part of the £900 million bridge facility during the first half. The remainder of the facility was paid off during the second half. These actions achieved in excess of the £35 million of interest synergies targeted at the time of acquisition.

Profit before tax, amortisation of acquired intangibles and exceptional charges increased by 32% to £417.7 million (2014: £316.1 million). The associated tax charge, including the Group's share of joint venture tax of £5.0 million (2013: £7.0 million), totalled £74.3 million (2014: £55.4 million) representing an effective underlying rate of tax of 17.8% (2014: 17.5%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation and exceptional charges.

There were no exceptional items during the 2014/15 year (2014: £24.9 million acquisition costs relating to the acquisition of MCS).

Amortisation of acquired intangibles was £99.6 million (2014: £65.4 million). The increase in amortisation is mainly a result of the acquisition of the MCS business during the year. 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. Details of the basis of amortisation of acquired intangible assets is set out in the notes to the Group financial statements.

### Earnings per share

Basic underlying earnings per share for the year was 68.5 pence (2014: 62.1 pence), an increase of 10.3%. Basic earnings per share as defined by IAS 33 was 52.9 pence (2013: 44.3 pence) per share, an increase of 19.4%.

As a result of the new ordinary shares created by the rights issue which started trading on 7 May 2014, the comparative earnings per share numbers for 2014 referred to above have been adjusted accordingly.

## Dividend

This year, underlying basic earnings per share increased by 10.3% and the Group has once again achieved its target of delivering cash conversion over 100% and the combined order book and bid pipeline have reached record levels, providing excellent visibility of future revenue streams.

The Board's confidence in the long-term future of our business remains strong and we are therefore delighted to recommend a 10.4% increase in the final dividend per share for 2015 of 18.1 pence per share (2014: 16.4 pence per share). If approved by shareholders at the AGM on 30 July 2015, this will give a total dividend for the year of 26.3 pence per share (2014: 21.4 pence per share), an increase of 10.3%. The final dividend will be paid on 12 August 2015 to shareholders on the register at 3 July 2015.

As a result of the new ordinary shares created by the rights issue, which started trading on 7 May 2014, the comparative full year dividend for 2014 referred to above has been adjusted accordingly.

## Acquisitions and disposals

During the year the Group spent a total of £2,023.6 million on acquisitions (2014: £63.1 million). These include

- the Avincis Group on 16 May 2014 for £1,759.2 million including net debt of £859.7 million
- Scandinavian AirAmbulance on 29 June 2014 for £66.1 million including deferred consideration of £7.3 million and net debt of £40.8 million
- MacNeillie on 2 February 2015 for £66.3 million including deferred consideration of £1.3 million but excluding cash acquired of £15.7 million
- WRN Broadcast (WRN) on 9 February 2015 for £13.1 million including a deferred consideration of £7.5 million (to be paid on the achievement of agreed growth targets) and net debt of £1.6 million
- Defence Support Group (DSG) on 31 March 2015 for £140 million.

As expected, fair value adjustments have benefited MCS profits in the year ended 31 March 2015 by £5 million through the utilisation of onerous operating lease provisions and by £4 million for reduced depreciation charge compared to historic cost.

During the year the Group disposed of its share in the Greenwich Building Schools for the Future (BSF) PFI for a consideration of £12 million. Post the year end, the Group also disposed of the Lewisham BSF PFI for £14.3 million. These disposals will reduce jv profit and jv interest by a total of c £7 million in the 2015/16 financial year.

## Cash flow and net debt

We continue to focus on the generation of cash and cash conversion remains an important KPI for the Group. The analysis below reflects the management KPI for cash conversion.

	2015 £m	2014 £m
Operating profit before amortisation of acquired intangibles and exceptional items	445.9	317.2
Amortisation and depreciation	78.5	47.6
Other non-cash items	16.7	13.9
Working capital (excluding retirement benefits)	(37.7)	(51.3)
<b>Operating cash flow</b>	<b>503.4</b>	<b>327.4</b>
Cash conversion %	113%	103%
Capital expenditure (net)	(135.0)	(68.3)
<b>Operating cash flow after capital expenditure</b>	<b>368.4</b>	<b>259.1</b>
Cash conversion after capital expenditure %	83%	82%
Interest paid (net)	(73.8)	(31.8)
Taxation	(46.1)	(55.8)
Dividends from jvs	19.5	4.8
<b>Free cash flow</b>	<b>268.0</b>	<b>176.3</b>
Acquisitions and disposals net of cash/debt acquired	(2,023.6)	(63.1)
Issue of shares	1,077.4	–
Pensions contributions in excess of income statement	(43.9)	(47.2)
Exceptional items – working capital	(24.2)	24.2
Exceptional items – income statement	–	(24.9)
Investments in joint ventures	(1.7)	4.7
Movement in own shares	(3.5)	0.7
Dividends paid	(117.0)	(101.0)
Exchange difference/other	76.6	(3.9)
Net cash outflow	(791.9)	(34.2)
Opening net debt	(533.7)	(499.5)
<b>Closing net debt</b>	<b>(1,325.6)</b>	<b>(533.7)</b>

The table below provides the reconciliation between the statutory cash flow (page 136) and trading cash flow table above.

	2015 £m	2014 £m
Cash generated from operations	426.8	279.5
Retirement benefit contributions in excess of income statement	43.9	47.2
Exceptional items – acquisition costs working capital	24.2	(24.2)
Profit on disposals of jv/exceptional loss	8.5	24.9
<b>Operating cash flow</b>	<b>503.4</b>	<b>327.4</b>

## Financial review *continued*

Working capital cash outflows during the period, excluding retirement benefits, were £37.7 million (2014: £51.3 million). The cash outflow includes £14.3 million which represents operating provision movements, with the balance of the working capital outflow substantially linked to growth. Cash generated from operations was £426.8 million (2014: £279.5 million) from which the Group's operating cash flow calculation is derived. Operating cash flow after movement in working capital was £503.4 million (2014: £327.4 million) and represents a conversion rate of underlying operating profit to cash of 113% (2014: 103%).

Net capital expenditure, including new finance leases, during the year was £135.0 million (2014: £68.3 million). MCS net capital spend was £60 million. In addition, the rest of the Group spent £10 million at the start of a new SAP back office ERP system for the majority of the Group to be implemented over the next two years, as well as ongoing investment in upgrades to our dockyard facilities in the Marine and Technology division to support future workstreams. We have also invested in capital expenditure for growth on the back of contract wins in particular training facilities for the London Fire Brigade and vehicles for the Phoenix white fleet contract. The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to underlying operating profit of 83% (2014: 82%). Capital expenditure for the year was 1.7 times the Group's depreciation charge of £78.5 million. For the 2015/16 financial year we expect capital expenditure to be in the region of 2.0 times depreciation after allowing for the increase expected on the ERP implementation.

Net Group cash interest paid, excluding that paid by joint ventures, was £73.8 million (2014: £31.8 million), the increase reflecting the increase in the Group's debt levels following the acquisition of MCS in May 2014.

After taxation payments of £46.1 million (2014: £55.8 million), free cash flow was £268.0 million (2014: £176.3) representing a free cash flow yield on 31 March 2015 of 5.4% (2014: 3.6%). We expect the cash tax charge for this financial year to increase in line with the income statement charge.

Acquisitions and disposals during the year totalled £2,023.6 million (2014: £63.1 million) and comprise the purchase of Avincis, Scandinavian AirAmbulance, Defence Support Group, MacNeillie, WRN and the disposal of the Group's share in the Greenwich Building Schools for the Future joint venture.

During the year, the Group received £19.5 million in dividends from its joint ventures (2014: £4.8 million). Cash dividends (including to minorities of £7.2 million) paid out in the year totalled £117.0 million (2014: £101.0 million).

Group net cash outflow was £791.9 million (2014: £34.2 million) increasing total net debt at 31 March 2015 to £1,325.6 million (31 March 2014: £533.7 million, 30 September 2014: £1,284.9 million). This gives a net debt to ebitda ratio of 2.15 times (31 March 2014: 1.3 times, 30 September 2014: 2.3 times). Over the course of the next financial year we would expect to see this reduce to around 1.9 times by the year end.

## Return on Invested Capital (ROIC)

We define ROIC as earnings before financing costs and tax excluding exceptional charges, divided by equity plus net debt, excluding retirement benefit deficits. Following the significant acquisition made at the beginning of the year, ROIC was 14.5% (2014: 20.7%) compared with the Group's current weighted average pre-tax cost of capital of 9.1%. The reduction from prior years arises from the acquisition of MCS in particular. As identified at the time of the acquisition, we have a number of initiatives in place to achieve a return on invested capital ahead of the Group's weighted average cost of capital by 2016/17 for the MCS business which remains on track. These measures, added to the expected improvements in the rest of the Group, are expected to improve the ratio in coming years.

The key actions for MCS focus on the following areas

- driving growth – existing opportunities plus maximising benefits of enlarged Group to increase operational gearing
- pricing – assisted by demand for new technology and improved safety
- operating costs – overhead and procurement efficiencies, fleet rationalisation
- financing – optimise leasing versus ownership, improve lease terms and refinance debt.

## 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 two 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 times, as illustrated by the recent acquisition of MCS or previous acquisitions in the past, but only if the Group can see a clear path to reducing net debt to ebitda back to two 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 MCS on a 31 March 2014 pro forma basis. Actual net debt to ebitda as at 31 March 2015 was 2.15 times, demonstrating progress in bringing gearing back towards a steady state level, both in the pay down of debt and through increasing profits attributable to shareholders.

		Covenant	2015	2014
Debt service cover	ebitda/net interest	>4	8.3x	15.0x
Debt cover	Net debt/ebitda	<3.5	2.15x	1.3x
Gearing	Net debt/shareholders' funds	n/a	56%	41%

Debt ratios are below covenanted levels and gearing has reduced since the MCS acquisition. 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 the financial markets.

### Debt

#### Objective

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

#### Policy

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

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

### Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance is sufficient to meet its stated objective. During the financial year a number of changes were made to the Group's financial structure, which can be summarised as follows

- i the £900 million Bridge Facility signed in March 2014, which was put in place to enable the prepayment and cancellation of MCS debt following completion, was fully repaid and cancelled in December 2014
- ii In October 2014, the Group issued a debut eight year €550 million Eurobond
- iii In December 2014, the Group refinanced and increased its Revolving Credit Facility from £500 million to £750 million, with a tenor of five years, with options to extend a further one year, plus one year.

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 Revolving Credit Facility (RCF) signed in December 2014. The aforementioned debt provides the Group with total available committed banking facilities and loan notes of £1.65 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 2015, the Group had 55% fixed rate debt (31 March 2014: 49%) and 45% floating rate debt (March 2014: 51%) based on gross debt of £1,507.9 million (March 2014: £670.6 million).

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

## Financial review *continued*

### Liquidity

#### Objective

- i to maintain adequate undrawn committed borrowing facilities
- ii to monitor and manage bank credit risk, and credit capacity utilisation
- iii to diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

#### Policy

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

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

#### Performance

- i the Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance were sufficient to meet its stated objective. The June 2011 £500 million Revolving Credit Facility Agreement was refinanced and increased during the course of the financial year, with a new £750 million facility being signed in December 2014. In addition, the Group issued a debut €550 million Eurobond in October 2014
- ii the Group had cash and cash equivalents as at 31 March 2015 of £130.6 million (2014: £86.3 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 £2.5 million in the income statement for the year ending 31 March 2015 (2014: £1.5 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 £3.4 billion represent 87% of the total assets of all the Group's defined benefit schemes. During the year changes were made to cap pensionable salaries and increase employee contributions on the Babcock International Group Pension Scheme. Similar changes are expected to come into effect on the Rosyth Royal Dockyard Pension Scheme and the Devonport Royal Dockyard Pension Scheme from June 2015.

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. A valuation of the Railways Pension scheme is being undertaken at 31 December 2013 and is currently under discussion, with any consequent cash requirements expected to be implemented from 1 October 2015. The valuation for the Devonport scheme is being carried out at 31 March 2014 and is under discussion, with any consequent cash requirements expected to be implemented from 1 October 2015. Work has commenced on the valuation of the Rosyth scheme due as at 31 March 2015. Any consequent cash requirements are expected to be implemented from 1 July 2016.

### Cash contributions

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

	2015 £m	2014 £m
Future service contributions	44.7	49.0
Deficit recovery	39.2	43.6
Longevity swap	4.2	4.2
<b>Total cash contributions – employer</b>	<b>88.1</b>	<b>96.8</b>

In the 2015/16 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £81.5 million. £46.0 million of this is in respect of the cost of future service accrual of which £30.5 million is to recover deficits over periods of time agreed with the Trustee. £5.0 million of the contributions are 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. Of the £81.5 million, £32 million in Marine and Technology is recovered via contractual terms with the balance funded from other Group contracts.

### Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,938.0 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,106.8 million representing a 96% 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.

	Devonport		Babcock		Rosyth	
	2015	2014	2015	2014	2015	2014
Discount rate %	3.4	4.5	3.4	4.5	3.4	4.5
Rate of increase in pensionable salaries %	2.2	2.4	2.2	2.4	2.2	2.4
Rate of increase in pensions in payment %	2.1	2.2	2.8	3.0	3.0	3.4
Life expectancy of male currently aged 65 years	21.7	21.7	23.0	22.8	19.3	19.3

The total net accounting deficit, pre deferred tax, at 31 March 2014, was £168.8 million (2014: £267.7 million) and the expected IAS 19 net periodic benefit cost in 2015/16 is £55.9 million (2014/15: £57.9 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 to reduce future costs and in addition employee contribution rates are increasing by up to 2% per annum to a minimum level of 6% over the next three years. Further details on the Group's pension schemes can be found in note 27 to the Group financial statements.

### 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.

## Sustainability



# Building and delivering a sustainable business

“At Babcock our priority remains focused on creating long-term value for shareholders through a strong, successful and sustainable business.”

To do so, we understand that how we deal with our customers, our employees, our suppliers and the communities in which we operate, and how we have regard to the environment, is fundamental to achieving our plans for our business. It is our belief that success can only be delivered through upholding the strictest standards of business ethics while behaving in a responsible way, and putting safety at the forefront of everything we do.

Babcock International Group 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 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 opportunities across the Group. We work hard to ensure 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 Ethical Policy is summarised in our Code of Business Conduct, which is supplemented by appropriate guidance and training. It not only sets out the right approach to doing business in and of itself, but is also intended to underpin long-term success by sustaining our reputation.

Our ability to 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 essential for the long-term success of the Company. Last year we demonstrated Babcock's commitment to our people by joining the '5% Club', a club which commits to having 5% of our workforce on a structured training scheme within the next five years, a target we are on track to exceed. Another highlight this year was the Women In Science and Engineering (WISE) event hosted by Babcock in Rosyth, recognising the invaluable contribution made by women in engineering. The event proved very successful with high-profile industry figures, joined by HRH the Princess Royal, promoting science, technology and engineering. Initiatives like these and our continued commitment to enhance our highly skilled and diverse workforce are intended to put us and keep us in a position to achieve and sustain our strategic aims.

Peter Rogers CBE  
Chief Executive



#### Description

Percentage, by revenue, of the Group's operations with environmental management systems ISO 14001 certified.

See page 58 for more information



#### Description

Number of graduates currently on a Group graduate programme.

See page 56 for more information



#### Description

Percentage of senior managers at the beginning of the financial year still employed by the Group at the end of the year.

See page 56 for more information



#### Description

Number of employees currently on apprenticeships across the Group.

See page 56 for more information

## How we address sustainability



### 1. Ethics and governance

- Act responsibly and ethically at all times in line with the Group's ethical policy as summarised in the Group Code of Conduct
- Provide the opportunity for employees to confidentially and anonymously report areas of concern to senior management for investigation.

See pages 50 to 51 for more information

### 2. Our customer and supplier relationships

- Building long-term relationships
- Delivering business-critical support using high performing, ethical suppliers
- Supporting local economies by using diverse, locally procured services.

See pages 52 to 53 for more information

### 3. Ensuring safety

- Committed to a Group-wide 'Home Safe Every Day' safety culture
- Open, honest and challenging dialogue between employees and management to ensure continual improvement in safety culture throughout the Group.

See pages 54 to 55 for more information

### 4. Developing and sustaining talent

- Planning for growth and succession
- Focus on recruitment, retention and development of talent
- Encouraging young people into the engineering sector through leading apprenticeship and graduate programmes

- Ensuring recruitment at all levels is undertaken in a 'best for the job' approach with a mind to ensuring a diverse workforce with a zero tolerance policy on discrimination.

See pages 56 to 57 for more information

### 5. Managing environmental impact

- Conduct our business in a way that is mindful of environmental impacts
- Monitor with the aim of reducing where possible our global carbon footprint and our greenhouse gas emissions levels
- Encourage environmentally friendly practices on sites we do not own.

See pages 58 to 59 for more information

## Sustainability *continued*

### 1. Ethics and governance

Babcock aims at all times to act responsibly and ethically when pursuing and awarding business.

#### Ethics Policy and Code of Business Conduct

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 all conduct business, which we summarise in the form of the Babcock Code of Business Conduct. Compliance with this policy is compulsory for 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 Babcock Ethics Policy and Code of Business Conduct is a Group-wide policy that sets out the following principles to ensure that those who work with or within the Company do so to the highest of ethical standards.

### Babcock Ethics Policy and Code of Business Conduct

#### As a company Babcock:

- Will respect the dignity and rights of its employees and place the highest priority on ensuring the safety of each other at work and the safety of others who might be affected by our activities
- Will seek to minimise so far as it reasonably can its impact on the environment
- Will comply with the law in the conduct of its business
- Will be honest in our dealings with those with whom we do or seek to do business
- Will strive to avoid even the appearance of wrongdoing

- or impropriety in the way we go about our business
- Will not bribe or attempt to bribe anyone
  - Will not take bribes from anyone
  - Will be diligent in selecting our business advisers and partners so that we minimise the risk of our reputation being damaged by others
  - Will implement and observe appropriate training and procedures designed to ensure that we and others working for us understand what our Code of Business Conduct means for them in practice
  - Will treat seriously breaches of our code or its associated guidance.

#### And our employees:

- Will avoid (or properly disclose and obtain clearance for) potential conflicts between their interests (or those of their friends and families) and their responsibilities to Babcock or our customers
- Will not take bribes and will report to appropriate management any attempt made to bribe or improperly influence them or another employee in the carrying out of their duties for Babcock
- Will not bribe or attempt to bribe anyone (including by

- making ‘facilitation payments’) and will report to appropriate management any request or suggestion that Babcock, or anybody working for or with Babcock, should bribe or attempt to improperly influence someone
- Will seek advice on how to proceed if they are at all unsure whether something complies with our Code of Business Conduct or how to apply its associated guidance
  - Will be able to raise (confidentially if they wish), without fear of unfavourable consequences for themselves, any genuine concerns they have that our Code or its associated guidance is not being followed.

#### And our business advisers:

- Must agree to comply, and actually comply, with our Code and this guidance, so far as it is relevant to them, as if they were our employees.

#### And our business partners:

- Should either be willing to subscribe to our Code and its associated guidance or have equivalent standards and procedures in their own businesses.

The Babcock Ethics Policy and Code of Business Conduct is supplemented by 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. For example: an explanation of the law and how it can apply; 'red flags' to look out for; guidelines and authorisation procedures for giving or accepting gifts and hospitality or making charitable or political donations; due diligence and approval requirements before engaging new business partners; and how to whistleblow concerns. This manual can also be accessed online on the Company's website at [www.babcockinternational.com](http://www.babcockinternational.com). Employees take online training courses in anti-bribery and corruption risks. Each division and Group function is required to have a designated member of its senior management team with specific responsibility for ensuring the distribution, communication and implementation of the anti-bribery and corruption guidance, and for overseeing training. Divisions and Group functions are also required to consider carefully whether they need also to designate business unit level or site specific managers with the same responsibility. Anti-bribery and corruption risks have expressly to be considered each year in business unit risk reviews as an integral part of our risk management arrangements. Internal audit carries out a review of the implementation of the guidance as part of the annual internal audit plan. Divisional monthly reports contain information on anti-bribery and corruption compliance, copies of which go to each Board meeting.

### 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 (see above), our customer and supplier

relationships (pages 52 to 53), the importance we place on health and safety (pages 54 to 55), the commitment we have towards the people who work for and with Babcock both now and in the future (pages 56 to 57), and our respect towards the wider society and environment in which we work (pages 58 to 59), as we set out throughout this Sustainability report.

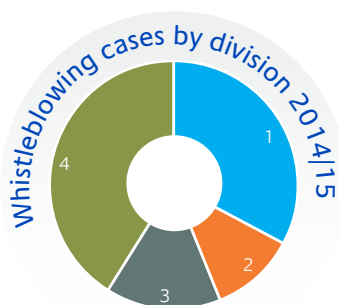
### Whistleblowing

Babcock insists on responsible, transparent and accountable business practices in accordance with our Ethics Policy and Code of Business Conduct. Confidential employee whistleblower hotlines are available Group-wide to relay any employee concerns that these standards are not being adhered to for investigation. The service is provided by independent third parties who promptly report messages received to central Group senior management. Callers can remain anonymous if they wish. The hotlines are intended for use by employees to report concerns that they feel unable to raise with line management (or if they have raised matters, but are not satisfied with the response) regarding financial irregularities, non-compliance with laws, or breaches of our Code of Business

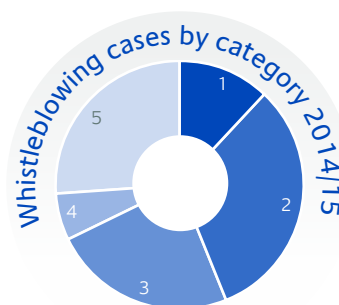
Conduct, threats to health and safety, conflicts of interest or improper practices. New employees are made aware of the existence of the hotlines as part of their induction; details of the hotlines are advertised at operating sites.

All whistleblowing incidents are reviewed and a method of investigation confirmed, which can be by a senior manager not directly related to the incident, an external agency or by internal audit. In all cases this review is followed up by a report to Group senior management. Where possible, the caller reporting the incident will be notified of the outcome of the investigation. A report on all whistleblowing calls throughout the Group, the investigations undertaken as a result of these calls, the conclusions drawn and the recommendations and actions resulting is given to each meeting of the Audit and Risk Committee.

The total number of whistleblowing reports in the year to 31 March 2015 was 72. During the same period to 31 March 2014, and so excluding the enlarged International division after the acquisition of Avincis in May 2014, the number was 39. Details of the number of cases by division and by category are set out below.



1. Marine and Technology	33%
2. Defence and Security	11%
3. Support Services	15%
4. International	41%
<b>Total cases</b>	<b>72</b>



1. Harassment/Bullying/Discrimination	12%
2. Fraud/Theft/Dishonesty	32%
3. Employment issues	24%
4. Operational	6%
5. Health & Safety	26%
<b>Total cases</b>	<b>72</b>

## Sustainability *continued*

### 2. Our customer and supplier relationships

We serve a wide range of customers in many business areas offering complex solutions under contracts which typically run over a number of years.

#### Our customers

Given the long-term nature of these contracts, and the profiles of our major customers, Babcock favours a partnering or collaborative approach and looks to build strong, long-term customer relationships; this is at the heart of our business philosophy. By this collaborative approach we aim to develop an in-depth understanding of our customers, what they value, what matters most to them, their present and future needs and

objectives, and how and why they make their procurement decisions, so that we can offer and best deliver what they are truly looking for and can anticipate and plan for their future requirements.

So how do we seek to establish these strong customer relationships?

Babcock believes that the most enduring relationships are built around eight key elements:

- Shared goals and objectives
- Mutual trust
- Being open and honest in all dealings
- Identifying and understanding mutual interests
- Seeking strong inter-personal relationships
- Taking the long-term view and looking ahead
- Meeting, and wherever possible exceeding, expected outcomes
- Offering what we believe to be cost effective, technically sound solutions.

We understand that one of the critical elements in building a strong business relationship is that both parties understand and are aware of how the other defines 'success' in a way that is both identifiable and measurable. Since this cannot be left to chance, we commission regular reviews of the workings of our business partnering arrangements to assess if they are

working well and also to look for the tell-tale signs of where they might encounter problems.

#### Our approach to procurement

Our customers rely upon Babcock to deliver critical support to their operations. We need trusted and effective suppliers to support us in delivering reliable service to our customers and in seeking to reduce the cost of doing so. 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 work to ensure that the supply chain adheres to our standards of ethical behaviour, environmental, health and safety and other working practices.

Babcock helps sustain its supply chain through an annual expenditure in excess of £2 billion, with a supplier base of more than 10,000 companies. We have substantive trading relationships with over 250 companies. Our businesses have dedicated, local procurement and supply management functions. These teams are integrated into local operations but adopt common high standards, sharing best practices and supplier insights across the Group. Common expenditure across the Company is increasingly being managed and governed using a Group-led category management approach.

Our approach to procurement and supply is to:

- select and manage suppliers to support our customer service delivery ethos and to reduce costs
- focus our effort on a supply base of longer-term, strategic suppliers who work with us to strengthen further our proposals and delivery to our customers
- employ procurement and supply specialists with the expertise to procure and deliver effective supply, working together with the technical, engineering and operational customer teams
- enter into supply contracts that fairly reflect the risks and rewards with our suppliers

### Corporate covenant

In the UK, Babcock is proud to sponsor the 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 was reinforced with a reservists conference, held in February 2015 to further explain the support available to both employees and their managers to fulfil their important role.

# 111

Attendees at the Reserves conference



## Community engagement

Babcock is committed to promoting the engineering industry to today's aspiring youth. In July 2014, a group of Babcock graduates hosted a week long Naval Architecture course for 40 16-17 year olds in partnership with the Smallpeice Trust and the University of Plymouth. The graduates were onboard to oversee and help teams of budding young engineers, design, build, test and race a remotely operated submersible. The event was a huge success with both returning students and Smallpeice Trust facilitators agreeing:

**"It's been the best course yet!"**

- work with suppliers with a shared commitment to all those working on, or visiting, Babcock operations being able to return 'Home Safe Every Day'
- use category management as the key approach to developing supply strategy, selecting suppliers and managing their performance. We select suppliers based on their capability to support us, and our customers, and have a diverse supply base as a consequence.

### Health and safety in the supply chain

Babcock is committed to creating a safe working environment which enables 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 behaviours 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.

### Supply chain security

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

### Diversity of suppliers

Supplier credibility, responsibility, quality and service performance are what matter most. 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 should make our supply chain more robust in helping us to deliver for our customers. 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.

### Ethical working and values

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.

### Payment

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 be also. Our suppliers have critical responsibilities for getting paid on time by delivering on time and in full, following the required billing processes and adhering to our standards for invoicing.

### Supplier development

We work in close collaboration with selected suppliers – big and small. Supplier development activities target improvements that will benefit our operations and the capability of the supplier – ultimately driving performance standards that benefit our customers. Joint teams from Babcock and the selected suppliers engage together on a wide range of issues such as input costs, delivery performance, safety, product reliability and joint growth opportunities. 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 – SC21.



## Sustainability *continued*

### 3. Ensuring safety

At Babcock we never forget that health, safety and welfare is the single most important aspect of all our work and the decisions we make, governed by the highest standards and compliance, are at the core of operational excellence.

With the integration of Mission Critical Services we are embodying the Safety Lens element of 'We share to learn and improve'. The Safety Lens is designed as a mechanism to enable us all to talk about safety; from the shop floors to the board room, in our teams, to our managers and to customers – all part of our continuing 'Home Safe Every Day' initiative to ensure we are constantly seeking to drive improvement in our standards.

Our Behaviours and Expectations policy outlines the commitment of Babcock to ensuring the health, safety and welfare of our employees whilst at work. It sets the standard for the behaviours and expectations required of all of our employees, management and contractors undertaking business on our behalf.

The following excerpts from the policy provide detail on the 'Championing safety' and 'Investing for safety' segments of the Safety Lens with case studies matched to the application of the policy in everything we do, ensuring that, above all, our goal is for everybody to go 'Home safe every day'.



#### 'Champion safety'

Everyone has the right to go 'Home Safe Every Day'. Risk taking and corner cutting is not the way in which we do our work. Everybody working for us has a responsibility for championing safety – putting safety first in every job that we do.

In practice this means:

#### *We (all employees and contractors) will*

- make efforts to improve safety and the environment on our premises
- make safety the priority – put safety before production, cost and commercial gains
- be fully committed to safety and undertake every task we do in a safe manner
- communicate with each other on safety matters and challenge those who do not maintain a high standard of safety
- only undertake tasks that we are competent and trained and authorised to do
- keep the workplace tidy and clean and tidy up after we have finished a job
- pay particular attention to slip, trip, fall and manual handling hazards
- use the correct tools and protective equipment for the job, and use them properly
- stop the job if we don't have the right tools available.

#### *In addition, senior managers, line managers and supervisors will*

- promote a positive and proactive safety culture in our area of responsibility
- be supportive when safety concerns are raised and deal with the issues effectively.

#### *We will not*

- assume someone else is responsible for our safety
- start work without the correct personal protective equipment identified by the risk assessment
- adapt or use tools and equipment for a purpose that was not intended
- store work equipment in an unsafe manner
- use equipment that has not been tested or is out of its test date
- carry out any job that exceeds our capability to do the job safely
- carry out tasks for which we are not suitably qualified and experienced
- operate tools, plant and equipment that we have not been trained to operate.

### We will 'Invest for safety'

Maintaining high standards of housekeeping in the workplace and providing the right tools for the job prevents accidents. Slips, trips and falls account for a large number of the accidents in UK workplaces, many of them when people are moving or carrying loads. It is therefore essential to have the right tools and equipment available to do the job safely, to use it in the correct manner and to keep our workplaces tidy and clean. Good housekeeping also helps us meet our security obligations, especially in offices.

In practice this means:

#### We will

- ensure, when starting work, the hazards are understood, the required controls are in place, the work has been authorised and the required permission to start obtained
- if using a generic risk assessment, ensure that it adequately reflects the hazards associated with the specific tasks
- ensure that a pre-job safety brief has been undertaken
- ensure work is properly supervised and adequately controlled
- regularly monitor the work in progress.

#### We will not

- start an operation without having the necessary method statements, risk assessment, authorisations and required paperwork in place
- start an operation without undertaking a pre-job safety brief
- deviate from method statements or instructions without formal review and authorisation
- defeat interlocks, safety devices, trip circuits or other protective equipment without formal assessment and authorisation.

### Performance

We have seen an 11% 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 maintained at 0.18 per 100,000 hours worked.

Our focus in the coming year is to continue to embed the behaviours noted in our Safety Lens across the Group, ensuring our employees make it home safe every day.

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

2014/15	2.23
2013/14	2.51
2012/13	2.64
2011/12	2.65
2010/11	2.86
2009/10	3.67

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

2014/15	0.18
2013/14	0.18
2012/13	0.17
2011/12	0.21
2010/11	0.22
2009/10	0.28

	2009/10	2010/11	2011/12	2012/13	2013/14 <sup>2</sup>	2014/15 <sup>3</sup>
Total number of injuries	2,530	1,962	1,974	2,010	1,979	2,054
Fatalities	2	0	0	0	0	0
Major Injuries	28	22	30	30	36	41
Over-three-day injuries	164	131	123	102	98	127
RIDDOR totals	194	153	153	132	134	168

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. Following an audit of our 2013/14 incident data it was found that eight accidents had been incorrectly classified and a consequent adjustment has been made.
3. Mission Critical Services is not included in the year end incident data since historical information for that business did not match the Group's reporting criteria. However, with effect from 1 April 2015, reporting will be in line with the wider Group.



### Focus on safety

Over the last year, there has been a concerted drive to stabilise health and safety performance across the Group. The Marine and Technology division has managed to maintain a broadly level performance overall, alongside a 5% reduction in the 'All Injury Frequency Rate' (AIFR). The Aircraft Carrier Alliance project area based at Rosyth, recorded a substantial reduction in the AIFR and was awarded the British Safety Council's Sword of Honour for the ninth time.

# 29%

AIFR reduction on the ACA project

## Sustainability *continued*

### 4. Developing and sustaining talent

As our business expands, the development of our people is a critical part of our business strategy.

Our business arrangements with our customers 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.

To underpin and sustain our long-term strategic growth, Babcock must ensure that it has and attracts 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.



1. Marine Technology	31%
2. Defence and Security	23%
3. Support Services	31%
4. International	14%
5. Group	1%
Total	c 35,200 employees

Succession planning is a key focus at Board level and throughout the businesses. 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. In excess of 81% of executive positions have identified replacements (2014: 80%). For the year ending 31 March 2015 Babcock had

a 96% (2014: 95%) senior management retention rate.

In addition to the training and development provided at divisional and business unit level we have Group-wide management development resources – in 2013 we launched the Babcock MBA which offers a world class MBA programme to 25 high potential employees each year. The second cohort of 25 has just started the Programme – 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.

### Graduates and apprentices

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 186 graduates for the 2014/15 intake under our Group graduate programme (2013/14: 169).

At the date of this report, we expect to recruit over 200 graduates for the 2015/16 intake. In addition to our Group graduate scheme, we recruit many graduates directly to management positions.

At 31 March 2015, there were 622 apprentices across the Group (2014: 594) of whom 206 were recruited during the year (2014: 226). The increase in numbers since last year demonstrates the commitment we have to apprenticeship training. Of those completing their training over 85.8% (2014: 86.5%) were appointed into substantive roles within the Group.

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.

### Supporting apprentices

When a Babcock apprentice completes the scheme the support doesn't stop there. Chris Tooze has been with Babcock for nine years, in that time he has advanced as a multi award winning electrical apprentice, to an electrical and weapons systems engineer, through a Babcock supported degree to become the Successor Infrastructure Project Manager, harnessing the potential Babcock sees in every apprentice.

**"Babcock has provided me with significant opportunity for career progression, from further education funding to the support framework to help achieve and follow a structured career development plan."**



## Babcock Graduate Scheme

Leading the radiation protection for the refuel of Vanguard class submarines and presenting to hundreds of people in Britain and Europe, Emma O'Mara has had great experiences during her Babcock Graduate Scheme. The structure of the scheme enabled Emma, a University of York graduate, to gain a wide experience across the division. Emma used this experience to impress the 'Present Around the World' competition judges from the Institute of Engineering Technology, winning several rounds to appear in the global finals held in London. Emma uses her positive experience in the Science, Technology, Engineering and Mathematics (STEM) sector, recently hosting a 'Women in STEM' event, to enthuse next generations to join Babcock and the wider industry. Speaking on her journey so far: "The opportunity to speak at and attend conferences across Europe has been a great experience. The most enjoyable part of the job is variety, no two days are the same!"

# 10%

Increase in graduate intake

### Diversity

Babcock is committed to equal opportunities and will not discriminate on the basis of age, race, colour, ethnic origin, gender, marital status, religious or political beliefs, sexual orientation or disability; but we believe diversity is about more than this. It is about embracing the advantages and richness different experiences, skills and outlooks can bring and learning from that diversity to deliver our best for our customers and to safeguard the future of Babcock. Equal opportunities and awareness of diversity are integral to 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.

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: as set out on page 78, 17.3% (6,088) of our total workforce is female (male 29,101), with 18.2% (106) female senior executives (male 475), and two (15%) female Directors on our Board (male 11).

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

We have continued to focus 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 2015, 22 % (2014: 20%)

of those employed on our graduate scheme were female.

This year we become 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.

Further information on the work we are doing around our diversity can be found on page 78 of this Report.

## Babcock MBA Scheme

The Babcock MBA is the latest development from the longstanding partnership with triple accredited Strathclyde Business School. The key objectives of this customised programme are to enable participants to broaden and deepen their toolset of business skills, and enhance their knowledge of leading management theory and practice while further improving collaboration across the Group. David Barton, a Head of Business Development, felt this has vastly enhanced his contribution to the business: "Personally it has allowed me to constantly challenge myself, my approach and my practices by concentrating on the latest issues and applying the newest management techniques."



## Sustainability *continued*

### 5. Managing environmental impact

Babcock continues to work hard to achieve the highest standards in the management of its environmental impacts.

As Babcock continues to grow as a business we recognise that our operations are increasingly dependent on the use of energy from many sources and that these contribute to global carbon emissions. However, we remain committed to reducing our carbon emissions year-on-year with the long-term aim of achieving a low carbon business solution. We collect and report on our carbon emissions data across the business and the reductions in our carbon footprint are certified to the Carbon Trust Standard. We also continue to strive to identify and implement measures to reduce our overall carbon footprint in relation to our business turnover. Technical solutions continue to provide opportunities to reduce our energy consumption and emissions, but our own behaviour in the way in which we as people conduct our day-to-day business and help positively influence others has an equally important role to play.

Babcock continues to work hard to achieve the highest standards in the management of its environmental impacts. Many of the sites in which we operate are customer owned or operated sites and may be subject to contractual or budgetary constraints; however, this does not deter us from seeking to maintain our own exacting standards of environmental management.

Parts of the Group have sought certification to ISO14001. This is an internationally recognised environmental management system which includes a commitment to a programme of continual improvement in environmental performance. Our businesses units with formal accreditation as a percentage of revenue equate to 44% of the overall Group. How this is split across our divisions is shown in the table opposite. Where we have decided not to seek or are unable, due to customer constraints, to seek formal accreditation for a business

### The environment and the divisions

At Rosyth, annual CO<sub>2</sub> emissions continue to fall year-on-year, with current figures suggesting an overall reduction 10% greater than expected. This success is attributable to a number of new initiatives, coupled with extensive use of variable speed drives in the provision of compressed air.

One of Rosyth's main environmental focuses this year is based on the aspiration to go beyond full compliance with the Waste (Scotland) Regulations 2012 and reduce yard-wide environmental impact substantially, by diverting solid waste materials from landfill to arrive at the point of 'Zero Waste to Landfill' by Autumn 2015.

Further to this, there have been a number of project area schemes implemented, such as the implementation of LED lighting systems throughout the QEC project and other workshops (where older systems are being replaced) and the introduction of energy efficient hand-driers in selected areas to substitute paper towels.

# 30%

Reduction in CO<sub>2</sub>e per £m turnover at Rosyth



unit we apply industry standards and best practices and strive to ensure that customers' and all applicable legal and regulatory requirements are fully met.

Division	ISO14001 Certified	Industry Best Practice <sup>1</sup>
Marine and Technology	20%	80%
Defence and Security	50%	50%
Support Services	90%	10%
International	10%	90%

1. Industry Best Practice refers to our level of compliance with industry best practice in our business units rather than ISO14001 certification.

### The environment and carbon management

Babcock successfully achieved recertification to the Carbon Trust Standard in 2014 against a background of continued growth and the inclusion of more of the Group's 'Scope 3' emissions in the assessment. In spite of these factors the Group still achieved a 2% reduction in its carbon footprint in absolute terms and a 9% reduction against the benchmark of tonnes CO<sub>2</sub>e per £m turnover.

The Energy Savings Opportunity Scheme (ESOS) – (Directive 2012/27/EU) which came into force in July 2014, introduces a new statutory requirement, which we will meet during 2015. Whilst energy consumption from the Group's buildings, processes and transport is already measured, we will now assess this and any energy saving opportunities will be identified, documented and reported to the Environment Agency.

Babcock continues to report on the greenhouse gas (GHG) emissions arising from all its business activities, including overseas operations, under the requirements of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Due to the highly diverse nature of the 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 are calculated using actual or estimated data from invoices, purchasing requisitions, direct data measurement and estimations using CarbonTrust assessment methodology. This is then divided by the annual turnover to provide the intensity ratio.

### Total Group Emissions – UK & Overseas

Year Ending		March 2014	March 2015
Scope 1: Direct emissions from owned/controlled operations	tCO <sub>2</sub> e	42,457.55	47,746.50
Scope 2: Indirect emissions from the use of purchased electricity, steam, heating and cooling	tCO <sub>2</sub> e	104,592.84	127,777.12
Scope 3: Emissions – Business travel	tCO <sub>2</sub> e	8,818.98	10,458.86
Absolute Footprint	tCO <sub>2</sub> e	155,869.36	185,982.48
Turnover	£m	3,321.00	3,997.00
Intensity Ratio	tCO <sub>2</sub> e/£m	46.93	46.53

Babcock International Group – Carbon Footprint Tonnes CO<sub>2</sub>e against £m turnover using Carbon Trust assessment methodology. 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.

## Principal risks and management controls



Franco Martinelli  
Group Finance Director

## Our principal risks and how we manage them

“Risk identification, evaluation and management is a fundamental Board responsibility and a fundamental part of management’s overall approach to strategy, the delivery of objectives and safeguarding Babcock’s reputation.”

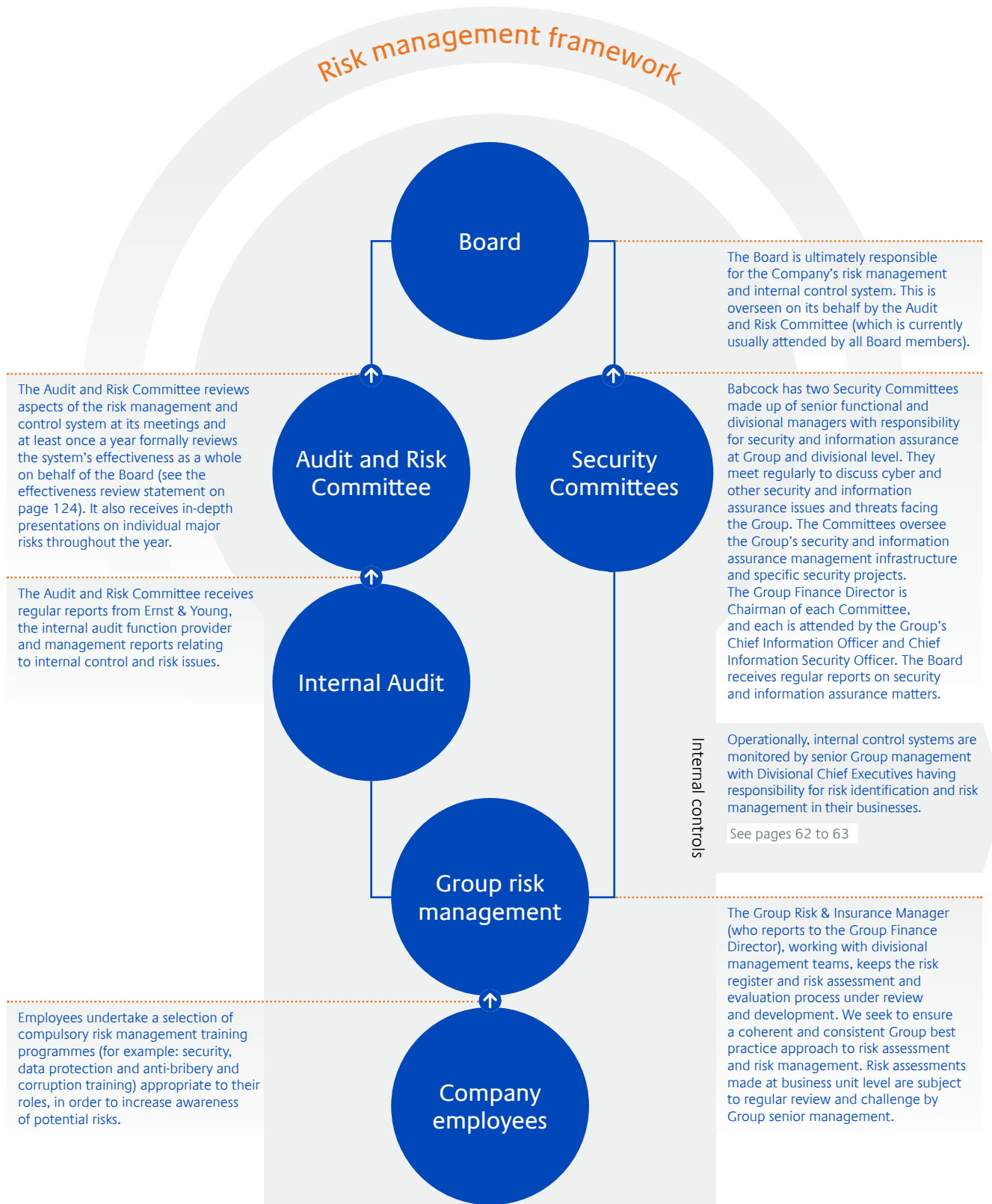
The risks and uncertainties shown on pages 64 to 69 are those that the Board currently considers to be of greatest significance to Babcock.

### 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

and the controls and mitigation plans in place that are intended to manage and reduce their potential impact and 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.



## Principal risks and management controls *continued*

### Our internal controls include:

Budget process	Annual budgets and medium-term financial plans are reviewed by Group management before submission to the Board for approval. Updated forecasts for the year are prepared at least quarterly.	
Management and financial reporting	The Board receives details of monthly actual financial performance compared against budget, forecast and the prior year, with a written commentary on significant variances from approved plans.	<p>The Chief Executive, Group Finance Director and Divisional Chief Executives 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	The Group has a large and comprehensive insurance programme, preferring to place risk in the insurance market, where available on acceptable terms, rather than to self-insure or make significant use of captive insurance.	The Group has a full-time Risk & Insurance Manager who reports annually to the Board on the strategic approach being taken to insurance and on the placing of the programme.
Claims and litigation reporting	The Board and Group Executive Committee receive monthly summaries of material disputes and actual or	potential threats of claims, their progress and potential outcomes. The Group has an internal legal service.
Credit controls	All significant credit risks are reviewed by Group Finance and an Executive Director, and, where appropriate and available, risk limitation actions are taken.	
Code of Conduct and ethical, anti-bribery and corruption policies and procedures	<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 explicit anti-bribery and corruption governance structure in place and detailed policy and procedures (available on the Babcock website),</p>	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. 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 pages 50 to 51.

Group policies and procedures	The Group has written policies and procedures, which are kept under review, covering a range of matters intended to reduce or mitigate risk, such as: health, safety and environmental policies, security and information assurance, export controls, contracting requirements and guidelines, legal, financial and accounting matters.	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.
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 to be brought to the attention of senior	management. A report on all whistleblowing cases and the resultant investigations and conclusions is submitted to each Audit and Risk Committee meeting – see page 84.
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 on pages 64 to 69 below are those that the Board currently considers to be of greatest significance to Babcock in that they have the potential materially and adversely to affect 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 significant 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.

## Principal risks and management controls *continued*

### Our customer profile

#### Issue

We rely heavily on winning and retaining large contracts with a relatively limited number of major customers.

Many of our major customers are (directly or indirectly) owned or controlled by government (national or local) and are (wholly or partly) publically 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.

The UK Government is due shortly to commence its next five-yearly Strategic Defence and Security Review and also a Comprehensive Spending Review, the outcomes of which may have short or longer-term implications for our business with the MoD.

Whilst the Board believes that policy changes, spending reviews and restraints can offer significant opportunities to the Group to assist in the delivery of more services to customers 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.

#### 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 in-house of 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.

\* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## The nature of our contracts, bid processes and our major markets

### Issue

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 following 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.

### 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.

### 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 existing significant 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.

### Mitigation\*

We have a clear business strategy to target a large-bid pipeline and will only tender bids for contracts we consider have a clear alignment with the Group strategy and in which the Company stands a realistic chance of success.

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.

\* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## Principal risks and management controls *continued*

### Reputation

#### Issue

Given the nature of our customers and the markets in which we operate our reputation is our 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 customer 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 48 to 59.

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

- \* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

### Regulatory and compliance burden

#### Issue

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

#### 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 122 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 122 to 124 for more information).

- \* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## Health, safety and environmental

### Issue

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, fire-fighting, 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 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 any risk of liability for injury or damage caused by nuclear contamination or incidents.

\* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## People

### Issue

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, Nominations Committee and 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 page 56 of this Annual Report.

\* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## Principal risks and management controls *continued*

### International business

#### Issue

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.

- \* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

### IT and security

#### Issue

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 implement a new Enterprise Resource Planning (ERP) system for the 'back office' within 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 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 and have an adverse effect on the Group's ability to win future contracts and, as a result, on our results of operations and overall financial condition.

Failure adequately to plan and resource the implementation of the intended 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 being 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 while), to what we believe is a realistic timetable.

- \* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## Pensions

### Issue

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.

\* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## Integration of acquisitions

### Issue

The Group has grown and expects to continue to grow through acquisitions as well as organically, (for example, the recent acquisitions of Avincis, MacNeillie and Defence Support Group).

### Risk Description

The financial benefits of acquisitions may not be realised as quickly and as efficiently as expected if there is difficulty in integrating them into the Group.

### Potential Impact

If integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Group.

The diversion of management attention to integration issues and other difficulties encountered could adversely affect the Group's business.

Post-acquisition performance may not meet the financial performance expected and could fail to justify the price paid, which could adversely affect the Group's future results and financial position.

### Mitigation\*

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.

\* Mitigation: (see also pages 61 to 63 which describe our risk management arrangements and other relevant general controls).

## Board Directors and Company Secretary

The business of Babcock International is managed by our Board of Directors. Biographical details of the Directors and the Company Secretary as at 18 May 2015 are as follows:

### CHAIRMAN



**1. Mike Turner**  
CBE  
Chairman

Mike Turner was appointed to the Board as a Non-Executive Director on 1 June 2008 and

as Chairman of the Board on 1 November 2008. Since 3 May 2012 he 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.

*Time served on Board:* 6 years, 11 months

Chairman of the Board and the Nominations Committee

N

### EXECUTIVE DIRECTORS



**2. Peter Rogers**  
CBE  
Chief Executive

Peter Rogers joined the Board as Chief Operating Officer in June 2002 and became Chief

Executive in August 2003. 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).

*Time served on Board:* 12 years, 11 months



**3. Franco Martinelli**  
Group Finance Director

Franco Martinelli joined the Board as Group Finance Director in August

2014 having served 12 years with the Group as Group Financial Controller. Before joining Babcock he was Group Financial Controller at Powell Duffryn plc and before that he held divisional and group roles at Courtaulds, James Capel and BP.

*Time served on Board:* 8 months



**4. Bill Tame**  
Chief Executive, International Division

Bill Tame joined the Board as 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. He 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.

*Time served on Board:* 13 years, 3 months



**5. Kevin Thomas**  
Chief Executive, Support Services Division

Kevin Thomas became a Director on 1 May

2010. He joined the Group in June 2002. Before joining Babcock, he spent 12 years in facilities management, including seven years with Serco Group PLC and 15 years in local government with Merton, Surrey and Southwark Councils. Kevin is an independent Non-Executive Director of Harvey Nash Group plc. He is a fellow of the Royal Institute of Chartered Surveyors and a Freeman of the City of London.

*Time served on Board:* 5 years



**6. Archie Bethel** CBE  
Chief Executive, Marine and Technology Division

Archie Bethel became

a Director on 1 May 2010. He joined the Group in January 2004. He 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.

*Time served on Board:* 5 years



**7. John Davies**  
Chief Executive, Defence and Security Division

John Davies joined Babcock in 2010, following the acquisition of VT

Group. He was appointed Divisional Chief Executive, Defence and Security in 2010 and joined the Group Board on 1 January 2013. John is a lawyer by background and a graduate of the University of Manchester and Chester Law College. He has worked extensively across the support services and defence sectors including within Bombardier, BAE Systems and VT Group.

*Time served on Board:* 2 years, 4 months

A Audit and Risk Committee

R Remuneration Committee

N Nominations Committee

## NON-EXECUTIVE DIRECTORS



**8. Sir David Omand GCB**  
Senior Independent Director

Sir David joined the Board as a Non-Executive Director in

April 2009 and became Senior Independent Director on 1 January 2012. He is a former Non-Executive Director of Finmeccanica UK Limited and 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.

*Time served on Board:* 6 years, 1 month



**9. Ian Duncan**  
Independent Non-Executive Director

Ian Duncan joined the Board as a Non-Executive Director in November 2010.

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

*Time served on Board:* 4 years, 6 months

Chairman of the Audit and Risk Committee



**10. Kate Swann**  
Independent Non-Executive Director

Kate Swann joined the Board as a Non-Executive Director in June 2011.

She is currently Group Chief Executive of SSP Group Limited. She is a former Chief Executive Officer of WH Smith PLC, former Managing Director of Argos and a former Managing Director of Homebase Ltd. She is also a member of the Advisory Board at Selfridges Group.

*Time served on Board:* 3 years, 11 months



**11. Anna Stewart**  
Independent Non-Executive Director

Anna Stewart became a Non-Executive

Director of the Company in November 2012. She is 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. Anna is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Institute of Civil Engineers.

*Time served on Board:* 2 years, 6 months



**12. Jeff Randall**  
Independent Non-Executive Director

Jeff Randall joined the Board as a Non-Executive Director on 1 April 2014.

He 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 Said Business School where he specialises in corporate reputation, and is an honorary professor at Nottingham University's Business School.

*Time served on Board:* 1 year, 1 month

Chairman of the Remuneration Committee



**13. Myles Lee**  
Independent Non-Executive Director

Myles Lee was appointed to the Board on 1 April 2015. He 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. Myles 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.

*Time served on Board:* 1 month



## COMPANY SECRETARY



**14. Albert Dunge**  
Group Company Secretary and General Counsel

Albert Dunge is a solicitor. He has

been Group Company Secretary and General Counsel since February 2002. He is Secretary to the Board and to the Remuneration and Nominations Committees.

## Governance statement



Mike Turner CBE  
Chairman

## Maintaining high standards

### Dear Shareholder

As Chairman of the Board, I am committed to Babcock seeking to operate to the highest standards of corporate governance. As a Board, we are fully conscious of the paramount importance of maintaining the Company's reputation, as it is crucial to do so for the long-term success of the Company. Good governance, ethical business practices and good risk management are key to achieving this. Babcock's approach is to seek to embed transparency, good governance and sensible risk management into our business culture.

I very much subscribe to the view that having an 'effective board', made up of members with a suitably diverse range of relevant experience, backgrounds, outlook and approaches, is at the heart of good governance, strategy and the long-term interest of shareholders. In this respect, I believe, and my fellow directors believe, that the Board operates in an open, honest and appropriately challenging way. I believe also that we have built, and will continue to develop, a board that 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.

The evolution and development of the Board continued during the year under review. Following the completion of the acquisition of Avincis (now Mission Critical Services) the executive presence on the Board was changed and increased, with Bill Tame moving from his role as Group Finance Director to become Chief Executive of Mission Critical Services and the wider International division, and the promotion of Franco Martinelli from Group Financial Controller to Group Finance Director. I believe these were sound moves that highlighted the strength of our senior management team and the succession planning processes we have in place and will ensure that the culture and deep understanding of Babcock is maintained and brought to the new businesses.

Our 2014/15 Board, Committee and Director evaluation exercise was carried out internally this year, having been externally-led last year. There were no significant concerns highlighted. A summary of the review can be found on page 77. We are addressing and will continue to address the matters identified as areas for focus.

We have developed and broadened the range of experience amongst our non-executive membership by the appointment, effective 1 April 2014, of Jeff Randall and, effective 1 April 2015, of Myles Lee. Jeff, a former business journalist and TV presenter, brought with him an understanding of public perception and reputation management as well as close-hand observation and analysis of a wide range of major business and political developments and events over the years. Myles is the former Chief Executive and a former Finance Director of CRH, the FTSE 100 global building materials group, that grew rapidly – both organically and by acquisition – from its domestic Irish base. I believe Myles's key involvement in and experience of this expansion will be of great value to Babcock as it seeks to develop its international presence. During the year, as foreseen in my report last year, Justin Crookenden retired from the board after nine years as an independent Non-Executive Director. I wish to thank Justin once again for his dedicated

service to the Board. Jeff Randall has taken over Justin's role as Chairman of the Remuneration Committee.

Finally, we are satisfied as a Board that all our Non-Executive Directors are independent for 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 terms of appointment of Sir David Omand and Anna Stewart which were due to expire at the AGM. Anna has been a Director since November 2012 and Sir David since April 2009. 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 in the case of Sir David, whose performance and commitment was the subject of discussion during our Board evaluation process and at a separate Nominations Committee meeting held to consider the extension of his appointment. We are satisfied as to both his continuing independence and the continuing value of having him serve as our Senior Independent Director. As to the refreshing of the

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

Non-Executive	Period in office to date
Sir David Omand	6 years, 1 month
Ian Duncan	4 years, 6 months
Kate Swann	3 years, 11 months
Anna Stewart	2 years, 6 months
Jeff Randall	1 year, 1 month
Myles Lee	1 month

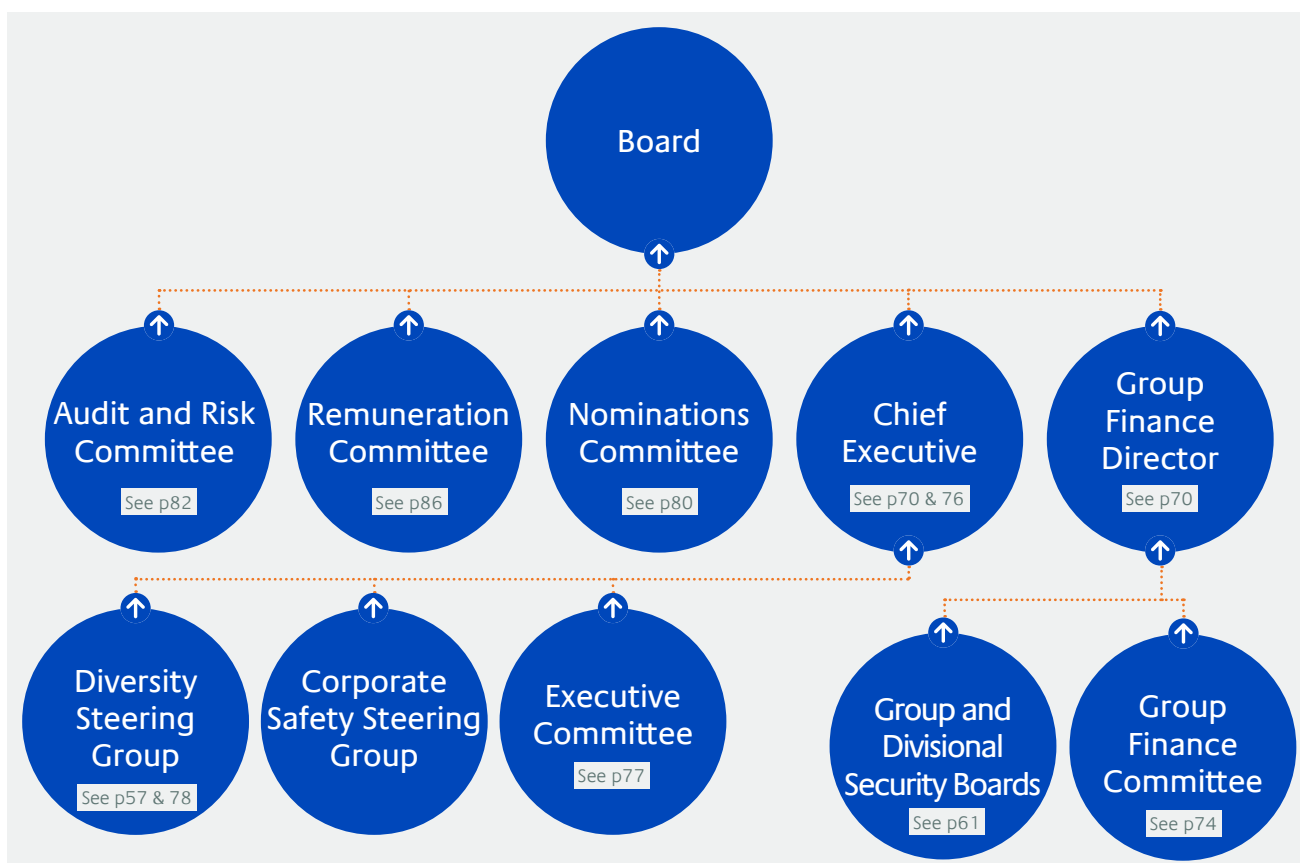


Mike Turner CBE  
Chairman

18 May 2015

The Governance statement, along with the reports of the Nominations, Audit and Risk and Remuneration Committees form part of the Directors' report on pages 119 to 125.

## Babcock governance structure



## Governance statement *continued*

### 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 2012 (the Code). The Code sets out the main principles and specific provisions on how companies should be directed and controlled in order to follow good governance practice.

The Board considers that the Company complied with all the provisions of the Code throughout the year to 31 March 2015, save for the four-month period following the retirement of Justin Crookenden as an Independent Non-Executive Director on 30 November 2014. In this period, less than half of the Board (excluding the Chairman) were Independent Non-Executive Directors. This was remedied on 1 April 2015, when the appointment of Myles Lee as an Independent Non-Executive Director, announced on 3 March 2015, became effective. The composition of Board Committees was, however, in full compliance with the Code throughout the year.

We are aware that revisions were made to the Code in 2014 which apply in respect of reporting periods commencing on or after 1 October 2014 and will report against the Code as so amended for the year ending 31 March 2016.

A discussion of the Group's position on audit tenders is set out on page 85 of this report.

For the purposes of Disclosure and Transparency Rule (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 60 to 69 and a statement regarding the effectiveness of the internal controls can be found on page 124.

Details in connection with the Company's share capital as required by DTR 7.2.6 can be found on pages 119 to 120.

### 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 70 and 71. 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, 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 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. 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 formal steps for matters approved in principle by the Board, to be dealt with by a Board meeting of any two Directors, but these are later ratified by the full Board.

There is also a Group Finance Committee consisting of any two Directors, one of whom must be the Group Finance Director, to approve borrowing, guarantees, treasury and related matters within its terms of reference. The Company has, as described on page 77, an Executive Committee, though this is not a formal Board Committee with its own delegated powers.

## Key areas of focus during the year

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

### Strategy and business development

- The completion of the acquisition of Avincis (now known as Mission Critical Services) and associated rights issue and financing arrangements
- The integration of Mission Critical Services into the Group, and associated management and Board changes
- Consideration of other acquisitions
- The Eurobond Issue and refinancing of existing credit facilities
- Two special Board meetings dedicated to strategy
- Business unit strategy updates and presentation
- Financial planning, including budgets and dividend policy
- Business development opportunities and pipeline review
- The proposal and plans to install a new Enterprise Resource Planning (ERP) system

### 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

### Risk

- Succession planning and talent development
- Consideration of the implications of political developments and outlook
- Cyber-security and information assurance risk management
- Review of internal controls and risk management (advised by the Audit and Risk Committee)
- Legal updates and litigation reports
- Insurance strategy

### Governance

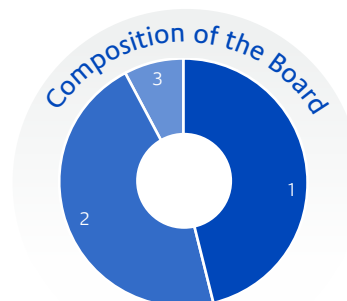
- Annual Review of Board, Committee and Director effectiveness
- Health and safety management reports and annual and half-yearly reviews
- Annual anti-bribery and corruption and risk management update
- Review of terms of reference of Board Committees
- Monthly management reports
- Tax affairs
- Review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

## Composition of the Board

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

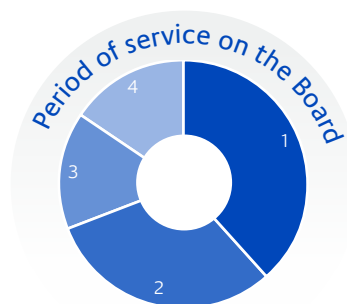
Date	Chairman	Executive Directors	Independent Non-Executive Directors
1 April 2014 – 31 July 2014	1	5	6
1 August 2014 – 30 November 2014	1	6	6
1 December 2014 – 31 March 2015	1	6	5
Since 1 April 2015	1	6	6

The Chairman in his letter on page 72 talks further about the composition and development of the Board.



1. Executive Directors	6
2. Independent Non-Executive Directors	6
3. Chairman	1

as at 18 May 2015



1. Under 3 years	5
2. 3-6 years	4
3. 6-9 years	2
4. 9 years+	2

as at 18 May 2015

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

New Directors	Date of Appointment
Jeff Randall (Non-Executive)	1 April 2014
Franco Martinelli (Executive)	1 August 2014
Myles Lee (Non-Executive)	1 April 2015
Retired Directors	Date of Retirement
Justin Crookenden (Non-Executive)	30 November 2014

## Governance statement *continued*

### 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 80 and 81 of this report.

The rules relating to the appointment and replacement of Directors are contained within the Company's Articles of Association. The Articles of Association 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 Annual General Meeting (AGM) following their appointment. Franco Martinelli and Myles Lee, who joined the Board on 1 August 2014 and on 1 April 2015 respectively, 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 2015 AGM. The names and biographical details of each of the Directors are set out on pages 70 and 71.

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.

### 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).

#### Role of 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

#### Role of the 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 other sectors and undertakings (see their biographies on pages 70 and 71). 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 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 performance of all Directors is evaluated as part of the Board annual evaluation process described on page 77. 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.

During the year, the Non-Executive Directors, including the Chairman, met independently of management on several occasions.

In his letter on page 73, the Chairman addresses the independence of the Non-Executive Directors and the extension of terms of office.

### The Company Secretary

The Company Secretary is responsible, under direction from the Chairman, for ensuring the appropriate information flows to the Board and its Committees to facilitate their discussions and allow fully informed decisions to be made. The Company Secretary also ensures the Non-Executive Directors have access to senior management where required, as well as ensuring an appropriate induction process and ongoing training is in place for Executive and Non-Executive Directors. The Company Secretary advises the Board and its Committees on governance matters.

### The Group Executive Committee

The Group Executive Committee is not a formal Board Committee and has no delegated powers as such. It is made up of the Chief Executive, the Group Finance Director, Divisional Chief Executives, the Company Secretary and General Counsel and the Group Director of Organisation and Development. It is scheduled to meet ten times a year and reviews and discusses all matters of material significance to the Group's management, operational and financial performance as well as strategic development. Minutes of its meetings are circulated to Board members.

### Board meetings

Name	Attendance at scheduled Board meetings in the year to 31 March 2015
<b>Chairman</b>	
Mike Turner	12 of 12
<b>Executive Directors</b>	
Peter Rogers	12 of 12
Franco Martinelli <sup>1</sup>	7 of 7
Kevin Thomas	12 of 12
Archie Bethel	12 of 12
John Davies	12 of 12
Bill Tame	12 of 12
<b>Non-Executive Directors</b>	
Sir David Omand	12 of 12
Justin Crookenden <sup>2</sup>	8 of 8
Ian Duncan	12 of 12
Kate Swann <sup>3</sup>	11 of 12
Anna Stewart	12 of 12
Jeff Randall	12 of 12
Myles Lee <sup>4</sup>	N/A

1. Franco Martinelli joined the Board on 1 August 2014.

2. Justin Crookenden retired from the Board on 30 November 2014.

3. Kate Swann was unavailable for one meeting due to a pre-existing personal commitment.

4. Myles Lee joined the Board on 1 April 2015.

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. 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.

### Board evaluation

The Board's practice to date has been to commission an external independent review of its effectiveness and that of its Committees and members at least every other year, with an internally-led review in the alternate years.

#### Review for year ending 31 March 2015

The evaluation for the financial year ending 31 March 2015 was carried out internally by the Group Company Secretary. This involved confidential, structured one-on-one interviews with each Director. The review considered the balance of skills, experience, independence and knowledge of the Board, its diversity, 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 invited to comment specifically on succession planning, strategy, risks and risk management and any areas of concern 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 significant concerns had been expressed by Board or Committee members as to the way in which the Board or Board 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 require the most continued attention and focus, these 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
- Awareness of potential strategic risks
- The need to ensure the success of the Avincis (Mission Critical Services) acquisition.

The Board will report back to shareholders on progress in the 2016 Annual Report.

#### Follow up on the review for year ending 31 March 2014

As reported last year, the Board evaluation for the year ending 31 March 2014 was led externally, by Independent Board Evaluation. Key areas of focus to come out of that review and how they were addressed in the year to 31 March 2015 included:

- Senior management team succession and transition planning: making it more visible, ensuring its robustness, and taking into account long-term strategy
  - This continued to be the subject of discussion at Board and Nominations Committee meetings and in meetings between the Chairman and the Non-Executives.
- Continuing to find time for consideration of both medium and longer-term strategy

## Governance statement *continued*

- Strategy is the subject of standalone Board meetings twice a year.
- Planning for more international experience and diversity at Board level
  - International experience was a key criterion for the recruitment process for a new Non-Executive Director, which resulted in the appointment of Myles Lee.
- Talent management and bench strength below Board level should continue to be a key area of focus
  - This was the subject of formal presentations at both the Board and the Executive Committee following detailed divisional reviews. We have also recruited a specialist Talent Development Manager. Further information on activity in this area can be found on page 56.
- Improving consistency and the level of formality in the Board appointment process
  - In the recruitment of a new Non-Executive during the year, the process followed was as described in the report of the Nominations Committee on pages 80 and 81.
- Having more regular Chairman and Non-Executive Director only meetings
  - The Chairman and Non-Executive Directors met on at least two occasions in the absence of Executives and the Chairman had one-on-one meetings with each of the Non-Executive directors as part of the Board evaluation process.

### Diversity

Babcock recognises that succession planning, recruitment, promotion and training need to take into account the benefits of diversity, including gender diversity. 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, to be achieved consistently with Babcock's 'best for the job' philosophy.

We believe, however, that diversity should not be about firm quotas or solely a gender debate and that instead, we should look at a wide-ranging approach.

In considering the issues around gender diversity we can report that Babcock has:

- two female Directors (diversity continues to be given due consideration when compiling a shortlist of suitable board candidates)
- a 'Diversity Awareness Campaign' across the whole Group led by the Chief Executive
- a Diversity Steering Group which meets once a quarter
- an annual conference for women in management roles to identify the measures that we need to take to encourage the progression of women into senior roles in the business: this is linked to our Respect agenda and we will be issuing guidance to every employee on how to ensure we maintain an inclusive and barrier-free environment to encourage opportunities for all
- run diversity workshops within business units to review progress, agree actions and implement plans to maintain momentum on our Diversity programme
- focused our graduate recruitment programme, particularly of engineering graduates, on those universities that have a richer undergraduate gender mix so as to improve the diversity of the pool of talent from which we recruit our engineers and managers of the future – female graduates now make up 22% of the annual intake an increase of 2% on last year

- continued to actively consider how to make management roles more attractive and amenable to females so as to increase the numbers of women in management. A review of flexible working practices in other companies is being undertaken to consider what is likely to have the most positive impact
- for the second year, sponsored the WISE (Women in Science and Engineering) Hero Award

A breakdown of gender diversity throughout the Company is given in the illustration below:

### Gender diversity

#### Board



#### Senior Executive



#### Total Workforce



### Information 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 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 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.

### Share capital and rights attaching to the Company's shares

Details concerning the Company's share capital and rights attaching to the Company's shares are set out on pages 122 to 124.

### Relations 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 three shareholders. The new Chairman of the Remuneration Committee wrote to our top five shareholders, on his appointment, offering to meet them to discuss their views on remuneration in general and on our specific remuneration policy. 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.

## How we communicate

### Results and trading updates

available as audiocasts at

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

	When
Full-year and half-year results: announcement and presentation	May and November 2014

Interim management statements and conference call with Group Finance Director	July 2014 and February 2015
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### Other presentations

	When
By Chief Executive, Group Finance Director, Divisional Chief Executives at broker organised conferences and events	August and September 2014, January, February and March 2015

By Chief Executive Support Services Division and Cavendish Nuclear Senior Management team	September 2014
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By Chief Executive International Division and Senior Management team of Mission Critical Services business	March 2015
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### Dealings with shareholders, investors and analysts

Resolutions of AGM available at

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

	When
Meetings with shareholders and potential investors	Throughout

Meetings with sell side analysts and brokers' sales teams	Throughout
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Extraordinary General Meeting (Avincis acquisition)	April 2014
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Letter from the Group Chairman to our shareholders	July 2014
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Annual General Meeting	July 2014
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Letter from the Chairman of the Remuneration Committee to our top five shareholders	August 2014
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Roadshow in London and Edinburgh	May and November 2014
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Over 75% 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. 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)).

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 13 investors, including some of the Company's major shareholders, accounting for around 33% of the shareholder register, as well as some underweight or non-holding institutions). The results were formally presented to the Board in July 2014.

## Annual General Meeting

The 2015 AGM will be held at 11am on Thursday, 30 July 2015 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, Nomination 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 poll are published on the Company's website and released to the London Stock Exchange.

## Report of the Nominations Committee



“During the year, the Committee has dealt, I believe successfully, with changes in both the executive and non-executive membership of the Board and continued to focus on senior executive succession planning.”

Mike Turner CBE  
Chairman

### Membership of the Committee

The Nominations Committee's Terms of Reference stipulate that it is to be chaired by the Chairman of the Board and its other members are to be Non-Executive Directors (of whom the majority are to be independent Directors). During the year under review, and currently, all the members of the Committee, other than the Chairman, were independent Non-Executive Directors. Executive Directors are sometimes invited to attend meetings of the Committee, if appropriate. The current membership of the Committee, and its membership during the year to 31 March 2015 as well as attendance at Committee meetings during the year, is shown below. Unless otherwise stated, the member was a member throughout the year. The Company Secretary is Secretary to the Committee.

### Committee membership and attendance

Member	Number of meetings attended/Number of meetings possible in the year to 31 March 2015
Mike Turner (Chairman)	3 of 3
Ian Duncan	3 of 3
Sir David Omand	3 of 3
Justin Crookenden <sup>1</sup>	1 of 1
Kate Swann <sup>2</sup>	2 of 3
Anna Stewart	3 of 3
Jeff Randall	3 of 3
Myles Lee <sup>3</sup>	N/A

1. Justin Crookenden retired from the Board on 30 November 2014.

2. Kate Swann was unavailable for one meeting due to a pre-existing personal commitment.

3. Myles Lee joined the Board on 1 April 2015.

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

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

### Responsibilities of the Committee

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

The Committee is also to assist 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 the 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, including gender diversity, of outlook, background, perception and experience at Board level. In making recommendations on future appointments to the Board due consideration is given to issues of diversity when compiling a shortlist of suitable candidates.

### Activities undertaken by the Committee during the year

During the year ended 31 March 2015, the Committee:

- Considered and recommended changes to the executive membership of the Board (and consequent senior management moves) following completion of the acquisition of Avincis, which included the appointment to the Board of Franco Martinelli (formerly Group Financial Controller) as Group Finance Director in place of Bill Tame, and Bill Tame's appointment as Divisional Chief Executive, International Division and Chief Executive Babcock Mission Critical Services (formerly Avincis)
- Oversaw and participated in the process for finding and recommending the appointment of a new independent Non-Executive Director, Myles Lee (effective 1 April 2015)
- Continued to review plans for executive succession at Board and senior management level
- Considered and recommended the extension of the terms of appointment as Non-Executive Directors of Sir David Omand and Anna Stewart.

In my report last year, I noted that one of the recommendations made in last year's Board evaluation process was to enhance the formality around the Board appointment process. We have done so and in appointing the new independent Non-Executive Director, Myles Lee, we followed a lengthy, formal and competitive process using independent board recruitment specialists, The Inzito Partnership (which has no other connections or relationships with the Group). The full Board was consulted on the ideal candidate profile bearing in mind the Company's strategic plans and the need to have a diverse range of skills, outlook and experience around the board table to take those plans forward. There was common agreement that international experience, particularly of growing companies internationally, both organically and by acquisition, in non-English speaking countries had to feature high on the list of desired attributes. The process for selecting the final candidates to be put forward to the Board for consideration involved interviews with the Chairman, the Company Secretary, the Chief Executive and the Senior Independent Director.

Mike Turner CBE  
Committee Chairman

18 May 2015

## Report of the Audit and Risk Committee



“The Committee continued its focus on ensuring the integrity of the Company’s financial reporting, risk assessment and management processes and Group controls, with particular regard to the integration of the Mission Critical Services (formerly, Avincis) business.”

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 pages 70 to 71. The Company Secretary was Secretary to the Committee until November 2014, when the Deputy General Counsel took on that role.

Member	Number of meetings attended/Number of meetings possible in the year to 31 March 2015
Ian Duncan (Chairman)	4 of 4
Sir David Omand	4 of 4
Justin Crookenden <sup>1</sup>	3 of 3
Kate Swann	4 of 4
Anna Stewart	4 of 4
Jeff Randall	4 of 4
Myles Lee <sup>2</sup>	N/A

1. Justin Crookenden retired from the Board on 30 November 2014.

2. Myles Lee joined the Board on 1 April 2015.

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, Mouchel Group and Bodycote plc and until 15 November 2013 was Chairman of the Audit Committee of Fiberweb PLC. Until June 2010 he was 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.

### Role of the Committee

The purpose of the Audit and Risk Committee is to assist, advise and make recommendations to the Board in:

- Ensuring the Annual Report and Accounts,
  - is fair, balanced and understandable
  - provides the information necessary for shareholders to assess the Company’s performance, business model and strategy
- Monitoring the integrity and accuracy of the Group’s financial statements, including annual and half-year results and any formal announcement relating to the Company’s financial performance
- Reviewing significant reporting issues, the consistency of accounting policies and disclosures, and any decisions requiring a major element of judgement
- Being satisfied there is an effective system of internal control, compliance procedures and risk management systems
- Approving the internal and external audit programmes
- Considering the role and independence of the external auditors
- Considering the appointment or re-appointment of the Group’s external auditors
- Reviewing the Group’s processes for detecting and addressing fraud, bribery, misconduct and control weaknesses and considering reports on any such occurrence.

### Who attends Committee meetings?

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chairman, Chief Executive, Group Finance Director, Group Company Secretary and General Counsel and Group Financial Controller to attend its meetings. Divisional Chief Executives (who are each themselves main Board Directors) 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 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 also attends Committee meetings for discussion of Group risk reports and related items. Ernst & Young LLP provides internal audit services to the Company. PricewaterhouseCoopers LLP is the Group's external auditor. Both auditors usually attend the Committee's meetings. The Committee Chairman also meets PricewaterhouseCoopers LLP and Ernst & Young LLP in the absence of executive management, and other Committee members have the opportunity to do so. 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. They are available on the Company's website.

### Activities undertaken by the Committee during the year

During the year to 31 March 2015 the Committee met four times. The agenda for each meeting is approved by the Committee Chairman in conjunction with the Committee Secretary and other members of the Committee as appropriate. During the year ended 31 March 2015, the Committee considered:

#### 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 84)
- Advising the Board on the requirement for a statement from it that the Annual Report and Accounts for the year to 31 March 2014 and for the year to 31 March 2015 is fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy
  - in respect of the Annual Report and Accounts for the year to 31 March 2014, this requirement was discharged 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 year
  - for the Annual Report and Accounts for the year to 31 March 2015, this requirement was discharged by, in addition to early circulation of the draft report as in 2014, content authors being re-briefed on the 'fair balanced and understandable' requirement and by a formal written report being submitted to the Committee prepared by the Group Financial Controller reviewing the 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 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 content of the Strategic report is reviewed by the Head of Investor Relations to ensure consistency with other financial statements made by the Group during the year
- Changes to the UK Governance Code for financial years commencing on or after 1 October 2014.

#### Internal controls

- Review of the Company's system of internal controls and their effectiveness consisting of the reviews and reports described elsewhere in this section.

#### Audit plans

- Internal and external audit plans for the year or particular audit.

## Report of the Audit and Risk Committee *continued*

### 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

- Review of key risks and internal control processes (which are described further on pages 60 to 69)
- 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.

### 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. For further explanation of the whistleblowing procedure please see page 51.

### 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 2015 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 2015 and how the Committee addressed them are set out in the following table:

Significant Issue	How the Committee addressed it
Fair value accounting for acquisitions, including Avincis	Assessments by management of the fair valuation of assets (including helicopter and fixed-wing fleet, in the case of Avincis, and goodwill, customer relationships, brand values) were reviewed by the Committee in the context of, inter alia, cash flow forecasts, budget, growth rates, fleet and brand valuation reports by expert third parties and having assessed sensitivities.
Contract judgements – revenue and profit 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 26 on pages 167 to 172.
Business acquisitions – goodwill impairment	The Committee reviewed and challenged management's assessment of value in the context of, inter alia, cash flow forecasts, budget, growth rates, and having assessed sensitivities. See note 12 on page 152.

### Internal controls and risk management

The risk management framework, risk mitigation and control processes and other internal controls are detailed on pages 60 to 69.

A statement regarding the effectiveness of the internal controls and control processes, including those over financial reporting, can be found on page 124.

### Internal audit

Ernst & Young LLP has provided an internal audit service to the Group since 2003. The Committee considers that it is still appropriate to have an internal audit service provided by an external adviser, but keeps this under review. The Committee continues to be satisfied with the service provided by Ernst & Young LLP acting as internal auditor.

### 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.

PricewaterhouseCoopers LLP (PwC) has been the external auditor of the Group since 2002 without a re-tender in that time. The Committee's current intention continues to be to embark on a re-tendering process no later than 2017, by when the current audit engagement partner at PwC is due to rotate out of that role having served in it for five years. Following this re-tendering process the Group will adopt a policy of putting the external audit out to tender at least every ten years.

There are no contractual obligations that would restrict the selection of a different auditor or the re-tendering process taking place earlier than 2017 should the Committee consider, having regard amongst other things to PwC's continued effectiveness, that it would be in the Company's interest to do so.

PwC's effectiveness in the provision of audit services is regularly assessed by the Committee and its Chairman 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.

Being satisfied with PwC's continuing independence and with the effectiveness of its provision of audit services, and PwC having expressed its willingness to be re-appointed as auditors of the Company, the Committee has recommended to the Board that PwC be re-appointed as the Company's auditors for a further year. The Board has accepted this recommendation and will be proposing a resolution to shareholders at the 2015 AGM for the re-appointment of PwC as auditors.

### 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. Having considered the non-audit services provided by the auditor during the year ended 31 March 2015, 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 2015, the Committee has approved the payment to PwC of fees of £2.3 million for audit services, and of fees of £1.0 million for non-audit related work, including work in connection with the proposal to acquire Defence Support Group, namely, due diligence in connection with that transaction, due in part to the non-availability of other leading firms as a result of conflicts of interest and in part to PwC's specialist expertise relevant to the bid. Non-audit related work accounted for 30% 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 148.

Ian Duncan  
Committee Chairman

18 May 2015

## Remuneration report



Jeff Randall  
Committee Chairman

### Annual Statement of the Remuneration Committee Chairman

Dear Shareholder

Following my appointment as Remuneration Committee Chairman in July 2014, I am pleased to present the Directors' remuneration report for 2014/15.

This Directors' remuneration report is, as last year, split into three parts: this Annual Statement, a Policy Report and an Annual Report on Remuneration. These sections work together to give you full and transparent disclosure of the Company's intentions as to Directors' remuneration and how that remuneration operates. Our remuneration policy, outlined in the Policy Report, which was approved at the 21 July 2014 AGM, contains some minor updates and clarifications to improve the readability of the report. There are no changes to the underlying policy; this section is included for shareholders' convenience and there will be no shareholder vote on the Policy Report at the 2015 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, 30 July 2015.

The Committee has had a full agenda during the year, and continued to take into consideration evolving corporate governance requirements and to seek to ensure that remuneration policy is aligned with Company strategy and rewards the right behaviours. I believe that the work carried out by the Committee over the past few years means that we are well placed to operate within our shareholder approved remuneration policy for the foreseeable future, subject to any changes required by new regulatory or corporate governance requirements that may arise. Our remuneration structure remains weighted towards long-term equity components of pay, which the Committee believes is appropriate for our business.

The Committee has noted the key changes to the UK Corporate Governance Code, made in late 2014, that relate to remuneration, namely the greater emphasis on ensuring that remuneration policies are designed with the long-term success of the Company in mind and clawback arrangements. Currently the Company has malus provisions in place which provide that unvested mandatorily deferred annual bonuses (and any unvested matching awards attached to these mandatorily deferred shares) may be reduced in certain circumstances. The Committee intends to review its policy regarding clawback provisions with the intention of including any changes in a revised remuneration policy at the next formal approval of policy, scheduled for 2017.

#### Remuneration in 2014/15

In August 2014 Bill Tame, who had been Group Finance Director since 2002, took on a new Board role as Chief Executive, International Division and Franco Martinelli was promoted to the role of Group Finance Director. Mr Tame retained the remuneration arrangements he had in his post as Group Finance Director. Mr Martinelli was appointed on a remuneration package equivalent to those of the Divisional Chief Executives. Further details of his package, which was set within the parameters of the approved remuneration policy, are contained in the Annual Report on Remuneration.

The Company continues to perform at a high level, delivering once again record results for the financial year. These results reinforce the Board's belief in the Company's strategy, and give the Committee the reassurance that executive incentives are driving the right behaviours and are rewarding the executive team appropriately. This performance over the year resulted in annual bonus payments of between 75% and 84% of maximum, and sustained performance over the last three years has resulted in 83.5% vesting of the PSP and 88.4% vesting of the DBMP, with relative TSR and ROCE performance ahead of the stretching targets, and EPS performance in the performance range set by the Committee in 2012.

#### Remuneration for 2015/16

The remuneration policy for 2015/16 remains unchanged from 2014/15, and the Committee continues to operate Directors' remuneration arrangements within the approved policy.

The Committee reviewed Executive Director base salaries during the year and determined that salaries for Executive Directors should be increased in line with those for the wider Group in the UK for 2015/16. As explained in last year's Annual Report on Remuneration, the Committee has agreed that this year's increase would apply to the salary levels approved by the Committee for 2014/15, even though the Directors chose voluntarily not to draw their increases last year. Bill Tame's salary for 2015/16 remains unchanged from the level awarded in 2014/15.

As part of its annual review of remuneration arrangements, the Committee assesses whether we are meeting our stated policy that remuneration arrangements align Directors' and shareholders' interests, and take account of risk, and are both fair and capable of providing enhanced rewards for delivery of superior performance by allowing for the possibility of upper quartile rewards for upper quartile performance. Following a thorough review, the Committee has decided to align the annual bonus opportunity at 150% of salary for all Executive Directors, in line with the approved remuneration policy and the level already being offered to Mr Rogers as Chief Executive and Mr Tame (formerly Group Finance Director and now a Divisional Chief Executive).

The Committee reviews PSP and DBMP performance conditions in advance of grant each year. For 2015 the TSR performance targets remain unchanged. Given the Company is increasingly international, and in light of current inflation levels in the UK approaching zero, the Committee considers EPS comparisons to UK RPI no longer relevant. The Committee therefore prefers, going forward, to calibrate the EPS growth targets for 2015 awards in nominal terms of 4% p.a. to 11% p.a. over three years. 2015 DBMP ROCE targets have been set to be relevant for the Company strategy, and awards will vest for average ROCE over the performance period of 12% to 15%.

Jeff Randall  
Committee Chairman

18 May 2015

## 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

Terms of reference for the Remuneration Committee (the Committee) have been approved by the Board 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 and its terms of reference comply with the provisions of the Corporate Governance Code. The terms of reference are available for inspection on the Company's website.

## Compliance statement

This report covers the reporting period from 1 April 2014 to 31 March 2015 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 2012, and has considered guidelines issued by its leading shareholders and bodies such as the Investment Association, Institutional Shareholder Services and the National Association of Pension Funds. 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 30 July 2015. 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 report *continued*

### 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

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

Purpose and link to strategy	Operation
<b>Fixed pay</b>	
<b>Base salary</b> 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.
<b>Pension</b> 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.
<b>Benefits</b> 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 (e.g. 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 100.</p>	<p>Business and individual performance are considerations in setting base salary.</p>
<p>Executive Directors, other than John Davies, currently receive a cash supplement of 25% of base pay in lieu of pension benefits. John Davies is a member of the Babcock International Group Pension Scheme (which offers 1/60th accrual) and receives a cash supplement, currently 20% of base pay above the scheme earnings cap. Mr Martinelli ceased active membership of the Babcock International Group Pension Scheme (with 1/45th accrual) effective 31 March 2015 since when he has been receiving the 25% salary supplement mentioned above. Whilst still a member of the Scheme, in addition to his pension accrual he received a cash supplement of approximately 15% for earnings above the scheme earnings cap applicable to him.</p> <p>The cash supplement payable, whether in lieu of all pension benefits or on pay in excess of any applicable scheme earnings cap, and the level of any employer contribution into a defined contribution pension scheme for Executive Directors 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 (e.g. 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
<b>Variable pay</b> <b>Annual bonus</b> 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.	<p>Performance targets are set at the start of the year and reflect the responsibilities of the executive in relation to the delivery of our strategy.</p> <p>At the end of the year, the Committee determines the extent to which these targets have been achieved. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and it may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance.</p> <p>At least 40% of annual bonus payments for Executive Directors 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.</p>
<b>Deferred bonus matching plan (DBMP)</b> 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.	<p>The Committee may grant performance-related matching awards to Executive Directors who are granted deferred bonus awards.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<b>Performance Share Plan (PSP) and Company Share Option Plan (CSOP)</b> 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.	<p>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.</p> <p>The award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate.</p> <p>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.</p> <p>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 117, but are otherwise the same as for PSP awards.</p> <p>The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles.</p>
<b>All-employee plans – Babcock Employee Share Plan</b> To encourage employee ownership of Babcock shares.	<p>Open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate.</p> <p>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.</p> <p>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).</p>

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, e.g. 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 2014/15 annual bonus and proposed for 2015/16 are included in the Annual Report on Remuneration.</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.</p>
<p>Maximum annual PSP awards of up to 200% of base pay (though currently only the Chief Executive receives awards at this level).</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. 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.</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. 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.	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
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
Other recruitment events		
Internal promotion	When appointing a new Executive Director by way of promotion from an internal role, the Committee will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate, these would be expected to transition over time to the arrangements as stated above.	N/A
Non-Executive Director	When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director and Chairmanship of the Audit and Risk and Remuneration Committees.	N/A

Minor text changes have been made to this Policy Report to improve its readability and provide clarifications. These include:

- Inclusion of information specific to Franco Martinelli, who was appointed as Group Finance Director and an Executive Director on 1 August 2014
- Inclusion of information specific to Myles Lee, who was appointed as a Non-Executive Director on 1 April 2015
- Removal of information specific to Justin Crookenden, who retired from the Board on 30 November 2014
- 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 2015/16
- Updating page references, references to year ends, and other minor text changes

The remuneration policy approved at the Annual General Meeting held in 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.

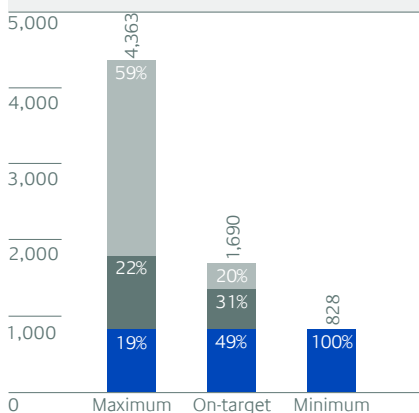
## Remuneration report *continued*

### 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'.

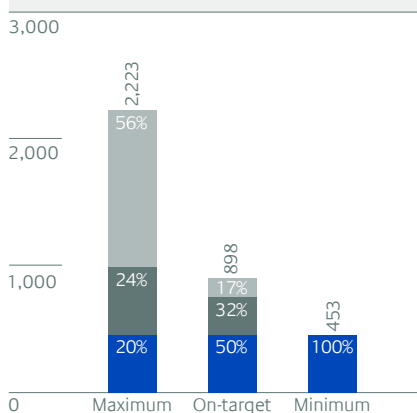
Potential reward opportunities are based on Babcock's remuneration policy, applied to base salaries as at 1 April 2015. Note that the projected values exclude the impact of any share price movements. For this reason, were the DBMP or PSP shares to vest in full, actual total remuneration may exceed the value shown in the chart below.

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



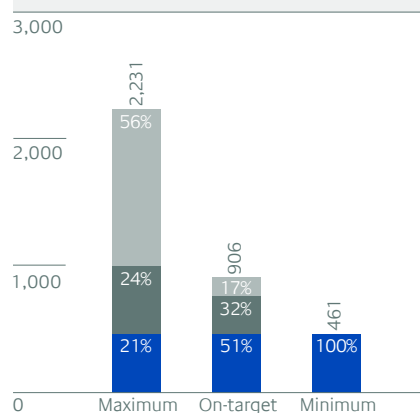
■ Fixed remuneration  
■ Annual variable remuneration  
■ Long-term incentives

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



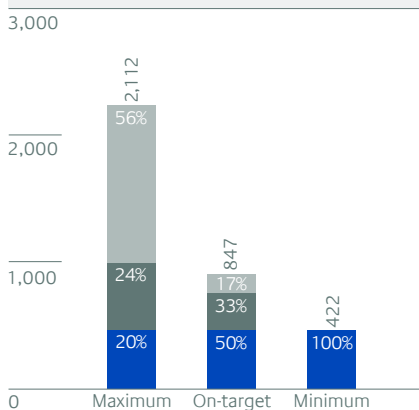
■ Fixed remuneration  
■ Annual variable remuneration  
■ Long-term incentives

#### Chief Executive, Marine and Technology – Archie Bethel (£'000)



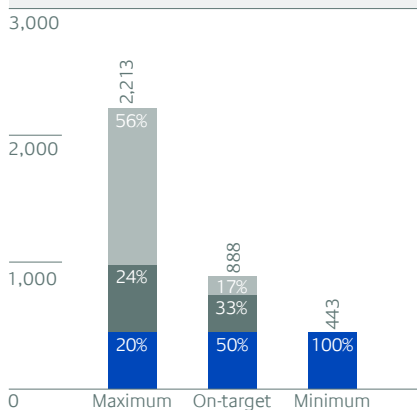
■ Fixed remuneration  
■ Annual variable remuneration  
■ Long-term incentives

#### Chief Executive, Defence and Security – John Davies (£'000)



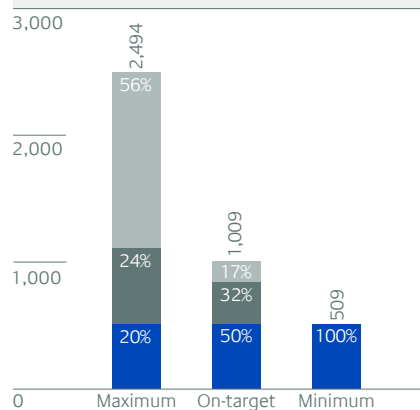
■ Fixed remuneration  
■ Annual variable remuneration  
■ Long-term incentives

#### Chief Executive, Support Services – Kevin Thomas (£'000)



■ Fixed remuneration  
■ Annual variable remuneration  
■ Long-term incentives

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



■ Fixed remuneration  
■ Annual variable remuneration  
■ Long-term incentives

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

The 'On-target' scenario reflects fixed remuneration as above, plus a pay-out of 50% of the annual bonus and threshold vesting of 12.5% and 16.7% of the maximum award under the DBMP 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.

### 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

### 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
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
Archie Bethel (Chief Executive, Marine and Technology)	21 April 2010	12 months from Company, 6 months from Director
Kevin Thomas (Chief Executive, Support Services)	20 April 2010	12 months from Company, 6 months from Director
John Davies (Chief Executive, Defence and Security)	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 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 the Executive Directors other than John Davies and Franco Martinelli) 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, Kevin Thomas, 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

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 111.

### 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:

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 Kevin Thomas, 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 95 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.

### 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 for 2017
David Omand	1 April 2009	26 March 2015	AGM for 2018
Ian Duncan	10 November 2010	5 March 2013	AGM for 2016
Kate Swann	1 June 2011	20 March 2014	AGM for 2017
Anna Stewart	1 November 2012	26 March 2015	AGM for 2018
Jeff Randall	1 April 2014	6 December 2013	AGM for 2017
Myles Lee	1 April 2015	3 March 2015	AGM for 2018

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 2015 and those for the year ending 31 March 2016 are set out in the Annual Report on Remuneration on page 110.</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 2014 Directors' Remuneration report and the Committee's response are provided in the Annual Report on Remuneration on page 99.

## Remuneration report *continued*

### 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 2015 (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 2015)
Jeff Randall (Chairman from 21 July 2014)	6 of 6
Sir David Omand	6 of 6
Ian Duncan	6 of 6
Kate Swann <sup>1</sup>	5 of 6
Anna Stewart	6 of 6
Justin Crookenden <sup>2</sup>	3 of 3
Myles Lee <sup>3</sup>	N/A

1. Kate Swann was unable to attend one meeting due to a long-standing prior personal commitment.

2. Justin Crookenden was Chairman of the Remuneration Committee until 21 July 2014 and a member until 30 November 2014, when he also retired from the Board.

3. Myles Lee joined the Board and the Remuneration Committee on 1 April 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 Associates (Kepler) was appointed by the Committee in late 2008, following a selection process including interviewing a number of candidate firms, to provide it with 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 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 £129,254 on the basis of time and materials, excluding expenses and VAT.

The Committee periodically considers whether Kepler remains independent of the Company and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Kepler is independent and that Kepler has no other connection to the Company.

#### How often it meets

In total there were six meetings in the year to 31 March 2015. The Committee plans to meet at least six times in the current financial year.

#### Matters considered

The Committee considered a number of matters during the year to 31 March 2015, including:

- The Committee's terms of reference
- Trends in executive remuneration, remuneration governance and investor views
- Executive remuneration policy and any changes that might be needed
- The making of share awards under the Company's share plans and the performance measures and targets to be applied
- The impact, if any, of the acquisition of Avincis and of IAS 19 (Pensions accounting) on performance targets attached to already granted share awards and bonus schemes and the assessment of performance against them
- The finalisation of performance targets and non-financial objectives for the 2014/15 annual bonus scheme and 2014 share awards in light of the acquisition of Avincis and IAS 19
- Adjustments to outstanding share awards to take account of the rights issue made by the Company in April/May 2014
- Foreign currency exchange rate movements and their impact, if any, in target setting and performance assessment
- The level of vesting of PSP and CSOP awards granted in 2011
- The vesting of DBP awards made in 2012
- The level of annual bonuses to be paid for the year to 31 March 2014 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 2016
- Review of share ownership guidelines for senior executives
- The terms of appointment of Mr Martinelli as an Executive Director
- Pay reviews for Executive Directors and other senior executives for the year to 31 March 2016
- Review of the Chairman's fees
- 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 2014 AGM

The following table shows the results of the advisory shareholder vote on the 2014 remuneration report at the 2014 AGM:

Votes cast	Remuneration Policy		Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	322,568,767	98.9%	336,785,258	99.7%
Against	3,734,746	1.1%	1,108,155	0.3%
Total votes cast (excluding withheld votes)	326,303,513	100%	337,893,413	100%
Votes withheld	38,245,712		26,655,930	
Total votes cast (including withheld votes)	364,549,225		364,549,343	

The Committee is pleased to note the high level of shareholder support for both the Remuneration Policy and Annual Report on Remuneration. 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.

## 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 2015 and 31 March 2014.

	Peter Rogers £000		Franco Martinelli £000 <sup>a</sup>		Bill Tame £000		Archie Bethel £000		Kevin Thomas £000		John Davies £000	
	14/15	13/14	14/15 <sup>a</sup>	13/14	14/15	13/14	14/15	13/14	14/15	13/14	14/15	13/14
<i>Fixed Remuneration</i>												
1 Salary	612	612	225	N/A	387	387	337	337	337	337	322	322
2 Benefits in kind and cash	24	35	11	N/A	13	19	19	24	1	1	19	19
3 Pension	153	153	72	N/A	97	97	84	84	84	84	65	74
<i>Annual Variable Remuneration</i>												
4 Annual bonus (cash or voluntarily deferred bonus)	431	512	211	N/A	275	324	209	233	190	238	202	223
5 DBMP (deferred annual bonus)	287	341	141	N/A	183	216	139	156	127	159	134	148
<i>Long-term incentives</i>												
6 DBMP (matching awards)	1,284	0	0	N/A	480	0	641	0	641	0	263	0
7 PSP	1,228	2,051	336	N/A	581	956	505	832	487	832	409	624
8 Dividends	141	105	23	N/A	62	46	65	43	65	43	40	32
<b>Total (of which)</b>	<b>4,160</b>	<b>3,809</b>	<b>1,019</b>	<b>N/A</b>	<b>2,078</b>	<b>2,045</b>	<b>1,999</b>	<b>1,709</b>	<b>1,932</b>	<b>1,694</b>	<b>1,454</b>	<b>1,442</b>
Fixed Remuneration <sup>(1,2,3)</sup>	789	800	308	N/A	497	503	440	445	422	422	406	415
Annual Variable Remuneration <sup>(4,5)</sup>	718	853	352	N/A	458	540	348	389	317	397	336	371
Long-term Incentives <sup>(6,7,8)</sup>	2,653	2,156	359	N/A	1,123	1,002	1,211	875	1,193	875	712	656

The figures have been calculated as follows:

- Salary: basic salary amount drawn for the year (see page 100).
  - 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 benefits, car and fuel benefits and costs in connection with accommodation.
  - Pension: for Peter Rogers, Bill Tame, Archie Bethel and Kevin Thomas, value of the cash supplement; for John Davies and Franco Martinelli (i) 20 times the increase in his accrued benefit over the year, less Directors' contributions plus (ii) the value of the cash supplement.
  - Annual bonus (cash or voluntarily deferred bonus): this is the part of total annual bonus earned for performance during the year (see page 102) that is not required to be mandatorily deferred into a basic award of shares under the DBMP (see page 103) and that is to be satisfied in cash and/or, if the Director has so elected, by the making of a voluntary deferral 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.
  - DBMP (matching awards): the market value of awards that vest on performance to 31 March 2015: based on vesting as to 88.4% of the total award (see page 105) and an average share price in the 3 months to 31 March 2015 of 1,010p. No DBMP awards vested on performance to 31 March 2014.
  - PSP: the market value of awards that vest on performance to (i) 31 March 2015: based on vesting as to 82.5% of the total award and an average share price in the 3 months to 31 March 2015 of 1,010p and (ii) 31 March 2014: based on vesting as to 94.7% of the total award to Peter Rogers and 93.0% of the awards to other Executive Directors and a vest date share price on 14 June 2014 of 1,209p. Note: the difference for 2013/14 PSP figures versus that disclosed in last year's Annual Report on Remuneration reflects trueing up for the actual share price on 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 2015 and (ii) 31 March 2014, payable in cash on exercise of the award.
- a. Franco Martinelli: reflects period from appointment as a Director on 1 August 2014 to 31 March 2015.

## Remuneration report *continued*

### 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 2015 and the prior year:

	Base fee £000		Additional fees £000		Total £000	
	14/15	13/14	14/15	13/14	14/15	13/14
Mike Turner	295	295	0	0	295	295
Jeff Randall <sup>1</sup>	55	N/A	9	N/A	64	N/A
David Omand	65	65	0	0	65	65
Ian Duncan	55	55	13	13	68	68
Kate Swann	55	55	0	0	55	55
Anna Stewart	55	55	0	0	55	55
Justin Crookenden <sup>2</sup>	37	55	5	13	42	68

1. Appointed 1 April 2014.

2. Fees reflect period from 1 April 2014 to date of retiring from the Board on 30 November 2014.

### 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 2015 and for the year to 31 March 2016 are summarised in the table below. Further details on the annual bonus schemes, share awards, and pension schemes (and pension benefits) are to be found in the following pages of this remuneration report.

Director	2015/16				2014/15			
	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	See table below	150%	200%	200%	See table below	150%	200%	200%
Franco Martinelli <sup>2</sup>		150%	150%	200%		125%	150%	180%
Bill Tame		150%	150%	200%		150%	150%	200%
Archie Bethel		150%	150%	200%		125%	150%	180%
Kevin Thomas		150%	150%	200%		125%	150%	180%
John Davies		150%	150%	200%		125%	150%	180%

1. Assumes maximum bonus and maximum self-investment and 2 for 1 share match.

2. Rate of annual salary and bonus for 2014/15 shown as the rate applying from appointment as a director on 1 August 2014

### Base salary

Executive Directors' base salaries and benefits are reviewed each year with any changes usually taking effect from 1 April. The Committee determined that base salaries and benefits for 2015/16 for Executive Directors should be increased in line with those for the wider Group in the UK. As described in last year's report, the Committee was informed by the Executive Directors that exceptionally they would not be drawing the awarded 2.5 % increase granted for 2014/15. The Committee welcomed that one-year restraint, and agreed that the increase it had awarded for 2014/15 (2.5%) would be included in the baseline for the salary review in 2015. Bill Tame's salary for 2015/16, however, remains unchanged from the level awarded in 2014/15.

	Actual salary drawn 2014/15 £	Awarded salary for 2014/15 £	Salary 2015/16 £	% increase
Peter Rogers	611,871	627,168	642,850	2.5%
Franco Martinelli <sup>1</sup>	336,810	345,230	353,861	2.5%
Bill Tame	387,332	397,014	397,014	0%
Archie Bethel	336,810	345,230	353,861	2.5%
Kevin Thomas	336,810	345,230	353,861	2.5%
John Davies <sup>2</sup>	321,810	329,855	338,101	2.5%

1. Franco Martinelli was not a director at the time of the pay review for 2014/15. The amount drawn by him in the table above is the amount paid since his appointment as a director on 1 August 2014 which, annualised, was £336,810. This rate was set to be in line with the salaries being drawn by the Divisional Chief Executives on the same understanding as to the review for 2015/16 as described above.

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

### Internal relativity

As noted above, 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 increases for employees in the UK generally for the year to 31 March 2016 is expected to be in the order of 2.5% (with individual increases significantly above this amount in some cases) dependent on business and personal performance and local market conditions.

### Pensions

The Executive Directors, other than John Davies and Franco Martinelli did not participate in a Group pension scheme or otherwise receive pension benefits from the Group for service during the year to 31 March 2015. 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 is a member of the Babcock International Group Pension Scheme. Franco Martinelli was until 31 March 2015 an active member of the Babcock International Group Pension Scheme. During the year to 31 March 2015, John Davies received a cash supplement of £36k in lieu of pension benefits on that part of his salary as exceeded the applicable scheme earnings cap and Franco Martinelli received a supplement of £10k for the period since his appointment as a Director.

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.

John Davies is a member of the VT Upper Section Ex-Short Brothers section of the Scheme. He accrues benefits on earnings up to the scheme earnings cap (for the year to 31 March 2015, £145,000) at the rate of one-sixtieth of pensionable salary for each year of service.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2015 are set out in the following table:

Director	Accrued pension at 31 March 2015 £ p.a.	Normal retirement date <sup>1</sup>
Bill Tame <sup>2</sup>	46,987	60
Archie Bethel <sup>2</sup>	38,862	65
Kevin Thomas <sup>2</sup>	62,420	65
John Davies	53,694	65
Franco Martinelli (appointed 1 August 2014)	59,200	65

1. Date from which payment can be drawn with no actuarial reduction.

2. Bill Tame, Archie Bethel and Kevin Thomas were not active members of the scheme during the year.

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	2014/15 £000	2013/14 £000
Bill Tame	2	3
Archie Bethel	2	3
Kevin Thomas	2	3
John Davies	2	2
Franco Martinelli (appointed 1 August 2014)	1 <sup>1</sup>	N/A

1. Proforma amount for the period since appointment.

### Annual Bonus Scheme

#### 2014/15 Annual bonus (audited)

For our Executive Directors' annual bonus schemes in 2014/15, 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 2014/15 bonus were set by the Committee at the beginning of the year. Following his appointment as Divisional Chief Executive, International Division during the year, Bill Tame's bonus scheme was adjusted from 1 August 2014 to incorporate Divisional measures in lieu of Group measures (other than EPS performance).

## Remuneration report *continued*

The table below sets out the annual bonus schemes in place for the Executive Directors and the outturn under them in 2014/15.

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				Maximum potential (% of salary)	90%	70%	90%	70%	70%	70%
<i>Stretching targets, with a sliding scale between threshold and maximum</i>	64.8p	70.2p	69.0p	Outturn (% of salary)	63.6%	49.5%	63.6%	49.5%	49.5%	49.5%
				Maximum potential (% of salary)	15%	15%	5%			
Achieving budgeted Group cash flow	96% of budget	Budget (£301m)	£315m	Outturn (% of salary)	15.0%	15.0%	5.0%			
				Maximum potential (% of salary)	15%	15%	5%			
Achieving budgeted Group PBT <sup>2</sup>	96% of budget	Budget (£402m)	£418m	Outturn (% of salary)	15.0%	15.0%	5.0%			
				Maximum potential (% of salary)			10%	15%	15%	15%
Achieving budgeted Divisional cash flow	96% of budget	Budget <sup>3</sup>	–	Outturn (% of salary)			10.0%	15.0%	15.0%	15.0%
				Maximum potential (% of salary)			10%	15%	15%	15%
Achieving budgeted Divisional PBIT <sup>2</sup>	96% of budget	Budget <sup>3</sup>	–	Outturn (% of salary)			5.0%	15.0%	15.0%	15.0%
				Maximum potential (% of salary)	30%	25%	30%	25%	25%	25%
Non-financial objectives <sup>4</sup>				Outturn (% of salary)	23.8%	25.0%	29.8%	23.7%	14.6%	25.0%
				Maximum potential (% of salary)	150%	125%	150%	125%	125%	125%
Total				Outturn (% of salary)	117.4%	104.5%	118.4%	103.2%	94.0%	104.5%

1. Threshold vesting is 20% of maximum for each financial bonus element except for EPS performance, where 13% 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. EPS for the annual bonus was adjusted to exclude the effects of changes in exchange rates.

2. Before amortisation of acquired intangibles. The treatment of exceptional items is at the discretion of the Committee.

3. 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.

4. Non-financial objectives were set around the following priority strategic and risk management themes: Successful integration of Avincis (Mission Critical Services) into the Group; 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, progress against existing strategic plans, particularly for territories outside the UK, specific bidding or market targets and objectives, win rates, development and leveraging of identified strategic partnerships, organisational and management changes to support growth and strategic objectives); Employees (developing or progressing employee engagement, communications and cultural initiatives, for example in connection with diversity and inclusion; talent identification, development and succession planning initiatives and programmes, developing graduate and apprentice recruitment and development strategies and the group's relationships with universities); Process improvements (for example in IT, IT strategy, management information systems, cyber-security and information assurance objectives). Health and safety performance is an overriding underpin to the scheme allowing the Committee to reduce or withhold entirely any bonus otherwise payable if it considers performance to have been unsatisfactory. The actual objectives set are considered by the Board to be commercially sensitive relating as they do to customer relationships, specific bids, specific strategic steps or objectives, security measures and personnel issues or they are effectively discussed elsewhere in this Annual Report.

### 2015/16 Annual bonus

For our annual bonus schemes for 2015/16 we are continuing to use the structure adopted in 2014/15 as set out in the table above. The bonus opportunity for all Executive Directors will, however, be set at the same level, 150% of salary, and bonuses will be based on the same measures and weightings as those used in 2014/15 for Peter Rogers (although for Divisional Chief Executives, budget measures will be based on Divisional performance). The Committee intends to disclose financial performance targets 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.

### 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 to further 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 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 for 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 2013/14 mandatorily or voluntarily deferred into share awards

under that scheme and will be doing the same in respect of bonus for 2014/15 mandatorily or voluntarily deferred into share awards. The performance conditions relating to matching awards made in 2014 and those proposed for matching awards to be made in 2015 are discussed on pages 104 and 105. Mandatorily Deferred annual bonus 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 2014/15\* (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	As per the Policy. Performance measures and targets are set out below	1,223,743	200%	16.7%	31 March 2017
Franco Martinelli		505,204 <sup>3</sup>	150% <sup>3</sup>	16.7%	31 March 2017
Bill Tame		580,986	150%	16.7%	31 March 2017
Archie Bethel		505,204	150%	16.7%	31 March 2017
Kevin Thomas		505,204	150%	16.7%	31 March 2017
John Davies		482,713	150%	16.7%	31 March 2017

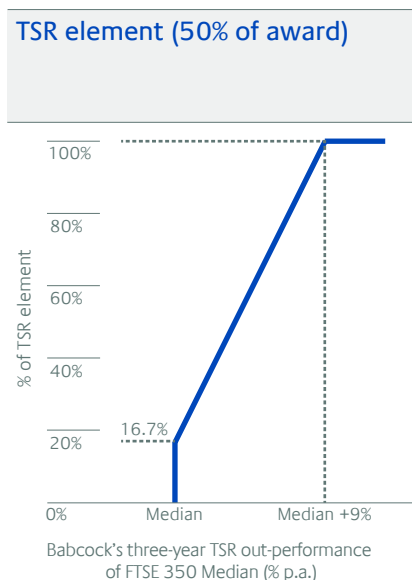
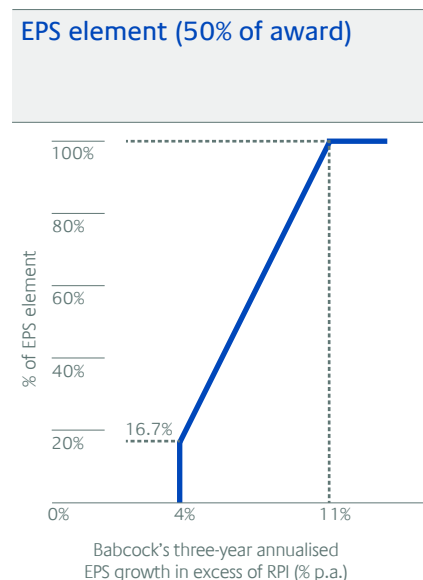
1. Based, for directors other than Franco Martinelli, on 3 day average share price (of 1,224p) at time of grant.

2. Based, for Directors other than Franco Martinelli, on salary being drawn at the date of the award

3. For Franco Martinelli: the award was granted in two tranches. At the time of the grant of the first tranche (27,090 shares), which was made at the same time as the grants to the other directors, namely 12 June 2014, the 3 day average price was 1,224p. At the date of the grant of the second tranche, on 29 January 2015, (14,196 shares) the 3 day average price was 1,015.00p making a total value for the two grants, based on the share price at the time the relevant tranche was granted, of £475,671. However, for the purpose of the above table to allow comparison to the awards to the other directors, the face value of the total award made to him uses the higher share price applicable for the awards made in June 2014 to the executive directors then in post and what it represented as a percentage of salary is that value expressed as a percentage of his annual salary being drawn from his appointment as a director.

\* 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:



Note: EPS growth is that in excess of the change in the UK retail prices index. TSR comparators are the companies comprised in the FTSE 350 (excluding investment trusts and financial services companies).

## Remuneration report *continued*

Threshold vesting (16.7% of this element) for the EPS element was set at growth in excess of RPI of 4% per annum and maximum vesting at growth in excess of RPI of 11% per annum. We believe that growth of 11% in excess of RPI 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% p.a. outperformance of the median, representing upper quartile performance.

### *Deferred Bonus Matching Plan awards made in 2014/15\* (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	As per the Policy. Performance measures and targets are set out below	1,171,848	192%	12.5%	31 March 2017
Franco Martinelli		146,008	43%	12.5%	31 March 2017
Bill Tame		431,943	112%	12.5%	31 March 2017
Archie Bethel		560,930	166%	12.5%	31 March 2017
Kevin Thomas		588,867	175%	12.5%	31 March 2017
John Davies		497,091	154%	12.5%	31 March 2017

1. Based on 3 day average share price of 1,224p at time of grant.

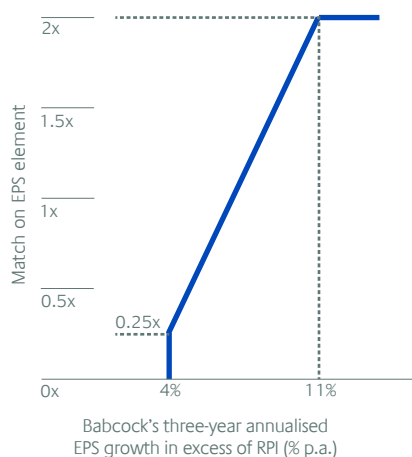
2. Expressed as a percentage of salary being drawn down at the date of award, except in Mr Martinelli's case when it is expressed as a percentage of the rate of annual salary being drawn from the date of his appointment as a director (the award having been made prior to such appointment).

\* In the form of nil-cost options.

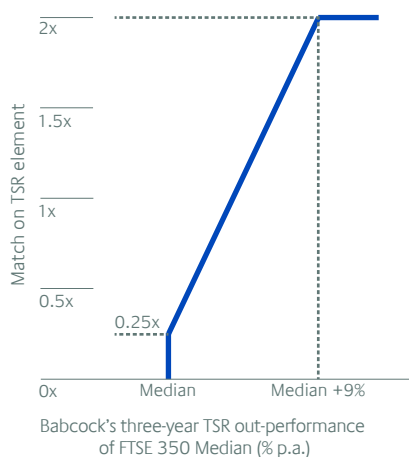
The DBMP allows the Committee to make matching share awards of up to two times the deferred bonus shares (40% of bonus) and any additional shares or extra bonus deferral self-invested under the scheme by the Director (of an amount equal to up to 40% of salary). The matching share award is performance-related and only vests to the extent that the performance criteria are met in respect of the three-year

performance period. For the 2014 cycle, the performance period runs from 1 April 2014 to 31 March 2017, the same as for PSP awards made in 2014. The performance targets attached to those matching awards – split equally between TSR performance relative to the peer group, EPS growth in excess of RPI, and return on capital employed (ROCE) – are illustrated in the charts below:

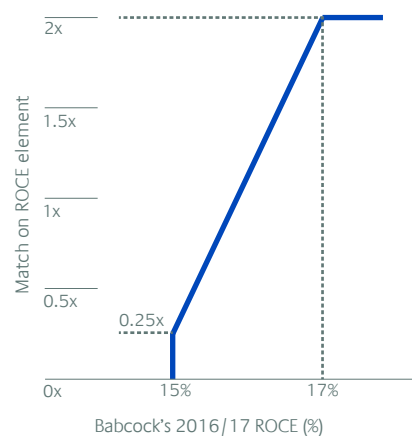
#### EPS element (33% of award)



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



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



The target for maximum vesting of these awards was set as ROCE of 17% and for threshold vesting it is 15%. For these 2014 DBMP awards, due to the then pending integration of Avincis, ROCE is to be measured in the final year (whereas 2012 and 2013 awards measure average ROCE over the performance period). 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 2014/15 Executive Directors received awards in lieu of mandatorily and voluntarily deferred bonus and matching awards (in respect of the 2013/14 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 2014/15	Potential Maximum number of matching shares
Peter Rogers	27,881	20,001	47,882	95,764
Franco Martinelli <sup>1</sup>	5,966	0	5,966	11,932
Bill Tame	17,649	0	17,649	35,298
Archie Bethel	12,705	10,215	22,920	45,840
Kevin Thomas	12,980	11,081	24,061	48,122
John Davies	12,139	8,172	20,311	40,622

1. Franco Martinelli's bonus deferral related to bonus payable on salary prior to his appointment as a director.

#### 2012 PSP and CSOP awards vesting (audited)

Awards granted in 2012 under the PSP and CSOP were subject to 3-year TSR and EPS targets outlined on page 106. 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 2015	9.4% p.a. above median TSR for the FTSE350 (excluding investment trusts and financial services)	50%	100%
Outcome of 3-year adjusted basic growth to 31 March 2015	9.1% p.a. in excess of RPI (historical EPS numbers were restated to ensure they were underlying EPS on the same accounting basis)	50%	66.9%
2012 PSP and CSOP awards expected to vest to Executive Directors in June 2015:			83.5%
Director	Award	Number expected to vest	
Peter Rogers	PSP 2012	90,890	
Franco Martinelli <sup>2</sup>	PSP 2012	33,093	
	PSP 2012 Funding <sup>1</sup>	TBC	
	CSOP 2012	1,009	
Bill Tame	PSP 2012	57,536	
Archie Bethel	PSP 2012	50,032	
Kevin Thomas	PSP 2012	47,820	
	PSP 2012 Funding <sup>1</sup>	TBC	
	CSOP 2012	2,210	
John Davies	PSP 2012	40,478	

1. The actual number of PSP 2012 funding shares capable of being exercised can only be determined on the CSOP exercise date, but cannot exceed 1,009 for Franco Martinelli and 2,210 for Kevin Thomas.

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

#### 2012 DBMP awards vesting (audited)

Awards granted in 2012 under the DBMP were subject to the 3-year TSR, EPS and average ROCE targets outlined on page 110. 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 2015	9.4% p.a. above median TSR for the FTSE350 (excluding investment trusts and financial services)	33%	2.0x
Outcome of 3-year adjusted basic growth to 31 March 2015	9.1% p.a. in excess of RPI (historical EPS numbers were restated to ensure they were underlying EPS on the same accounting basis)	33%	1.31x
Outcome of 3-year average ROCE	22.3%	33%	2.0x
Match expected on 2012 DBMP awards for Executive Directors on vesting in July 2015:			1.77x
Director	Award	Number expected to vest	
Peter Rogers	DBMP 2012	127,120	
Bill Tame	DBMP 2012	47,515	
Archie Bethel	DBMP 2012	63,436	
Kevin Thomas	DBMP 2012	63,436	
John Davies	DBMP 2012	26,083	

1. Franco Martinelli was not granted a DBMP award in 2012. Instead he was granted an award under the DBP, which was contingent on continued employment only, and which vested in June 2014 as to 9,376 shares, prior to his appointment as a director.

#### PSP and DBMP awards for 2015/16

The Committee intends to grant awards under the PSP and DBMP with the same maximum opportunities and performance measures as in 2014. Given the Company is increasingly international, and in light of current low levels of inflation in the UK approaching zero, the Committee considers comparisons to UK RPI no longer relevant. The Committee therefore prefers,

## Remuneration report *continued*

going forward, to calibrate the EPS growth targets for 2015 awards in nominal terms of 4% p.a. to 11% p.a. over three years. TSR targets for 2015 awards will continue to vest between median and median +9% relative to the peer group; ROCE targets for 2015 DBMP awards (based, as was the case with the awards before 2014, on the average return over the performance period) will vest from 12% to 15%, set to be relevant for the Company strategy.

### *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.

### Outstanding share awards summaries: grants made up to and during 2014

The following tables on pages 106 to 108 summarise the performance targets (if applicable) and other information about the schemes relevant to currently outstanding share awards held by Executive Directors (i.e. those awards yet to vest) and those that vested during the year to 31 March 2015 (the awards made in 2011 under the PSP and the CSOP and under the DBP in 2012).

Scheme	Performance Share Plan (nil price options) and Company Share Option Plan (market price options) 2011–2014		
Performance period	<p>For the 2011 awards: 1 April 2011 to 31 March 2014 (vested in June 2014 as to 94.7% for Peter Rogers and 93.0% for other Executive Directors).</p> <p>For the 2012 awards: 1 April 2012 to 31 March 2015 (expected to vest in June/July 2015 as to 83.5% for Executive Directors).</p> <p>For the 2013 awards: 1 April 2013 to 31 March 2016.</p> <p>For the 2014 awards: 1 April 2014 to 31 March 2017.</p>		
General performance target	EPS growth test	Comparative TSR test	Proportion of total award that can vest under each measure
Maximum	Compound annual growth in excess of RPI of 12.5% (2011-2012)/11% (2013-2014) 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 excess of RPI of 4%	TSR performance equivalent to the median for the peer group as a whole	8.3%
	Intermediate growth between the above points	Intermediate ranking between the above points	Straight-line basis between 8.3% and 50%
	Compound annual growth in excess of RPI of less than 4%	Performance less than equivalent to median for the whole peer group	0%
Chief Executive's additional award in 2011 over shares equal to a further 50% of salary	If comparative TSR performance exceeded median TSR performance for the peer group taken as a whole by more than 9% per annum further shares vest, with full vesting of this additional award for more than 12.5% per annum. This will affect the relative proportion of the award vesting in his case. For 2011, the additional award vested in full.		
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	<p>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.</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. EPS growth is that in excess of the change in the retail prices index.</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. Exercise periods commence not less than three years from actual or nominal award grant date.</p> <p>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.</p>		

Scheme	Deferred Bonus Plan (DBP) 2012 awards – applicable only to Franco Martinelli; Deferred Bonus Matching Plan (DBMP) deferred annual bonus and voluntary deferral awards (nil price options) 2012–2014
Performance period	Not applicable: these awards represent amounts of bonus mandatorily (DBP and DBMP) and voluntarily (DBMP) deferred into awards. The Awards vest and become exercisable after, in the case of the DBP, two years and, in the case of the DBMP, three years, after the date of grant.
Other information	<p>Mandatorily deferred annual bonus awards are subject to potential forfeiture if the holder leaves before the awards vest (other than by reason of death, disability, redundancy, retirement or the company or business in which they are employed ceasing to be part of the Group).</p> <p>The number of shares into which bonus has been mandatorily deferred may be reduced by the Committee if the accounts by reference to which the bonus was calculated have to be materially corrected or if, in the opinion of the Committee, there is evidence that performance against performance conditions in the bonus year or the impact of that performance on the Group in respect of future financial years was or will be materially worse than was believed to be the case at the time of the original assessment.</p> <p>The shares carry the right to dividends in the period of deferral, but payable only when the shares are released.</p>

## Remuneration report *continued*

Scheme	Deferred Bonus Matching Plan (nil price options) 2012–2014 matching awards
Performance period	For the 2012 awards: 1 April 2012 to 31 March 2015 (expected to vest in July 2015 as to 88.4% for Executive Directors).  For the 2013 awards: 1 April 2013 to 31 March 2016.  For the 2014 awards: 1 April 2014 to 31 March 2017.

General Performance target	EPS growth test	Comparative TSR test	ROCE test	Match that can vest under each measure
Maximum	Compound annual growth in excess of RPI of 12.5% (2012)/11% (2013-2014) or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	ROCE of 20.5% (2012)/23.5% (2013)/17% (2014), or more	0.33x maximum
Threshold	Compound annual growth in excess of RPI of 4%	TSR performance equivalent to the median for the peer group as a whole	ROCE of 17.5% (2012)/21.5% (2013) / 15% (2014)	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 in excess of RPI of less than 4%	Performance less than equivalent to median for the whole peer group	ROCE of less than 17.5% (2012)/21.5% (2013)/15% (2014)	0x

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 Matching awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period.

EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is after exceptional items. EPS growth is that in excess of the change in the retail prices index.

For the 2012 and 2013 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 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 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 JV's, 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 these 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 disposal 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 (e.g. acquisitions and disposals) to ensure a fair outcome for participants and shareholders.

The awards carry the right to receive on vesting a payment equal to the value of any dividends in the period between grant and vesting but this right applies only to the shares that actually vest under the award. Exercise periods commence not less than three years from actual or nominal award grant date.

### 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 geographical and existing and new 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)

No payments were made to past Directors in the year.

## Remuneration report *continued*

### 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 have been reviewed and set as of 1 April 2015 (the last review before that having been as of 1 April 2013).

	Year to 31 March 2016 £	Year to 31 March 2015 £
Annual rate of fees		
Chairman	310,000	295,000
Senior Independent Director (inclusive of basic fee)	69,000	65,000
Basic Non-Executive Director's fee (UK based directors) <sup>1</sup>	58,000	55,000
Chairmanship of Audit and Risk Committee <sup>2</sup>	15,000	12,500
Chairmanship of Remuneration Committee <sup>2</sup>	15,000	12,500

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, 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 CEO remuneration

The table below shows the percentage change in CEO remuneration (as disclosed in the single total figure of remuneration table on page 99) 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 economic background as the CEO.

	% change 2013/14 to 2014/15	
	CEO	Other employees
Base salary	0%	2.4%
Taxable benefits	-31%	2.0%
Single-year variable	-16%	5.8%

### Relative importance of spend on pay

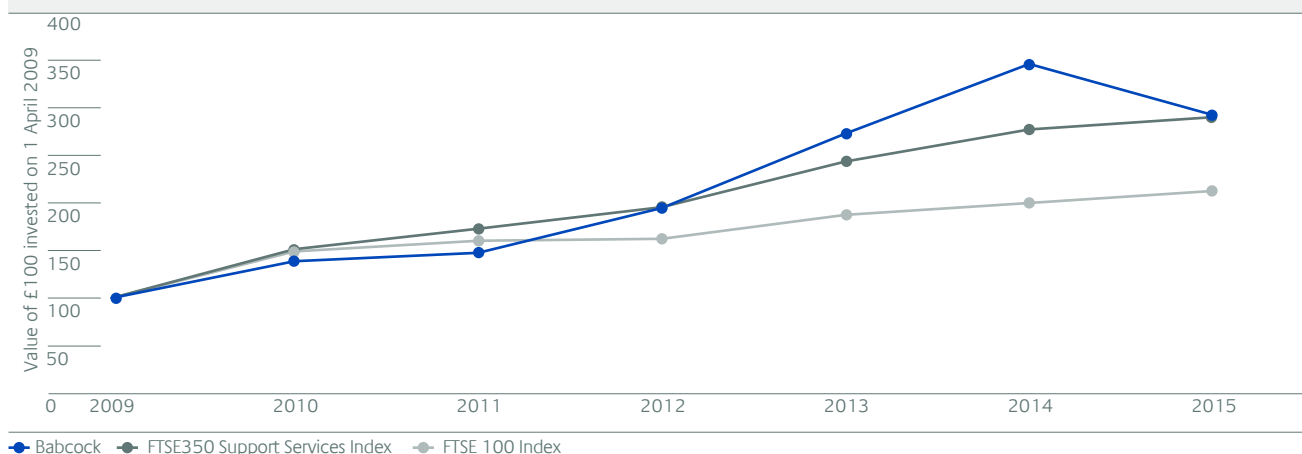
	2013/14	2014/15	% change
Distribution to shareholders	£107m	£119m	11%
Employee remuneration	£1,151m	£1,384m	20%

### 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 £293 on 31 March 2015). 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.

The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

### Babcock International vs: FTSE Support Services Index and FTSE 100 Index



### Babcock CEO single figure of remuneration and % of variable awards vesting

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Single figure (£k)	1,706	1,792	2,185	2,731	3,809	4,160
Bonus vesting (% max)	97%	98%	99%	99%	93%	78%
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	n/a	88.4%
PSP/CSOP vesting (% max)	100%	82.9%	57.8%	58.8%	94.7%	83.5%

## 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 2015, and Directors' interests in shares and options under Babcock's long-term incentives are set out in the sections below:

	At 31 March 2014									At 31 March 2015
	Shares held	Shares held								Options held
Director	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	S/holding req. (% salary)	Current shareholding (% of salary) <sup>2</sup>	Req. met? <sup>2</sup>	
Peter Rogers	889,639	1,074,856	71,101	0	710,877	102,493	300%	1,883%	✓	
Franco Martinelli	152,397	244,956	8,125	0	157,190	13,277	200%	750%	✓	
Bill Tame	451,645	569,518	7,714	0	317,609	64,880	200%	1,549%	✓	
Archie Bethel	194,197	298,407	38,344	0	320,871	47,127	200%	1,010%	✓	
Kevin Thomas	168,150	252,425	39,210	0	325,362	47,402	200%	877%	✓	
John Davies	18,962	87,390	19,860	0	256,914	41,356	200%	370%	✓	
Mike Turner	40,000	55,384								
Jeff Randall	0	3,061								
David Omand	0	0								
Ian Duncan	0	0								
Kate Swann	5,000	6,923								
Anna Stewart	0	0								
Myles Lee <sup>4</sup>	0	0								
Justin Crookenden	11,647	16,126 <sup>5</sup>								

1. Beneficially held shares.

2. Current shareholdings for comparison with the shareholding requirements for Executive Directors is calculated based on salary as at 31 March 2015 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 2015 and calculated post-tax.

3. Disclosure of these shareholdings reflects any adjustments made due to the rights issue which completed during May 2014.

4. Myles Lee joined the board on 1 April 2015.

5. Justin Crookenden retired from the Board on 30 November 2014 and the shareholding is shown as at that date.

There have been no changes to the continuing directors' (or their spouses') shareholdings between 31 March 2015 and 18 May 2015.

## Remuneration report *continued*

### *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 2015 was 984.5p. The highest and lowest mid-market share prices in the year ended 31 March 2015 were 933.5p and 1,251.0p, respectively.

Director	Scheme <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2014 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year <sup>a</sup>	Lapsed during the year	Number of shares subject to award at 31 March 2015	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 2011	179,165		169,669	9,496	0		608.37	Jun 2014	Jun 2015
	PSP 2012	36,808				36,808		762.52	Jul 2015	Jul 2016
	PSP 2012	108,851				108,851		773.54	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	42,455				42,455		762.52	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	84,910				84,910		762.52	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)	29,446				29,446		762.52	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)	58,892				58,892		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

a. Market value of each share at date of exercise (25 Jun 2014) = 1,148.74p.

For other notes to the table see page 117.

Director	Scheme <sup>1</sup> and year of award <sup>7</sup>	Number of shares subject to award at 1 April 2014 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year <sup>a</sup>	Lapsed during the year	Number of shares subject to award at 31 March 2015	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> 2011 <sup>5,7</sup>	48,762		45,249	3,513	0		608.37	Jun 2014	Jun 2015
	PSP <sup>(B)</sup> 2011 <sup>5,5A,7</sup>	1,412		729		0		608.37	Jun 2014	Jun 2015
	CSOP 2011 <sup>5,7</sup>	1,412		1,412		0	608.37	608.37	Jun 2014	Jun 2021
	DBP 2012 <sup>7</sup>	9,376		9,376		0		773.54	Jun 2014	Jun 2015
	PSP <sup>(A)</sup> 2012 <sup>5,7</sup>	39,832				39,832		773.54	Jun 2015	Jun 2016
	PSP <sup>(B)</sup> 2012 <sup>5,5A,7</sup>	1,009				1,009		773.54	Jun 2015	Jun 2016
	CSOP 2012 <sup>7</sup>	1,009				1,009	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		27,090 <sup>7</sup>			27,090		1,223.67	Jun 2017	Jun 2018
			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

a. Market value of each share at date of exercise (23 Jun 2014) = 1,157.76p.

For other notes to the table see page 117.

## Remuneration report *continued*

Director	Scheme <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2014 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year <sup>a</sup>	Lapsed during the year	Number of shares subject to award at 31 March 2015	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 2011	73,967		68,789	5,178	0		608.37	Jun 2014	Jun 2015
	PSP 2012	59,919				59,919		773.54	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	19,671				19,671		762.52	Jul 2015	Jun 2016
	DBMP 2012 (basic matching award)	39,342				39,342		762.52	Jul 2015	Jun 2016
	DBMP 2012 (voluntary deferral award)	16,209				16,209		762.52	Jul 2015	Jun 2016
	DBMP 2012 (voluntary deferral matching award)	32,419				32,419		762.52	Jul 2015	Jun 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

a. Market value of each share at date of exercise (25 June 2014) = 1,148.74p.

For other notes to the table see page 117.

Director	Scheme <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2014 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year <sup>a</sup>	Lapsed during the year	Number of shares subject to award at 31 March 2015	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 (A) 2010 <sup>5,6</sup>	39,698		39,698		0		546.50	Jul 2013	Jul 2014
	PSP (B) 2010 <sup>5,5A,6</sup>	5,489		2,592		0		546.50	Jul 2013	Jul 2014
	CSOP 2010 <sup>5,6</sup>	5,489		5,489		0	546.50	546.50	Jul 2013	Jul 2020
	PSP 2011 <sup>6</sup>	55,475		51,591	3,884	0		608.37	Jun 2014	Jun 2015
	DBP 2011 <sup>6</sup>	16,403		16,403		0		608.37	Jun 2013	Jun 2014
	PSP 2012 <sup>6</sup>	48,477				48,477		773.54	Jun 2015	Jun 2016
	DBMP 2012 (basic award) <sup>6</sup>	14,753				14,753		762.52	Jul 2015	Jul 2016
	DBMP 2012 (basic matching awards)	29,506				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

a. Market value of each share at date of exercise (25 June 2014) = 1,148.74p.

For other notes to the table see page 117.

## Remuneration report *continued*

Director	Scheme <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2014 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year <sup>a</sup>	Lapsed during the year	Number of shares subject to award at 31 March 2015	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 2011	73,967		68,789	5,178	0		608.37	Jun 2014	Jun 2015
	PSP (A) 2012 <sup>5</sup>	57,707				57,707		773.54	Jun 2015	Jun 2016
	PSP (B) 2012 <sup>5,5A</sup>	2,210				2,210		773.54	Jun 2015	Jun 2016
	CSOP 2012 <sup>5</sup>	2,210				2,210	773.54	773.54	Jun 2015	Jun 2022
	DBMP 2012 (basic award)	19,671				19,671		762.52	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	39,342				39,342		762.52	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)	16,209				16,209		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

a. Market value of each share at date of exercise (25 June 2014) = 1,148.74p.

For other notes to the table see page 117.

Director	Scheme <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2014 adjusted for the 2014 rights issue	Granted during the year	Exercised during the year <sup>a</sup>	Lapsed during the year	Number of shares subject to award at 31 March 2015	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 <sup>(A)</sup> 2011 <sup>5</sup>	81,412		75,457	5,955	0		608.37	Jun 2014	Jun 2015
	PSP <sup>(B)</sup> 2011 <sup>5,5A</sup>	3,648		1,918		0		608.37	Jun 2014	Jun 2015
	CSOP 2011 <sup>5</sup>	3,648		3,648		0	608.37	608.37	Jun 2014	Jun 2021
	PSP 2012	68,906				68,906		773.54	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	26,875				26,875		762.52	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	53,750				53,750		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

a. Market value of each share at date of exercise (25 June 2014) = 1,148.74p.

*Notes applicable to all tables on pages 112 to 117.*

Outstanding awards granted prior to June 2014 were adjusted to reflect the rights issue which completed during May 2014 using a standard adjustment factor of 1.13417. Any reference price, including the exercise prices shown was also adjusted.

1. PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBP = 2009 Deferred Bonus 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 112 to 117.
2. The PSP, DBP and DBMP awards are structured as nil priced options. DBP awards and DBMP basic awards represent the amount of the annual bonus mandatorily deferred and DBMP voluntary deferral awards represent the amount voluntarily deferred by the Director, in each case converted into shares at their value at the award date.
3. Subject to the rules of the scheme concerned, including as to meeting performance targets for PSP, CSOP and DBMP Matching Awards.
4. Where this date is less than ten years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
5. 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.

5A. 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.

6. Awards shown in the table for John Davies for 2010, 2011, and 2012 were made prior to his appointment as a Director, which took effect on 1 January 2013.

7. Awards shown in the table for Franco Martinelli for 2010, 2011, 2012 and 2013 and June 2014 were made prior to his appointment as a Director, which took effect on 1 August 2014.

## Remuneration report *continued*

### *Summary of share based awards and options vested during the year*

During the year to 31 March 2015 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 2011	169,669	14-Jun-14	1,032,220	2,051,298	
Franco Martinelli	PSP 2011	45,249	14-Jun-14	275,283	547,060	
	PSP 2011 Funding	729	14-Jun-14	n/a <sup>1</sup>	8,590	
	CSOP 2011	1,412	14-Jun-14	8,590	17,071	6.0837
	DBP 2012	9,376	14-Jun-14	72,527	113,356	
Bill Tame	PSP 2011	75,457	14-Jun-14	459,060	912,275	
	PSP 2011 Funding	1,918	14-Jun-14	n/a <sup>1</sup>	22,193	
	CSOP 2011	3,648	14-Jun-14	22,193	44,104	6.0837
Archie Bethel	PSP 2011	68,789	14-Jun-14	418,494	831,659	
Kevin Thomas	PSP 2011	68,789	14-Jun-14	418,494	831,659	
John Davies	PSP 2011	51,591	14-Jun-14	313,866	623,735	

1. The actual number of PSP 2011 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 2011 awards.

General Notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 61.8p per vested share had accrued on the PSP 2011 awards and of 44.3p per vested share on the DBP 2012 awards, in each case for the period between grant and vesting. It is payable by the Company to the award holder on exercise of the award concerned.

2. Closing Share Price on the last dealing date before vesting was for PSP 2011, CSOP 2011 and DBP 2012 awards 1,209p (13 June 2014).

### *Other interests*

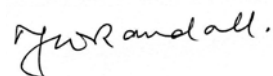
None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

### External appointments of Executive Directors in 2014/15

The table below details the fees received by Peter Rogers and Bill Tame 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	41.8
Bill Tame	Carclo plc	37.5
	Southern Water	12.5
Kevin Thomas	Harvey Nash Group plc	38.6

This remuneration report was approved by the Board on 18 May 2015 and signed on its behalf by:



Jeff Randall  
Chairman of the Remuneration Committee

18 May 2015

## Directors' report

### 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 principal activities of the Group and its subsidiaries are described in the Strategic report on pages 2 and 3 and in note 38 to the accounts on pages 181 to 182.

### The Directors and their powers

Biographies of the current Directors of the Company are to be found on pages 70 and 71. The table on page 77 shows the Directors who served during the year to 31 March 2015.

A summary of the rules relating to the appointment and removal of Directors can be found on page 76.

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 74.

### Results and dividends

The profit attributable to the owners of the parent Company for the financial year was £260.2 million (2014: £180.5 million). An interim dividend of 5.5p per 60p ordinary share was declared in the year (2014: 5.0p). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 18.1p (2014: 16.4p, as adjusted for the rights issue) on each of the ordinary shares of 60p to be paid on Wednesday, 12 August 2015 to those shareholders on the register at the close of business on Friday, 3 July 2015.

### Corporate Governance Compliance Statement

A statement regarding compliance with the UK Corporate Governance Code is included in the Governance Statement on page 74.

### Information contained in the Strategic report

Details of important events affecting the Group which have occurred since 31 March 2015 and an indication of likely future developments in the business of the Group can be found in the Strategic report on pages 2 to 69.

### Information contained in the Directors' report

This report is required to be produced by law. The UKLA's Disclosure and Transparency Rules (DTRs) and Listing Rules (LRs) also require us to make certain disclosures.

The Corporate Governance statement along with the reports of the Nominations, Audit and Risk and Remuneration Committees, which can be found on pages 72 to 118, form part of this 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 this Directors' report including the sections of the Annual Report and Accounts incorporated by reference.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R and which forms part of this Directors' Report can be found in the following locations:

Listing Rule	Topic	Location
9.8.4 (1)	Interest capitalised by the Group during the year	Financial statements, note 14
9.8.4 (2)	Publication of unaudited financial information as required by LR 9.2.18R	Not applicable
9.8.4 (4)	Details of any long-term incentive scheme as described in LR 9.4.2 R (2)	Not applicable
9.8.4 (5)	Waiver of emoluments by a director	Directors' remuneration report
9.8.4 (6)	Waiver of future emoluments by a director	Not applicable
9.8.4 (7)	Non pre-emptive issues of equity for cash	Not applicable
9.8.4 (8)	Non pre-emptive issues of equity for cash by any major subsidiary undertakings	Not applicable
9.8.4 (9)	Parent participation in a placing by a listed subsidiary	Not applicable
9.8.4 (10)	Contracts of significance in which a director is interested	Not applicable
9.8.4 (11)	Provision of services by a controlling shareholder	Not applicable
9.8.4 (12)	Shareholder waivers of dividends	Financial statements, note 24
9.8.4 (13)	Shareholder waivers of future dividends	Financial statements, note 24
9.8.4 (14)	Agreements with controlling shareholders	Not applicable

### Authority to purchase own shares

At the Annual General Meeting in July 2014, members authorised the Company to make market purchases of up to 50,133,313 of its own ordinary shares of 60p each. That authority expires at the forthcoming Annual General Meeting in July 2015 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 2014 (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 2015 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 24 on page 166 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 25 on page 167.

## Directors' report *continued*

### Major shareholdings

As at 31 March 2015, 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.	40,328,869	8.03
Standard Life Investments Limited	35,446,848	7.06
Cantillon Capital LLC	17,938,977	4.97
Legal & General Group Plc	14,325,920	3.97

On 1 April 2015 Standard Life Investments Limited notified the Company that its interest had increased to 40,735,809 shares representing 8.11% 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 and this year the maximum monthly contribution allowable into the Plan was increased. 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.

Senior employees of the Group are given awards under the Company's Long Term incentive Plans as detailed in the Remuneration report on pages 86 to 118. 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 57.

### 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 to 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 can be found in note 2 on pages 142 to 145.

### Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic report on page 59.

### Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and 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.

## 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 Company, though 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.

The Company believes that RRDL presently has the right under its Articles of Association to request that the special share held by the MoD in RRDL be redeemed.

### *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 the MoD's key support partner 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 control 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 October 2014 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*

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. In line with ToBA, if there is a change of 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, then the MoD can terminate the MSDF agreement.

## Support Services

### *Parent Body Agreement between Cavendish Fluor Partnership (CFP) and the Nuclear Decommissioning Authority (NDA) dated September 2014*

CFP, a joint venture between the UK's 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 companies, Magnox Limited and Research Sites Restoration Limited (RSRL).

Magnox Limited and RSRL are 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 programs. Under the terms of appointment the NDA may terminate CFP's appointment if there is change of control to which it has not consented.

## Group

### *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 30 to 35 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 effectively 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 the Company currently satisfies 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 122 below.

## Borrowing facilities

On 2 December 2014 the Company as borrower and guarantor entered into a facility of £750,000,000 with Australia and New Zealand Banking Group Limited, Barclays Corporate, BNP Paribas, HSBC Bank plc, J.P. Morgan Limited, Lloyds Bank plc, The Royal Bank of Scotland plc, Santander and Sumitomo Mitsui Banking Corporation as mandated lead arrangers and Bayerische Landesbank, London Branch, The Bank of Tokyo Mitsubishi UFJ, Ltd and Cr dit Industriel et Commercial as arrangers.

The facility refinanced the Company's £500,000,000 facility agreement dated 17 June 2011 and provides funds for general corporate and working capital purposes. The facility agreement provides that in the event of a change of control of the Company, the lenders may, within a certain period, call for the prepayment of any outstanding loans and cancel the credit facility.

## Directors' report *continued*

### Multi-Currency Loan Notes

On 21 January 2010, the Company issued two series of loan notes to Prudential Investment Management Inc. (and certain of its affiliates): (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 pre-pay the Multi-Currency Loan Notes together with a make whole premium.

### US Dollar Loan Notes

On 17 March 2012, the Company issued to 21 financial institutions: (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 pre-pay the Notes.

### £1,800,000,000 Euro Medium Term Note Programme

In September 2014, the Company established a Euro Medium Term Note Programme under which the Company could issue notes up to £1,800,000,000. In October 2014, the Company issued €550,000,000 1.750 per cent 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 95 and 96. One senior employee, who is not a Director of the Company, has an agreement providing for payment of 12 months' salary plus 40% in lieu of all benefits in the event of a dismissal (including constructive dismissal) by the Company within 12 months following a change of control.

### Share capital and rights attaching to the Company's shares

#### *Nationality-related restrictions on share ownership*

As noted on page 121 above under MCS "Operators Certificates" 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 effectively 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*

Following the adoption of the amendments to the Articles at last year's Annual General Meeting the Company now maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This will assist 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 2 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 Company's nationality requirements are met and, based on the Company's understanding of the application of the Regulation and of its shareholder base, more than 65% of the Company's issued share capital 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.

#### *Generally (Subject to the section above ("Nationality Restrictions on Ownership")):*

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.

## Directors' report *continued*

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 502,196,597 ordinary shares of 60p each have been issued and are fully paid up and are quoted on the London Stock Exchange.

### Annual General Meeting

Details of the 2015 Annual General Meeting of the Company are set out on page 79.

### 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).

### Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Events after the reporting period

There have been no reportable events from the balance sheet date to the date of this report.

### Internal controls

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 March 2015 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 Board considers the system to be effective and in accordance with Internal Controls: Guidance for Directors on the Combined Code (the Turnbull Guidance). Further information on the principal internal controls in use in the Company is to be found on pages 60 to 69.

### Auditors

PricewaterhouseCoopers LLP is willing to continue in office as independent auditor of the Company, and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting. A discussion of the Group's position on audit tenders is set out on page 85 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 133 to 182) 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 125 includes 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 performance, business model and strategy.

Mike Turner	Chairman
Peter Rogers	Chief Executive
Franco Martinelli	Group Finance Director
Archie Bethel	CEO, Marine and Technology
Kevin Thomas	CEO, Support Services
Bill Tame	CEO, International
John Davies	CEO, Defence and Security
Sir David Omand	Non-Executive Director
Ian Duncan	Non-Executive Director
Kate Swann	Non-Executive Director
Anna Stewart	Non-Executive Director
Jeff Randall	Non-Executive Director
Myles Lee	Non-Executive Director

### Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 2 to 125) for the year ending 31 March 2015 have been approved by the Board and signed on its behalf by



Mike Turner CBE  
Chairman

18 May 2015

# 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 2015 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 comprise:

- the Group balance sheet as at 31 March 2015;
- 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 and Accounts 2015 (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 applicable law and IFRSs as adopted by the European Union.

### Our audit approach

#### Overview

#### Materiality

- Overall Group materiality: £19 million (2014: £14 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 27 of the largest and highest risk reporting components located in the UK, Europe and South Africa.
- In addition, we performed specific audit procedures on revenue and profits at two further reporting components and three 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.

#### Areas of focus

- Contract accounting and revenue recognition, focusing on profit margin determination and contracts involving judgement with respect to additional revenue based on cost and time completion incentive targets.
- Valuation of acquired aircraft and intangible assets following the acquisition of the Avincis Mission Critical Services Group.
- Defined benefit pension plan liabilities, focusing on the key assumptions within the valuation of the pension liability.
- Goodwill impairment assessment of the goodwill primarily recognised on the VT Group and Avincis acquisitions.

### *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 broad 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 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 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 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 we performed the following additional testing:

- attended management's contract review meetings to obtain an understanding of the performance and status of the contracts through discussion with the contract project teams;
- 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
- using the knowledge obtained from this testing, challenged whether provisions for onerous contracts appropriately reflect the expected contractual position.

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

#### *Valuation of acquired aircraft and intangible assets through business combinations*

*Refer to note 30 to the Group financial statements.*

During the year the Group completed its purchase of the Avincis Mission Critical Services Group. As part of the acquisition accounting, accounting standards require this purchase price to be allocated between the acquired assets and liabilities, resulting in the recognition of tangible and intangible assets and goodwill.

The principal areas of judgement in management's purchase price allocation exercise related to the valuation of the customer relationship intangibles and the valuation of the helicopter and fixed wing aircraft fleet.

Valuations of intangible assets are inherently complex and judgemental due to the level of estimation uncertainty associated with forecasting future cash flows. The key judgements that affected the purchase price allocation were:

- forecasting of the contractual cash flows;
- estimating the contract renewal rates; and
- determining the discount rates.

Management appointed a third party valuation expert to aid this process.

Management employed another third party valuation expert to assist in the valuation of the acquired helicopter and fixed wing fleet. Whilst the valuation is primarily based on market transactions, further judgement was applied where there have been limited recent market transactions or where there are current limitations and/or flying restrictions imposed upon certain aircraft.

### How our audit addressed the area of focus

We agreed the consideration paid back to the Sale and Purchase Agreement as well as the cash disbursements.

To assess the valuation of the customer relationship intangibles, we considered the competence and independence of the third party valuer by reference to their qualifications and experience. We used our own valuation expertise and experience to challenge:

- the reasonableness of the underlying valuation methodology;
- the appropriateness and duration of the contractual cash flows used in the valuation by reference to the existing contractual terms;
- the likelihood of contract renewal generating further revenues beyond the contracted period by reference to the historical evidence of renewal; and
- the discount rates used by assessing the cost of capital for the Group and country risk adjustments.

Based on our testing, we considered that the valuation model used was appropriate for the customer relationships being valued and that the estimated inputs to the model were within acceptable ranges.

With regard to the valuation of the helicopter and fixed wing aircraft fleet, we assessed the competence and independence of the third party valuer and challenged the valuation by:

- obtaining supporting evidence for the valuation decrease from net book value by comparison back to the historic losses on disposal recognised across the fleet;
- obtaining evidence from sales agents to corroborate the prices that certain helicopters are currently being marketed at;
- obtaining corroborating photographic evidence to support certain valuation decreases where aircraft had been dismantled and could not be readily returned to active service; and
- obtaining contract evidence to corroborate the switch in demand from one type of helicopter variant to another.

Based on our testing we did not consider the valuation of the aircraft recognised at acquisition to be materially misstated.

## Area of focus

### *Defined benefit pension plan liabilities*

*Refer to note 26 to the Group financial statements.*

The Group operates a number of defined benefit pension plans, giving rise to net pension liabilities of £169 million 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
- can have a material impact on the calculation of the liability.

The Group uses external actuaries to assist in assessing these assumptions.

### *Goodwill impairment assessment*

*Refer to note 12 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 during the current year, 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 value for the 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 assessed, using our actuarial expertise, evidence that 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.

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 would be required for the goodwill to be impaired and noted no CGUs would be impaired if the cash flows decreased by 10% or the discount rate increased by 1%.

Based on our procedures we agreed with the Directors that no impairment should be recognised at 31 March 2015.

## Independent auditors' report to the members of Babcock International Group PLC *continued*

### *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 components, including both operating businesses (reporting components) and central functions.

The Group's reporting components vary significantly in size and we identified 27 reporting 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 revenue and profits were performed at two further reporting components and three joint ventures. In scope reporting components and joint ventures were based in several jurisdictions including the UK, Spain, Italy, Canada and South Africa.

Component audit procedures were performed by teams from local network firms in each location, including teams separate from the Group team for 20 UK 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.

Where the work was performed by component auditors, the Group team determined the level of involvement needed in the audit work of each reporting component. As a result, the Engagement Leader and senior members of the Group team undertook visits to 11 reporting components in the UK, Spain and Italy during the audit work, including the Group's only significant component, Devonport, which is visited every year. Senior Group team members attended 26 of the reporting component audit clearance meetings in person or by conference call. 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 auditor.

### *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 and to evaluate 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	£19 million (2014: £14 million). The increase in materiality reflects the enlarged size of the Group following the Avincis acquisition.
How we determined it	We used 5% of Group profit before taxation (£313 million) adjusted for the amortisation of acquired intangibles (£100 million).
Rationale for benchmark applied	Given the contractual nature of the business 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 are 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.
Misstatements to be reported to the Audit Committee	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1 million (2014: £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 124, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

#### *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; and
- the information given in the Corporate Governance Statement set out on page 74 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 arising from this responsibility.
– 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 125, 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 arising from this responsibility.
– the section of the Annual Report on page 84, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

### 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 the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## 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 124, 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 2015 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

18 May 2015

## Group income statement

For the year ended 31 March 2015	Note	2015		2014	
		£m	Total £m	£m	Total £m
Total revenue		4,503.3		3,547.6	
Less: joint ventures and associates revenue		506.7		226.6	
Group revenue	3		3,996.6		3,321.0
Group					
Operating profit before amortisation of acquired intangibles and exceptional items	3, 4, 5	445.9		317.2	
Amortisation of acquired intangibles	3, 6	(93.6)		(59.2)	
Exceptional items	6	–		(24.9)	
Group operating profit	3		352.3		233.1
Joint ventures and associates					
Share of operating profit	3	35.2		21.9	
Investment income	3	36.2		37.3	
Amortisation of acquired intangibles	3, 6	(6.0)		(6.2)	
Finance costs	3	(31.0)		(25.1)	
Income tax expense	3	(5.0)		(7.0)	
Share of results of joint ventures and associates			29.4		20.9
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		481.1		339.1	
Investment income		37.6		38.8	
Underlying operating profit*		518.7		377.9	
Amortisation of acquired intangibles		(99.6)		(65.4)	
Exceptional items		–		(24.9)	
Group investment income		(1.4)		(1.5)	
Joint ventures and associates finance costs		(31.0)		(25.1)	
Joint ventures and associates income tax expense		(5.0)		(7.0)	
Group operating profit plus share of joint ventures and associates			381.7		254.0
Finance costs					
Investment income	3	1.4		1.5	
Retirement benefit interest	26	(11.0)		(10.9)	
Finance costs	7	(70.4)		(35.2)	
Finance income	7	11.4		9.4	
			(68.6)		(35.2)
Profit before tax			313.1		218.8
Income tax expense	9		(46.7)		(30.8)
Profit for the year			266.4		188.0
Attributable to:					
Owners of the parent			260.2		180.5
Non-controlling interest			6.2		7.5
			266.4		188.0
Earnings per share**	11				
Basic			52.9p		44.3p
Diluted			52.6p		43.9p

\* Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

\*\* 2014 has been restated to reflect the rights issue.

## Group statement of comprehensive income

For the year ended 31 March 2015	Note	2015 £m	2014 £m
Profit for the year		266.4	188.0
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		(78.6)	(19.5)
Fair value adjustment of interest rate and foreign exchange hedges		(14.7)	(2.2)
Tax on fair value adjustment of interest rate and foreign exchange hedges		2.9	0.5
Fair value adjustment of joint venture and associates derivatives	15 & 31	(41.9)	23.1
Tax on fair value adjustment of joint venture and associates derivatives	15	4.5	(5.3)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	26	66.0	(43.0)
Tax on remeasurement of retirement benefit obligations		(13.1)	9.9
Impact of change in UK tax rates		–	(9.5)
Other comprehensive loss, net of tax		(74.9)	(46.0)
Total comprehensive income		191.5	142.0
Total comprehensive income attributable to:			
Owners of the parent		185.5	137.8
Non-controlling interest		6.0	4.2
Total comprehensive income		191.5	142.0

## Group statement of changes in equity

For the year ended 31 March 2015	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2013	217.2	873.0	–	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9
Total comprehensive income/(loss)	–	–	–	–	137.9	16.1	(16.2)	137.8	4.2	142.0
Dividends	–	–	–	–	(96.7)	–	–	(96.7)	(4.3)	(101.0)
Share-based payments	–	–	–	–	12.2	–	–	12.2	–	12.2
Tax on share-based payments	–	–	–	–	3.3	–	–	3.3	–	3.3
Own shares and other	–	–	–	–	0.7	–	–	0.7	–	0.7
Net movement in equity	–	–	–	–	57.4	16.1	(16.2)	57.3	(0.1)	57.2
At 31 March 2014	217.2	873.0	–	30.6	(53.3)	(42.4)	(20.7)	1,004.4	21.7	1,026.1
At 1 April 2014	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)
Net movement in equity	84.1	–	851.3	–	367.8	(49.2)	(78.3)	1,175.7	(3.7)	1,172.0
At 31 March 2015	301.3	873.0	851.3	30.6	314.5	(91.6)	(99.0)	2,180.1	18.0	2,198.1

## Group balance sheet

As at 31 March 2015	Note	2015 £m	2014 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	12	2,506.0	1,609.6
Other intangible assets	13	745.9	275.8
Property, plant and equipment	14	878.0	252.1
Investment in joint ventures and associates	15	36.3	52.3
Loan to joint ventures and associates	15	38.6	50.6
Retirement benefits	26	45.6	15.2
Trade and other receivables	18	27.1	1.2
IFRIC 12 financial assets		19.2	20.5
Other financial assets	22	61.8	–
Deferred tax asset	16	132.2	46.6
		4,490.7	2,323.9
<b>Current assets</b>			
Inventories	17	155.4	105.9
Trade and other receivables	18	743.6	577.5
Income tax recoverable		24.7	28.0
Other financial assets	22	12.3	9.6
Cash and cash equivalents	19	130.6	86.3
		1,066.6	807.3
<b>Total assets</b>		<b>5,557.3</b>	<b>3,131.2</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	24	301.3	217.2
Share premium		873.0	873.0
Capital redemption and other reserves		691.3	(32.5)
Retained earnings		314.5	(53.3)
		2,180.1	1,004.4
Non-controlling interest		18.0	21.7
<b>Total equity</b>		<b>2,198.1</b>	<b>1,026.1</b>
<b>Non-current liabilities</b>			
Bank and other borrowings	21	1,495.3	649.4
Trade and other payables	20	6.8	9.2
Deferred tax liabilities	16	184.6	2.4
Other financial liabilities	22	7.8	12.3
Retirement liabilities	26	214.4	282.9
Provisions for other liabilities	23	159.8	95.0
		2,068.7	1,051.2
<b>Current liabilities</b>			
Bank and other borrowings	21	64.8	17.7
Trade and other payables	20	1,162.4	974.4
Income tax payable		5.7	–
Other financial liabilities	22	27.9	11.7
Provisions for other liabilities	23	29.7	50.1
		1,290.5	1,053.9
<b>Total liabilities</b>		<b>3,359.2</b>	<b>2,105.1</b>
<b>Total equity and liabilities</b>		<b>5,557.3</b>	<b>3,131.2</b>

The notes on pages 137 to 182 are an integral part of the consolidated financial statements. The Group financial statements on pages 133 to 182 were approved by the Board of Directors on 18 May 2015 and are signed on its behalf by:

P L Rogers  
Director

F Martinelli  
Director

## Group cash flow statement

For the year ended 31 March 2015	Note	2015 £m	2014 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	426.8	279.5
Income tax paid		(46.1)	(55.8)
Interest paid		(80.7)	(36.5)
Interest received		6.9	4.7
<b>Net cash flows from operating activities</b>		<b>306.9</b>	<b>191.9</b>
<b>Cash flows from investing activities</b>			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	31	2.1	0.7
Dividends received from joint ventures and associates		19.5	4.8
Proceeds on disposal of property, plant and equipment		77.6	4.2
Proceeds on disposal of intangible assets		0.7	–
Purchases of property, plant and equipment		(150.7)	(37.4)
Purchases of intangible assets		(23.4)	(16.1)
Investment in, loan movements and interest received from joint ventures and associates		10.3	5.2
Transactions with non-controlling interest		(4.3)	–
Acquisition of subsidiaries net of cash acquired	30	(1,039.1)	(62.5)
<b>Net cash flows from investing activities</b>		<b>(1,107.3)</b>	<b>(101.1)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	10	(109.8)	(96.7)
Finance lease principal payments		(39.7)	(3.5)
Bank loans repaid		(1,638.7)	(1.0)
Loans raised		1,570.3	–
Dividends paid to non-controlling interest		(7.2)	(4.3)
Net proceeds on issue of shares		1,077.4	–
Movement on own shares		(3.5)	0.7
<b>Net cash flows from financing activities</b>		<b>848.8</b>	<b>(104.8)</b>
<b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b>		<b>48.4</b>	<b>(14.0)</b>
<b>Cash, cash equivalents and bank overdrafts at beginning of year</b>		<b>71.2</b>	<b>90.6</b>
<b>Effects of exchange rate fluctuations</b>		<b>(7.1)</b>	<b>(5.4)</b>
<b>Cash, cash equivalents and bank overdrafts at end of year</b>	<b>29</b>	<b>112.5</b>	<b>71.2</b>

# Notes to the Group financial statements

## 1. Basis of preparation and significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and on a going concern basis. The Company is a public limited company, is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

### Principal accounting policies

The principal accounting policies adopted by the Group are disclosed below. They have been applied consistently throughout the year.

### Basis of consolidation

The Group financial statements comprise the Company and all of its subsidiary undertakings made up to 31 March.

#### *(a) Subsidiaries*

An entity is controlled by the Group regardless of the level of the Group's equity interest in the entity, when the Group has power over the entity, when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to use its power to affect those returns.

In determining whether control exists, the Group considers all relevant facts and circumstances to assess its control over an entity such as contractual commitments and potential voting rights held by the Group if they are substantive.

Subsidiaries are fully consolidated from the date control has been transferred to the Group and de-consolidated from the date control ceases. Where control ceases the results for the year up to the date of relinquishing control or closure are analysed as continuing or discontinued operations.

#### *(b) Joint ventures and associates*

Associates are those entities in which the Group exercises its significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its joint ventures and associates post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains and losses on transactions between the Group and its joint venture and associate are eliminated to the extent of the Group's interest in the joint venture and associate. The Group's share of joint venture revenue is disclosed after elimination of sales to that joint venture. Loans to joint ventures are valued at amortised cost.

### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *(a) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable. As can be seen from note 3 this represents approximately 10% of the business.

#### *(b) Sale 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.

## Notes to the Group financial statements *continued*

### 1. Basis of preparation and significant accounting policies (continued)

#### Revenue (continued)

##### *(c) Long-term service contracts (continued)*

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Certain contracts will have pain/gain share arrangements whereby target cost under/over spends are shared with the customer. These sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

#### Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the consolidated income statement. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties and businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

#### Transactions with non-controlling interest

The Group policy is to treat transactions with non-controlling interest as transactions with owners of the parent and therefore 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 the operating leases are deemed to be onerous.

A provision for deferred consideration on acquisitions is recognised when the Group has a realistic expectation of the expense based on the Purchase and Sale Agreement.

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 12.

##### *(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)

The carrying value of the brands are amortised over the period in which it is estimated that the particular brands are likely to bring economic benefit via future orders. The maximum amortisation period for existing acquired brands is 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 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.

### **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 and 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.

## Notes to the Group financial statements *continued*

### 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 substantially 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 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.

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)

### *(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 26), impairment of goodwill (see note 12).

Fair value adjustments on acquisitions are by nature subject to critical judgements. The size of the Avincis acquisition makes this a significant judgement in Group terms (see note 30).

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.

## Notes to the Group financial statements *continued*

### 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 2014 or later periods but which the Group has not early adopted.

#### *(a) Standards, amendments and interpretations effective in 2014 with minimal or no impact on the Group:*

- IAS 27 'Consolidated and separate financial statements', endorsed 1 January 2014;
- IAS 28 'Investments in associates and joint ventures', endorsed 1 January 2014;
- IFRS 10, 'Consolidated financial statements', endorsed 1 January 2014;
- IFRS 11, 'Joint arrangements', endorsed 1 January 2014;
- IFRS 12, 'Disclosure of interests in other entities', endorsed 1 January 2014;
- IAS 32 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2014;
- IAS 36 (amendment), 'Impairment of assets' effective 1 January 2014; and
- IAS 39 (amendment), 'Financial instruments; Recognition and measurement', effective 1 January 2014.

#### *(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:*

- IAS 19 (amendment), 'Employee benefits' effective 1 July 2014;
- IFRS 9, 'Financial instruments' effective 1 January 2018
- IFRS 15 'Revenue from contracts with Customers' effective 1 January 2017;
- IFRIC 12 'Leases', effective 1 January 2014; and
- 2012 and 2013 Annual improvements effective 1 July 2014.

### 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 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 times, as illustrated by the recent acquisition of Babcock Mission Critical Services (formerly known as 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 two 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 2015 was 2.15 times, demonstrating progress in bringing gearing back towards a steady state level, both in the pay down of debt and through increasing profits attributable to shareholders.			
		Covenant	2015	2014
Debt service cover	EBITDA/net interest	>4	8.3x	15.0x
Debt cover	Net debt/EBITDA	<3.5	2.15x	1.3x
Gearing	Net debt/shareholders' funds	n/a	56%	41%
Debt ratios are below covenanted levels and gearing has reduced since the Babcock Mission Critical Services acquisition. 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.

All treasury transactions are carried out only with prime rated counterparties as are 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 (formerly known as Avincis) 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.

Objective	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar and South African Rand.
Policy – Transactional risk	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IAS 39 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
Policy – Translational risk	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and 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 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 £18.9 million Euro to US Dollars (2014: Sterling to Canadian Dollars £1.4 million).

## Notes to the Group financial statements *continued*

### 2. Financial risk management (continued)

#### Foreign exchange risk (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 £1.5 million (2014: £0.1 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  $\pm 50$ bp (2014:  $\pm 50$ 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  $\pm 50$ bp is an appropriate measure of volatility at this time.

	2015		2014	
	£m +50bp	£m -50bp	£m +50bp	£m -50bp
Net results for the year	(3.6)	3.6	(1.6)	1.6
Equity	10.5	(10.5)	11.1	(11.1)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2015, the Group had 55% fixed rate debt (March 2014: 49%) and 45% floating rate debt (March 2014: 51%) based on gross debt including derivatives of £1,507.9 million (March 2014: £670.6 million). For further information see note 22 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 21).

The Group's committed Revolving Credit Facility (RCF) of £750 million has an expiry date of December 2019 with options to extend a further one year, plus one year, and is available to meet general corporate funding requirements. At 31 March 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.

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)

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.

Objective	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the course of the financial year, the Group refinanced and increased its Revolving Credit Facility from £500 million to £750 million, with the new facility being signed December 2014. In addition, the Group issued a debut eight year EUR 550 million Eurobond in October 2014. These new facilities, together with the other existing committed facilities provide sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. In addition to the afore mentioned Revolving Credit Facility and Eurobond, 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. These debt facilities provides the Group with total available committed banking facilities and loan notes of £1.65 billion. For further information see note 21 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 contract maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<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
<b>At 31 March 2014</b>				
Bank and other borrowings	33.3	29.4	351.8	403.2
Derivative financial instruments	3.4	(1.6)	8.4	3.4
Trade and other payables*	952.8	1.7	3.8	2.4

\* 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 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	–	–	–
<b>At 31 March 2014</b>				
Forward derivative contracts – hedges:				
– outflow	167.5	154.0	109.1	307.7
– inflow	169.6	155.5	106.3	307.4
Forward derivative contracts – held for trading:				
– outflow	0.3	–	–	–
– inflow	0.4	–	–	–

## Notes to the Group financial statements *continued*

### 3. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM).

	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total £m
2015						
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.

	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total £m
2014						
Total revenue	1,377.3	852.6	1,040.1	277.6	–	3,547.6
Less: joint ventures and associates revenue	12.7	115.8	98.1	–	–	226.6
<b>Group revenue</b>	<b>1,364.6</b>	<b>736.8</b>	<b>942.0</b>	<b>277.6</b>	<b>–</b>	<b>3,321.0</b>
Operating profit* – Group	152.9	74.6	69.4	23.2	(2.9)	317.2
IFRIC 12 investment income – Group	–	0.8	0.7	–	–	1.5
Share of operating profit – joint ventures and associates	1.0	14.4	6.5	–	–	21.9
Share of IFRIC 12 investment income – joint ventures and associates	–	28.8	8.5	–	–	37.3
<b>Underlying operating profit</b>	<b>153.9</b>	<b>118.6</b>	<b>85.1</b>	<b>23.2</b>	<b>(2.9)</b>	<b>377.9</b>
Share of finance costs – joint ventures and associates	–	(16.6)	(8.5)	–	–	(25.1)
Share of tax – joint ventures and associates	(0.3)	(5.3)	(1.4)	–	–	(7.0)
Acquired intangible amortisation – Group	(12.8)	(10.5)	(35.9)	–	–	(59.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)
Net finance costs – Group	–	–	–	–	(36.7)	(36.7)
Exceptional items – Group	–	–	–	–	(24.9)	(24.9)
<b>Group profit before tax</b>	<b>140.8</b>	<b>80.4</b>	<b>38.9</b>	<b>23.2</b>	<b>(64.5)</b>	<b>218.8</b>

\* Before amortisation of acquired intangibles and exceptional items.

### 3. Segmental information (continued)

Inter divisional revenue is immaterial.

Revenues of £2.5 billion (2014: £2.0 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 2015 and 31 March 2014 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Marine and Technology	881.6	868.0	695.9	650.9	27.1	29.8
Defence and Security	1,071.7	927.5	230.2	273.3	16.0	15.2
Support Services	1,027.8	967.4	276.0	274.1	16.0	10.3
International	2,154.0	156.5	450.9	117.0	141.8	4.6
Unallocated	422.2	211.8	1,706.2	789.8	12.4	12.6
<b>Group total</b>	<b>5,557.3</b>	<b>3,131.2</b>	<b>3,359.2</b>	<b>2,105.1</b>	<b>213.3</b>	<b>72.5</b>

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £78.3 million (2014: £4.2 million). Proceeds are in the main within the International division. Please see note 20 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 depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2015 and 31 March 2014 are as follows:

	Depreciation		Amortisation of intangible assets	
	2015 £m	2014 £m	2015 £m	2014 £m
Marine and Technology	22.2	21.1	13.0	13.9
Defence and Security	4.5	4.5	9.5	10.6
Support Services	5.8	5.2	34.2	36.6
International	33.3	4.7	40.5	0.2
Unallocated	5.2	4.5	3.9	5.4
<b>Group total</b>	<b>71.0</b>	<b>40.0</b>	<b>101.1</b>	<b>66.7</b>

The geographic analysis by origin for the years ended 31 March 2015 and 31 March 2014 is as follows:

	Revenue		Assets		Capital expenditure	
	2015 £m	2014 (restated) £m	2015 £m	2014 (restated) £m	2015 £m	2014 (restated) £m
Geographic analysis						
United Kingdom	3,109.7	2,798.0	2,560.5	2,744.0	98.8	66.3
Rest of Europe	351.6	45.3	2,283.3	16.4	96.7	0.2
Africa	267.3	270.2	181.9	181.4	7.6	4.6
North America	114.0	136.4	65.5	67.9	0.7	0.7
Australasia	89.9	37.5	368.8	15.3	7.5	0.5
Rest of World	64.1	33.6	97.3	106.2	2.0	0.2
<b>Group total</b>	<b>3,996.6</b>	<b>3,321.0</b>	<b>5,557.3</b>	<b>3,131.2</b>	<b>213.3</b>	<b>72.5</b>

The analysis of revenue for the years ended 31 March 2015 and 31 March 2014 is as follows:

	Total	
	2015 £m	2014 £m
Sales of goods	389.8	337.9
Sales of services	3,605.1	2,981.6
Rental income	1.7	1.5
	<b>3,996.6</b>	<b>3,321.0</b>

## Notes to the Group financial statements *continued*

### 4. Operating expenses

	Total	
	2015 £m	2014 £m
Cost of sales	3,371.2	2,885.0
Distribution expenses	10.7	11.4
Administration expenses	262.4	191.5
	3,644.3	3,087.9

### 5. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	Total	
	2015 £m	2014 £m
Employee costs (note 8)	1,384.1	1,151.4
Inventories		
– cost of inventories recognised as an expense	333.7	293.0
– (decrease)/increase in inventory provisions	(2.1)	0.4
Depreciation of Property, plant and equipment (PPE)		
– owned assets	61.3	38.4
– under finance leases	9.7	1.6
	71.0	40.0
Amortisation of intangible assets		
– acquired intangibles	93.6	59.2
– other	7.5	7.5
	101.1	66.7
(Profit)/loss on disposal of PPE	(0.1)	0.3
Operating lease rentals payable		
– property	23.1	20.2
– vehicles, plant and equipment	81.0	47.4
Research and development	1.2	1.5
Trade receivables released	(1.7)	(0.1)
Net foreign exchange gains	2.5	1.5

### 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	
	2015 £m	2014 £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	0.7	0.5
<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	1.6	1.2
Taxation advisory services	0.1	0.3
Other assurance services	–	0.1
Services relating to corporate finance transactions	0.8	1.8
Other non-audit services	0.1	0.5
<b>Total fees paid to the Group's auditor and network firms</b>	<b>3.3</b>	<b>4.4</b>

## 6. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Continuing operations						
Acquisition costs	–	24.9	–	–	–	24.9
Exceptional items	–	24.9	–	–	–	24.9
Acquired intangible amortisation	93.6	59.2	6.0	6.2	99.6	65.4
Continuing total	93.6	84.1	6.0	6.2	99.6	90.3

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

There are no exceptional costs in the year. In 2014 the acquisition costs relate to the acquisition of Avincis Mission Critical Services comprising of legal and professional fees and stamp duty.

## 7. Net finance costs

	2015 £m	2014 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges*	48.5	28.2
Finance leases	9.0	0.8
Amortisation of issue costs of bank loan	9.0	1.5
Other	3.9	4.7
Total finance costs	70.4	35.2
Finance income		
Bank deposits and loans	11.4	9.4
Total finance income	11.4	9.4
Net finance costs	59.0	25.8

\* Interest rate hedges included above is £1.7 million costs (2014: £(1.1) million).

## 8. Employee costs

	Total	
	2015 £m	2014 £m
Wages and salaries	1,149.4	957.2
Social security costs	124.1	90.2
Share-based payments (note 25)	15.4	12.2
Pension costs – defined contribution plans (note 26)	51.3	42.5
Pension charges – defined benefit plans (note 26)	43.9	49.3
	1,384.1	1,151.4

The average number of people employed by the Group during the year was:

	Total	
	2015 Number	2014 Number
Operations	27,941	24,668
Administration and management	4,427	3,717
	32,368	28,385

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

## Notes to the Group financial statements *continued*

### 8. Employee costs (continued)

#### 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.

	2015 £m	2014 £m
Salaries	9.9	9.7
Post-employment benefits	0.3	0.3
Share-based payments	4.6	3.7
	14.8	13.7

### 9. Income tax expense

	Total	
	2015 £m	2014 £m
<b>Analysis of tax charge in the year</b>		
Current tax		
– UK current year charge	57.9	57.9
– Overseas current year charge	14.8	13.6
– UK prior year credit	(3.5)	(9.3)
– Overseas adjustment in respect of prior year	–	0.1
	69.2	62.3
Deferred tax		
– UK current year credit	(25.9)	(27.6)
– Adjustment in respect of prior year	–	–
– Overseas current year (credit)/charge	2.8	(1.5)
– Impact of change in UK tax rate	–	(2.4)
– Impact of change in Spanish tax rate	0.6	–
	(22.5)	(31.5)
<b>Total income tax expense</b>	<b>46.7</b>	<b>30.8</b>

The tax for the year is lower (2014: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2015 £m	2014 £m
<b>Profit before tax</b>	<b>313.1</b>	<b>218.8</b>
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 21% (2014: 23%)	65.7	50.3
Effects of:		
Expenses not deductible for tax purposes	0.9	6.2
Re-measurement of deferred tax re change in UK tax rate	–	(2.4)
Re-measurement of deferred tax re change in Spanish tax rate	0.6	–
Difference in respect of joint venture results	(6.2)	(4.8)
Differences in respect of foreign rates and UK consortium relief rates	2.8	(2.7)
Adjustments in respect of earlier years	(3.5)	(9.2)
Other (including R&D tax relief)	(13.6)	(6.6)
<b>Total income tax expense</b>	<b>46.7</b>	<b>30.8</b>

The corporate income tax rate in Spain was reduced from 30% to 28% in 2015 and to 25% in 2016. This change was enacted on 28 November 2014. As a result of this change, Spanish deferred tax balances have been re-measured. Deferred tax relating to temporary differences expected to reverse after 1 January 2016 are measured at the rate of 25% as these are the tax rates that will apply on reversal. As a result a debit of £0.6 million has been taken to the income statement in respect of the re-measurement of the year end deferred tax balances in Spain to 25%.

## 10. Dividends

	2015 £m	2014 £m
Final dividend for the year ended 31 March 2014 of 16.4p (2013: 14.4p) per 60p share	82.2	71.8
Interim dividend for the year ended 31 March 2015 of 5.5p (2014: 5.0p) per 60p share	27.6	24.9
	109.8	96.7

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2015 of 18.1p (2014: 16.4p as adjusted for rights issue) per share which will absorb an estimated £91.6 million (2014: £82.1 million) of shareholders' equity. It will be paid on 12 August 2015 to shareholders who are on the register of members on 3 July 2015. The 31 March 2014 interim dividend of 5.0p and the 31 March 2013 final dividend of 14.4p have been adjusted to reflect the rights issue. These financial statements do not reflect this dividend payable which is subject to approval at the Annual General Meeting on 30 July 2015.

## 11. 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 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. To provide an appropriate comparison, earnings per share for 2014 have been restated to take into account the increase in the number of shares and the bonus issue of shares.

The calculation of the basic and diluted EPS is based on the following data:

### Number of shares

	2015 Number	2014 Number
<b>Pre-adjustment for rights issue</b>		
Weighted average number of ordinary shares for the purpose of basic EPS	487,123,443	360,262,890
Effect of dilutive potential ordinary shares: share options	2,200,000	3,204,338
Weighted average number of ordinary shares for the purpose of diluted EPS	489,323,443	363,467,228
<b>Adjustment for rights issue</b>		
Weighted average number of ordinary shares for the purpose of basic EPS	4,853,822	47,796,072
Effect of dilutive potential ordinary shares: share options	60,639	425,119
Weighted average number of ordinary shares for the purpose of diluted EPS	4,914,461	48,221,191
<b>Restated for rights issue</b>		
Weighted average number of ordinary shares for the purpose of basic EPS	491,977,265	408,058,962
Effect of dilutive potential ordinary shares: share options	2,260,639	3,629,457
Weighted average number of ordinary shares for the purpose of diluted EPS	494,237,904	411,688,419

### Earnings

	2015 Earnings £m	2015 Basic per share Pence	2015 Diluted per share Pence	2014 Earnings £m	2014 Basic per share (restated) Pence	2014 Diluted per share (restated) Pence
<b>Continuing operations</b>						
Earnings from continuing operations	260.2	52.9	52.6	180.5	44.3	43.8
Add back:						
Amortisation of acquired intangible assets, net of tax	76.3	15.5	15.4	50.3	12.3	12.2
Exceptional items, net of tax	–	–	–	24.9	6.1	6.0
Impact of change in statutory tax rates	0.6	0.1	0.1	(2.4)	(0.6)	(0.6)
<b>Earnings before amortisation, exceptional items and other</b>	<b>337.1</b>	<b>68.5</b>	<b>68.1</b>	<b>253.3</b>	<b>62.1</b>	<b>61.4</b>

## Notes to the Group financial statements *continued*

### 12. Goodwill

	2015 £m	2014 £m
Cost		
At 1 April	1,614.4	1,567.8
On acquisition of subsidiaries (note 30)	974.0	50.4
On disposal of joint ventures and associates (note 31)	(0.4)	–
Exchange adjustments	(77.2)	(3.8)
At 31 March	2,510.8	1,614.4
Accumulated impairment		
At 1 April	4.8	4.8
Impairment charge	–	–
At 31 March	4.8	4.8
Net book value at 31 March	2,506.0	1,609.6

During the year, the goodwill was tested for impairment in accordance with IAS 36. The recoverable amount for all the cash-generating units (CGUs) has been measured based on a value-in-use calculation derived from Board approved three year budgeted cash flows and extrapolated cash flows thereafter based on an estimated growth rate of 3% (effectively zero real growth allowing for inflation). 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% (2014: 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:

	2015 £m	2014 £m
Marine and Technology	429.5	429.5
Defence and Security	627.2	626.5
Support Services	590.9	551.3
International	858.4	2.3
	2,506.0	1,609.6

### 13. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	IFRIC 12 intangibles £m	Software development costs and licences £m	Development costs and other £m	Total £m
<b>Cost</b>							
At 1 April 2014	587.6	6.4	594.0	5.9	48.7	–	648.6
Additions	–	–	–	–	22.4	1.0	23.4
On acquisition of subsidiaries (note 30)	560.9	16.9	577.8	–	2.3	2.6	582.7
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	1,118.1	22.0	1,140.1	5.9	66.4	3.2	1,215.6
<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	689.2	16.3	705.5	2.9	34.4	3.1	745.9
<b>Cost</b>							
At 1 April 2013	566.6	–	566.6	5.9	32.9	–	605.4
Additions	–	–	–	–	16.1	–	16.1
On acquisition of subsidiaries (note 30)	21.9	6.4	28.3	–	0.2	–	28.5
Exchange adjustments	(0.9)	–	(0.9)	–	(0.5)	–	(1.4)
At 31 March 2014	587.6	6.4	594.0	5.9	48.7	–	648.6
<b>Accumulated amortisation and impairment</b>							
At 1 April 2013	283.5	–	283.5	2.6	20.1	–	306.2
Amortisation charge	59.0	0.2	59.2	0.2	7.3	–	66.7
Exchange adjustments	0.2	–	0.2	–	(0.3)	–	(0.1)
At 31 March 2014	342.7	0.2	342.9	2.8	27.1	–	372.8
Net book value at 31 March 2014	244.9	6.2	251.1	3.1	21.6	–	275.8

All amortisation charges for the year have been charged through cost of sales.

The reclassification relates to assets that should be 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.

## Notes to the Group financial statements *continued*

### 14. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
<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 30)	22.7	0.8	12.7	453.6	134.9	624.7
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	433.9	489.5	90.1	1,130.2
<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	242.6	472.8	90.1	878.0
<b>Cost</b>						
At 1 April 2013	68.5	6.3	349.2	–	–	424.0
Exchange adjustments	(0.3)	–	(15.3)	–	–	(15.6)
On acquisition of subsidiaries (note 30)	–	–	1.9	–	–	1.9
Additions	8.9	1.7	45.2	–	–	55.8
Capitalised borrowing costs	–	–	0.6	–	–	0.6
Disposals	(1.0)	–	(14.5)	–	–	(15.5)
At 31 March 2014	76.1	8.0	367.1	–	–	451.2
<b>Accumulated depreciation</b>						
At 1 April 2013	30.8	2.7	141.6	–	–	175.1
Exchange adjustments	–	–	(5.0)	–	–	(5.0)
Charge for the year	3.8	0.8	35.4	–	–	40.0
Disposals	(0.3)	–	(10.7)	–	–	(11.0)
At 31 March 2014	34.3	3.5	161.3	–	–	199.1
Net book value at 31 March 2014	41.8	4.5	205.8	–	–	252.1

The reclassification of plant and equipment relates 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:

	2015 £m	2014 £m
Cost	217.2	31.5
Aggregate depreciation	(11.4)	(7.1)
Net book value	205.8	24.4

## 15. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
At 1 April	52.3	18.6	50.6	51.1	102.9	69.7
Joint ventures and associates acquired	8.3	–	–	–	8.3	–
Disposal of joint ventures and associates (note 31)	5.2	–	(6.3)	–	(1.1)	–
Loans to/(repayments from) joint ventures and associates	(0.3)	–	(7.1)	(1.5)	(7.4)	(1.5)
Investment in joint ventures and associates	–	(0.1)	–	–	–	(0.1)
Share of profits	29.4	20.9	–	–	29.4	20.9
Interest accrued	–	–	4.4	4.6	4.4	4.6
Interest received	–	–	(3.0)	(3.6)	(3.0)	(3.6)
Dividend received	(19.5)	(4.8)	–	–	(19.5)	(4.8)
Fair value adjustment of derivatives	(42.6)	23.1	–	–	(42.6)	23.1
Tax on fair value adjustment of derivatives	4.5	(5.3)	–	–	4.5	(5.3)
Foreign exchange	(1.0)	(0.1)	–	–	(1.0)	(0.1)
At 31 March	36.3	52.3	38.6	50.6	74.9	102.9

Included within investment in joint venture and associates is goodwill of £1.2 million (2014: £1.2 million).

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2015							
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	40%
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	

## Notes to the Group financial statements *continued*

### 15. 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>2014</b>							
Holdfast Training Services Limited	United Kingdom	38.1	(26.9)	15.4	0.9	–	74%
ALC (Superholdco) Limited	United Kingdom	64.3	(47.9)	18.8	6.1	5.2	50%
Airtanker Limited	United Kingdom	361.5	(321.0)	51.1	2.3	5.5	13%
Airtanker Services Limited	United Kingdom	44.9	(23.4)	22.0	2.5	1.9	23%
Ascent Flight Training (Holdings) Limited	United Kingdom	41.9	(32.1)	8.5	2.1	3.5	50%
Greenwich BSF SPV Limited	United Kingdom	55.8	(57.2)	1.6	0.2	–	50%
Lewisham Schools for the Future LEP Limited	United Kingdom	87.9	(75.4)	2.4	0.4	0.2	40%
Cavendish Dounreay Partnership Limited	United Kingdom	8.1	(5.8)	78.3	4.7	3.7	50%
Other		19.6	(29.5)	28.5	2.7	0.9	
		722.1	(619.2)	226.6	21.9	20.9	

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 a 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 £6.2 million was cash and cash equivalents. During the year dividends of £2.2 million were received. The retained profit is after income tax expense of £1.0 million.

### 16. Deferred tax

	2015 £m	2014 £m
Deferred tax asset	132.2	46.6
Deferred tax liability	(184.6)	(2.4)
	(52.4)	44.2

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
<b>At 1 April 2014</b>	(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 30)	2.3	–	27.6	(126.7)	(96.8)
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	(95.9)	(52.4)
<b>At 1 April 2013</b>	(8.8)	60.1	0.8	(12.7)	39.4
Income statement credit	–	13.9	–	15.3	29.2
Tax credit to equity	–	9.9	–	3.8	13.7
Transfer to corporation tax	–	(22.3)	–	(3.1)	(25.4)
Acquisition of subsidiaries (note 30)	–	–	–	(6.5)	(6.5)
Effect of change in UK tax rate					
– Income statement	1.2	–	–	1.2	2.4
– Equity	–	(8.0)	–	(1.5)	(9.5)
Exchange differences	–	–	–	0.9	0.9
<b>At 31 March 2014</b>	(7.6)	53.6	0.8	(2.6)	44.2

## 16. Deferred tax (continued)

The net deferred tax liability of £52.4 million includes a deferred tax asset of £43.0 million and a deferred tax liability of £84.1 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:

	2015 £m	2014 £m
Deferred tax asset	132.2	53.6
Deferred tax liability	(181.6)	(7.8)
	(49.4)	45.8

Deferred tax expected to be recovered within 12 months:

	2015 £m	2014 £m
Deferred tax asset	–	–
Deferred tax liability	(29.1)	(10.8)
	(29.1)	(10.8)

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses and advance corporation tax) of £123.0 million (2014: £16.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil million (2014: £nil million) of such losses, which may be carried forward.

## 17. Inventories

	2015 £m	2014 £m
Raw materials and spares	54.3	18.6
Work-in-progress and long-term contracts	19.2	6.7
Finished goods and goods for resale	81.9	80.6
<b>Total</b>	<b>155.4</b>	<b>105.9</b>

## 18. Trade and other receivables

	2015 £m	2014 £m
<b>Current assets</b>		
Trade receivables	285.1	198.9
Less: provision for impairment of receivables	–	(3.0)
Trade receivables – net	285.1	195.9
Amounts due from customers for contract work	187.3	238.8
Retentions	3.5	5.1
Amounts owed by related parties (note 36)	25.9	12.2
Other debtors	83.4	36.5
Prepayments and accrued income	158.4	89.0
	743.6	577.5
<b>Non-current assets</b>		
Other debtors	27.1	1.2

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

As of 31 March 2015, trade receivables of £4.2 million (2014: £3.0 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £nil (2014: £3.0 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.

## Notes to the Group financial statements *continued*

### 18. Trade and other receivables (continued)

The ageing of the net impaired receivables is as follows:

	2015 £m	2014 £m
Less than three months	0.5	–
Three to six months	–	–
Over six months	3.7	–
	4.2	–

As of 31 March 2015, trade receivables of £22.3 million (2014: £26.8 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:

	2015 £m	2014 £m
Less than three months	15.7	21.5
Three to six months	4.9	3.6
Over six months	1.7	1.7
	22.3	26.8

Movements on the provision for impairment of trade receivables are as follows:

	2015 £m	2014 £m
Balance at 1 April	(3.0)	(3.7)
Provision for receivables impairment	(1.7)	(1.6)
Receivables written off during the year as uncollectable	0.1	0.4
Unused amounts reversed	3.4	1.6
Exchange differences	1.2	0.3
Balance at 31 March	–	(3.0)

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 22).

## 19. Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	117.1	71.5
Short-term bank deposits (overnight)	13.5	14.8
	130.6	86.3

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

Currency	2015		2014	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	59.4	59.4	42.5	42.5
Euro	12.3	12.3	9.2	9.2
US Dollar	8.5	8.5	1.7	1.7
South African Rand	25.3	25.3	22.0	22.0
Canadian Dollar	4.2	4.2	2.9	2.9
Omani Rial	4.2	4.2	1.2	1.2
Australian Dollar	5.3	5.3	0.4	0.4
New Zealand Dollar	5.2	5.2	4.1	4.1
Brazilian Rial	0.9	0.9	2.0	2.0
Other currencies	5.3	5.3	0.3	0.3
	130.6	130.6	86.3	86.3

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.

## 20. Trade and other payables

	2015 £m	2014 £m
<b>Current liabilities</b>		
Contract cost accruals	183.8	215.8
Amounts due to customers for contract work	273.7	201.8
Trade creditors	257.3	217.0
Amounts owed to related parties (note 36)	3.5	0.5
Other creditors	54.6	35.2
Other taxes and social security	95.6	60.9
Accruals and deferred income	293.9	243.2
	1,162.4	974.4
<b>Non-current liabilities</b>		
Other creditors	6.8	9.2

Included in trade creditors is £16.5 million (2014: £nil) relating to capital expenditure and has therefore not been included in working capital movements within the cashflow.

## Notes to the Group financial statements *continued*

### 21. Bank and other borrowings

	2015 £m	2014 £m
<b>Current liabilities</b>		
Bank loans and overdrafts due within one year or on demand		
Secured	15.5	1.9
Unsecured	16.9	12.9
	32.4	14.8
Finance lease obligations*	32.4	2.9
	64.8	17.7
<b>Non-current liabilities</b>		
Bank and other borrowings		
Secured	41.5	11.3
Unsecured	1,338.2	622.2
	1,379.7	633.5
Finance lease obligations*	115.6	15.9
	1,495.3	649.4

\* 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 22.

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2015		
Currency	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

	2014		
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	253.5	140.3	113.2
South African Rand	6.8	6.8	–
US Dollar*	393.2	–	393.2
Other	13.6	13.6	–
	667.1	160.7	506.4

\* US\$ 650 million have been swapped into Sterling, with US\$ 300 million equivalent into floating rates and US\$ 350 million equivalent.

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.

## 21. Bank and other borrowings (continued)

The exposure of the Group to interest rate changes when borrowings re-price is as follows:

	1 year £m	1–5 years £m	>5 years £m	Total £m
Total borrowings				
As at 31 March 2015	734.2	197.4	628.5	1,560.1
As at 31 March 2014	343.0	156.5	167.6	667.1

The effective interest rates at the balance sheet dates were as follows:

	2015 %	2014 %
UK bank overdraft	1.5	1.5
UK bank borrowings	2.0	3.0
US private placement – fixed	5.7	5.7
US private placement – floating	2.3	3.1
Eurobond	1.8	–
Other borrowings	4.8 – 14.0	4.8 – 12.0
Finance leases	0.9 – 10.0	4.6 – 10.0

### Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2015		2014	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	32.4	32.4	14.8	2.9
Between one and two years	60.0	23.8	1.7	5.3
Between two and five years	571.9	51.3	281.6	3.9
Greater than five years	747.8	40.5	350.2	6.7
	1,412.1	148.0	648.3	18.8

### Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2015 £m	2014 £m
Expiring in less than one year	12.4	24.7
Expiring in more than one year but not more than five years	396.2	373.0
	408.6	397.7

The minimum lease payments under finance leases fall due as follows:

	2015 £m	2014 £m
Not later than one year	39.7	3.9
Later than one year but not more than five years	92.6	10.3
More than five years	43.0	9.0
	175.3	23.2
Future finance charges on finance leases	(27.3)	(4.4)
Present value of finance lease liabilities	148.0	18.8

## Notes to the Group financial statements *continued*

### 22. Other financial assets and liabilities

#### Financial instruments and finance leases granted

	Fair value			
	Assets		Liabilities	
	2015 £m	2014 £m	2015 £m	2014 £m
<b>Non-current</b>				
US private placement – currency and interest rate swaps	52.2	–	–	3.5
Non-controlling interest put option	–	–	7.8	8.8
Financial instruments	52.2	–	7.8	12.3
Finance leases granted	9.6	–	–	–
<b>Total non-current other financial assets and liabilities</b>	<b>61.8</b>	<b>–</b>	<b>7.8</b>	<b>12.3</b>
<b>Current</b>				
Interest rate hedges	–	–	–	6.7
Other currency hedges	8.8	9.6	27.9	5.0
Financial instruments	8.8	9.6	27.9	11.7
Finance leases granted	3.5	–	–	–
<b>Total current other financial assets and liabilities</b>	<b>12.3</b>	<b>9.6</b>	<b>27.9</b>	<b>11.7</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 discount rate of 8%.

#### Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2015 included £11.4 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 2015:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
<b>Hedged</b>				
Interest rate swap	6.0	5.45	0.62219	31/3/2019
Interest rate swap	5.4	4.745	0.62219	31/3/2029
<b>Total interest rate swaps</b>	<b>11.4</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>		

## 22. Financial instruments (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 £13.2 million, these were split as £3.5 million due within one year and £9.7 million between one and five years.

### Fair value of financial assets and financial liabilities

The fair values of financial assets and liabilities at the balance sheet date were:

	2015		2014	
	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	(1,495.3)	(1,494.7)	(649.4)	(648.8)
Loan to joint venture	38.6	38.6	50.6	50.6
	(1,456.7)	(1,456.1)	(598.8)	(598.2)
<b>Fair value of other financial assets and financial liabilities</b>				
Short-term borrowings	(64.8)	(64.8)	(17.7)	(17.7)
Trade and other payables*	(1,126.5)	(1,125.7)	(962.0)	(960.7)
Trade and other receivables	770.7	770.7	578.7	578.7
Other financial assets – IFRIC 12	19.2	19.2	20.5	20.5
Short-term deposits	13.5	13.5	14.8	14.8
Cash at bank and in hand	117.1	117.1	71.5	71.5
Income tax receivable	24.7	24.7	28.0	28.0
Income tax payable	(5.7)	(5.7)	–	–
Other financial assets and (liabilities)	38.4	38.4	(14.4)	(14.4)
	(213.4)	(212.6)	(280.6)	(279.3)

\* 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% (2014: 4% to 5%).

## Notes to the Group financial statements *continued*

### 23. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Reorganisation costs (c) £m	Acquisition/ deferred consideration (d) £m	Employee benefits (e) £m	Property and other (f) £m	Total provisions £m
At 1 April 2014	3.3	39.7	7.2	18.5	–	76.4	145.1
On acquisition of subsidiaries (note 30)	–	2.8	2.5	16.2	9.8	56.0	87.3
(Released)/charged to income statement	(1.9)	(7.6)	3.5	–	0.9	7.4	2.3
Utilised in year	(0.2)	(0.9)	(3.1)	(13.4)	(1.7)	(20.7)	(40.0)
Foreign exchange	–	(0.4)	–	(0.9)	(0.7)	(3.2)	(5.2)
At 31 March 2015	1.2	33.6	10.1	20.4	8.3	115.9	189.5

Provisions have been analysed between current and non-current as follows:

	2015 £m	2014 £m
Current	29.7	50.1
Non-current	159.8	95.0
	189.5	145.1

Of the utilised amount, £14.3 million relates to deferred consideration plus costs on disposal of business. £9.0 million relates to exceptional items provided for in 2013/14 and paid in 2014/15.

- (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 reorganisation costs arise mainly in relation to acquired businesses personnel related costs.
- (d) Acquisition/deferred consideration arises from acquisitions during the year and costs on the acquisition of Avincis.
- (e) The employee benefits arise from acquisitions and relate mainly to payroll taxes.
- (f) 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 £14 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.

### 24. Share capital

	Ordinary shares of 60p Number	Total £m
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
At 1 April 2013	362,071,802	217.2
Shares issued	2,130	–
At 31 March 2014	362,073,932	217.2

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.

## 24. 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 2015 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 7,114,845 (2014: 6,159,046) shares – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of 169,088 (2014: 160,710) 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	2015 Number	2014 Number
06 July 2004	Option – vested	126.00	06/07/2007 – 05/07/2014	–	11,870
24 July 2006	LTIP <sup>1</sup> – vested	–	24/07/2009 – 23/07/2016	–	17,060
19 June 2008	LTIP <sup>1</sup> – vested	–	19/06/2011 – 18/06/2018	–	10,781
11 September 2009	PSP <sup>2</sup> – vested	–	11/09/2012 – 10/09/2013	–	105,672
11 September 2009	CSOP <sup>3</sup> – vested	–	11/09/2012 – 10/09/2013	–	38,347
13 July 2010	PSP <sup>2</sup> – vested	–	13/07/2013 – 12/07/2014	–	280,412
13 July 2010	CSOP <sup>3</sup> – vested	–	13/07/2013 – 12/07/2014	–	30,963
14 June 2011	PSP <sup>2</sup> – vested in year	–	14/06/2014 – 13/06/2015	147,151	1,499,186
14 June 2011	CSOP <sup>3</sup> – vested in year	–	14/06/2014 – 13/06/2015	24,964	77,110
14 June 2012	PSP <sup>2</sup>	–	14/06/2015 – 13/06/2016	1,579,367	1,415,101
14 June 2012	CSOP <sup>3</sup>	–	14/06/2015 – 13/06/2016	71,664	63,857
16 July 2012	PSP <sup>2</sup>	–	16/07/2015 – 15/07/2016	36,808	32,454
24 January 2013	PSP <sup>2</sup>	–	24/01/2016 – 24/01/2017	13,175	11,617
16 July 2012	DBMP <sup>4</sup>	–	16/07/2015 – 15/07/2016	555,869	490,116
13 June 2013	PSP <sup>2</sup>	–	13/06/2016 – 13/06/2017	1,385,901	1,244,269
13 June 2013	CSOP <sup>3</sup>	–	13/06/2016 – 13/06/2017	108,664	102,658
13 June 2013	DBMP <sup>4</sup>	–	13/06/2016 – 13/06/2017	1,010,896	891,351
13 June 2013	DBMP <sup>5</sup>	–	13/06/2015 – 13/06/2016	9,982	8,802
14 June 2014	PSP <sup>2</sup>	–	12/06/2017 – 12/06/2018	1,462,757	–
29 January 2015	PSP <sup>2</sup>	–	29/01/2018 – 29/01/2019	14,196	–
14 June 2014	DBMP <sup>4</sup>	–	12/06/2017 – 12/06/2018	853,803	–
14 June 2014	DBMP <sup>5</sup>	–	12/06/2016 – 12/06/2017	8,736	–
				<b>7,283,933</b>	<b>6,331,626</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.

## Notes to the Group financial statements *continued*

### 24. 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.

	2015		2014	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	255,979	17,974	893,062	223,568
PEST	5,966	–	44,509	–
<b>Total</b>	<b>261,945</b>	<b>17,974</b>	<b>937,571</b>	<b>223,568</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:

	2015		2014	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 April	12	£1.26	55	£1.24
Rights issue adjustment	1	–	–	–
Exercised	(13)	£1.11	(43)	£1.23
Outstanding at 31 March	–	–	12	£1.26
Exercisable at 31 March	–	–	12	£1.26

The weighted average share price for options exercised during the year was 1,210p per share (2014: 1,283.07p per share).

A reconciliation of LTIP, PSP, CSOP and DBMP movements is shown below:

	2015	2014
	Number '000	Number '000
Outstanding at 1 April	6,320	6,084
Granted	2,427	2,292
Rights issue adjustment	847	–
Exercised	(1,970)	(1,505)
Forfeited/lapsed	(340)	(551)
Outstanding at 31 March	7,284	6,320
Exercisable at 31 March	172	483

The weighted average share price for awards exercised during the year was 1,150.04p per share (2014: 1,192.68p per share).

During the year 869,535 ordinary shares (2014: nil shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts') and a further 446,591 ordinary shares were acquired by the Trusts via the rights issue. The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2015 2,197,346 shares (2014: 1,879,953) were disposed of by the Trusts resulting from options exercised. At 31 March 2015, the Trusts held between them a total of 279,919 (2014: 1,161,139) ordinary shares at a total market value of £2,755,803 (2014: £15,640,542) representing 0.06% (2014: 0.32%) 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.

## 25. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £15.4 million (2014: £12.2 million) all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £12.2million (2014: £9.4 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
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	40%	549.9	1,018.4	46%	15/8/13
2013 PSP <sup>2</sup>	1,310,577	1,155.0	16.0%	4.0	40%	559.1	1,018.4	46%	15/8/13
2013 PSP Funding <sup>2</sup>	122,015	1,155.0	16.0%	4.0	40%	496.0	933.8	46%	15/8/13
2013 CSOP <sup>2</sup>	122,015	1,155.0	16.0%	4.0	40%	84.6	63.1	46%	15/8/13
2012 DBMP Matching <sup>2</sup>	370,583	874.5	18.0%	4.0	65%	549.7	771.0	46%	16/7/12
2012 PSP <sup>2</sup>	36,808	874.5	18.0%	4.0	65%	554.4	771.0	46%	16/7/12
2012 PSP Main <sup>2</sup>	1,575,789	879.5	18.0%	4.0	65%	576.2	775.5	46%	14/6/12
2012 PSP Funding <sup>2</sup>	79,663	879.5	18.0%	4.0	65%	507.2	698.7	46%	14/6/12
2012 CSOP <sup>2</sup>	79,663	879.5	18.0%	4.0	65%	69.0	76.8	46%	14/6/12

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 45,104 matching shares (2014: 6,909 matching shares) at a cost of £0.5 million (2014: £0.1 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.

## 26. Retirement benefits and liabilities

### Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2015 £m	2014 £m
Defined contribution schemes	51.3	42.5

### Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2015 £m	2014 £m
Retirement benefits – funds in surplus	45.6	15.2
Retirement benefits – funds in deficit	(214.4)	(282.9)
	(168.8)	(267.7)

## Notes to the Group financial statements *continued*

### 26. Retirement benefits and liabilities (continued)

The Group has a number of pension schemes around the world covering many of its employees. The principal schemes are those in the UK where the Group operates three defined benefit pension schemes for employees in 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 the pensioners and their spouses and through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments.

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 shared such that the employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. 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. Valuations of the Devonport Royal Dockyard scheme and the Railways 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	31/03/11	01/04/13	31/03/12	31/12/10
Number of active members at above date	3,328	1,827	943	481
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£977.0m	£1,051.0m	£470.0m	£189.0m
Level of funding	90%	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 £m	Babcock International Group Scheme £m	Rosyth Royal Dockyard Scheme £m	Babcock Rail Ltd section of the Railways Pension Scheme £m	Other £m	Total £m
Future service contribution rate	19.1%	22.0%	16.6%	18.0%	–	–
Future service cash contributions	£19.0m	£10.8m	£5.2m	£1.7m	£9.3m	£46.0m
Deficit contributions	£13.5m	£6.0m	£8.7m	–	£2.3m	£30.5m
Longevity swap payments	£1.8m	£1.4m	£1.8m	–	–	£5.0m
<b>Expected employer cash costs for 2015/16</b>	<b>£34.3m</b>	<b>£18.2m</b>	<b>£15.7m</b>	<b>£1.7m</b>	<b>£11.6m</b>	<b>£81.5m</b>

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.

## 26. 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 2015 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 2015				
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	3.4%	3.4%	3.4%	3.4%
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)	86.7	88.0	84.3	86.7
Total life expectancy for future pensioners currently aged 45 (years)	88.1	89.7	85.8	89.1

The fair value of the assets, and the present value of the liabilities of the Group pensions schemes at 31 March were as follows:

	2015				2014			
	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	805.3	107.3	88.7	1,001.3	659.6	98.2	97.8	855.6
Property	161.5	27.4	8.1	197.0	134.3	25.4	6.8	166.5
Absolute return and multi strategy funds	45.4	16.1	13.9	75.4	47.4	14.1	5.0	66.5
Low risk assets								
Bonds	925.0	68.6	82.7	1,076.3	1,023.8	61.6	83.3	1,168.7
Matching assets*	1,536.6	0.5	106.5	1,643.6	942.9	0.9	67.8	1,011.6
Collateral	88.5	–	–	88.5	51.9	–	–	51.9
Active position on longevity swaps	(144.1)	–	–	(144.1)	(100.7)	–	–	(100.7)
<b>Fair value of assets</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>
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	1,288.4	72.0	155.9	1,516.3	1,065.5	58.9	144.5	1,268.9
Deferred pensioners	748.1	68.2	77.2	893.5	633.8	57.4	57.6	748.8
Pensioners	1,524.1	102.9	69.8	1,696.8	1,330.0	92.6	47.4	1,470.0
<b>Total liabilities</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>
<b>Deficit/(surplus)</b>	<b>142.4</b>	<b>23.2</b>	<b>3.0</b>	<b>168.6</b>	<b>270.1</b>	<b>8.7</b>	<b>(11.2)</b>	<b>267.6</b>
Present value of unfunded obligations	–	–	0.2	0.2	–	–	0.1	0.1
<b>Net liabilities/(assets) recognised in the balance sheet</b>	<b>142.4</b>	<b>23.2</b>	<b>3.2</b>	<b>168.8</b>	<b>270.1</b>	<b>8.7</b>	<b>(11.1)</b>	<b>267.7</b>

\* Included within matching assets are government bonds which are shown net of repurchase obligations of £1,847 million (2014: £1,913 million).

The schemes do not invest directly in assets or shares of the Group.

## Notes to the Group financial statements *continued*

### 26. Retirement benefits and liabilities (continued)

The amounts recognised in the Group income statement are as follows:

	2015				2014			
	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	36.6	1.7	2.0	40.3	40.5	1.9	1.6	44.0
Incurred expenses	3.3	0.1	0.2	3.6	5.1	0.1	0.1	5.3
Total included within operating profit	39.9	1.8	2.2	43.9	45.6	2.0	1.7	49.3
Net interest cost	11.2	0.4	(0.6)	11.0	10.2	0.8	(0.1)	10.9
Total included within operating profit	51.1	2.2	1.6	54.9	55.8	2.8	1.6	60.2

### Amounts recorded in the Group statement of comprehensive income

	2015				2014			
	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	627.1	20.4	35.2	682.7	(112.3)	9.6	23.6	(79.1)
Experience losses arising on scheme liabilities	(2.4)	(10.7)	(7.3)	(20.4)	(28.1)	(6.0)	(1.7)	(35.8)
Changes in assumptions on scheme liabilities	(489.0)	(23.9)	(44.8)	(557.7)	75.7	7.0	(14.4)	68.3
Other gains/(losses)	(38.6)	–	–	(38.6)	3.6	–	–	3.6
At 31 March	97.1	(14.2)	(16.9)	66.0	(61.1)	10.6	7.5	(43.0)

## 26. Retirement benefits and liabilities (continued)

### Analysis of movement in the Group balance sheet

	2015				2014			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	2,759.2	200.2	260.7	3,220.1	2,780.2	189.4	235.2	3,204.8
Settlements	–	–	–	–	–	–	(3.3)	(3.3)
Interest on assets	128.1	5.4	5.6	139.1	125.6	4.9	5.0	135.5
Interest on reimbursement rights	(4.5)	–	–	(4.5)	(4.4)	–	–	(4.4)
Actuarial gain/(loss) on assets	627.1	20.4	35.2	682.7	(112.3)	9.6	23.6	(79.1)
Actuarial (loss)/gain on reimbursement rights – demographics	(4.2)	–	–	(4.2)	18.6	–	–	18.6
Actuarial (loss)/gain on reimbursement rights – financial	(28.7)	–	–	(28.7)	4.2	–	–	4.2
Experience loss on reimbursement rights	(6.0)	–	–	(6.0)	(19.2)	–	–	(19.2)
Employer contributions	81.9	1.8	4.3	88.0	89.9	2.0	4.9	96.8
Employee contributions	3.2	0.9	0.9	5.0	3.5	1.0	0.9	5.4
Benefits paid	(137.9)	(8.8)	(6.8)	(153.5)	(126.9)	(6.7)	(5.6)	(139.2)
At 31 March	3,418.2	219.9	299.9	3,938.0	2,759.2	200.2	260.7	3,220.1
Present value of benefit obligations								
At 1 April	3,029.3	208.9	249.5	3,487.7	3,023.2	207.8	234.8	3,465.8
Settlements	–	–	–	–	–	–	(3.3)	(3.3)
Service cost	36.6	1.7	2.0	40.3	40.5	1.9	1.6	44.0
Incurred expenses	3.3	0.1	0.2	3.6	5.1	0.1	0.1	5.3
Interest cost	134.7	5.6	5.1	145.4	131.5	5.8	4.9	142.2
Employee contributions	3.2	0.9	0.9	5.0	3.5	1.0	0.9	5.4
Experience losses	2.4	10.7	7.3	20.4	28.1	6.0	1.7	35.8
Actuarial (gain)/loss – demographics	(6.1)	–	(0.3)	(6.4)	35.7	–	–	35.7
Actuarial loss/(gain) – financial	495.1	24.0	45.0	564.1	(111.4)	(7.0)	14.4	(104.0)
Benefits paid	(137.9)	(8.8)	(6.8)	(153.5)	(126.9)	(6.7)	(5.6)	(139.2)
At 31 March	3,560.6	243.1	302.9	4,106.6	3,029.3	208.9	249.5	3,487.7
Present value of unfunded obligations	–	–	(0.2)	(0.2)	–	–	(0.1)	(0.1)
Net (deficit)/surplus at 31 March	(142.4)	(23.2)	(3.2)	(168.8)	(270.1)	(8.7)	11.1	(267.7)

The movement in net deficits for the year ending 31 March 2015 is as a result of the movement in assets and liabilities shown above.

## Notes to the Group financial statements *continued*

### 26. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2015 and the charges to the Group income statement for the year to March 2016, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2015 £m	Income statement 2016 £m
Initial assumptions	4,106.6	55.9
Discount rate assumptions increased by 0.5%	(317.0)	(16.5)
Discount rate assumptions decreased by 0.5%	317.0	13.1
Inflation rate assumptions increased by 0.5%	192.8	9.2
Inflation rate assumptions decreased by 0.5%	(175.6)	(8.1)
Total life expectancy increased by half a year	54.7	2.5
Total life expectancy decreased by half a year	(54.7)	(2.2)
Salary increase assumptions increased by 0.5%	50.2	3.6
Salary increase assumptions decreased by 0.5%	(49.8)	(3.2)

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.

### 27. Reconciliation of operating profit to cash generated from operations

	2015 £m	2014 £m
<b>Cash flows from operating activities</b>		
Operating profit before amortisation of acquired intangible and exceptional items	445.9	317.2
Amortisation of acquired intangible and exceptional items	(93.6)	(84.1)
<b>Group operating profit</b>	<b>352.3</b>	<b>233.1</b>
Depreciation of property, plant and equipment	71.0	40.0
Amortisation of intangible assets	101.1	66.7
Investment income	1.4	1.5
Equity share-based payments	15.4	12.2
Profit on disposal of joint ventures and associates	(8.5)	–
(Profit)/loss on disposal of property, plant and equipment	(0.1)	0.3
<b>Operating cash flows before movement in working capital</b>	<b>532.6</b>	<b>353.8</b>
Decrease/(increase) in inventories	2.4	(43.7)
Increase in receivables	(29.5)	(67.6)
Increase in payables	3.7	91.3
Decrease in provisions	(14.3)	(31.3)
Exceptional items – acquisition costs	(24.2)	24.2
Retirement benefit contributions in excess of income statement	(43.9)	(47.2)
<b>Cash generated from operations</b>	<b>426.8</b>	<b>279.5</b>

## 28. Movement in net debt

	2015 £m	2014 £m
Increase/(decrease) in cash in the year	48.4	(14.0)
Cash flow from the decrease in debt and lease financing	92.4	4.5
Change in net funds resulting from cash flows	140.8	(9.5)
Loans and finance leases acquired with subsidiaries	(978.1)	(1.3)
New finance leases – received	(39.2)	(19.0)
New finance leases – granted	15.7	–
Movement in joint venture and associate loans	(12.0)	(0.5)
Foreign currency translation differences and other	80.9	(3.9)
Movement in net debt in the year	(791.9)	(34.2)
Net debt at the beginning of the year	(533.7)	(499.5)
Net debt at the end of the year	(1,325.6)	(533.7)

## 29. Changes in net debt

	31 March 2014 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	31 March 2015 £m
Cash and bank balances	86.3	(40.0)	91.8	–	(7.5)	130.6
Bank overdrafts	(15.1)	(3.4)	–	–	0.4	(18.1)
<b>Cash, cash equivalents and bank overdrafts</b>	<b>71.2</b>	<b>(43.4)</b>	<b>91.8</b>	<b>–</b>	<b>(7.1)</b>	<b>112.5</b>
Debt	(633.2)	55.3	(832.0)	–	15.9	(1,394.0)
Finance leases – received	(18.8)	39.7	(146.1)	(39.2)	16.4	(148.0)
Finance leases – granted	–	(2.6)	–	15.7	–	13.1
	(652.0)	92.4	(978.1)	(23.5)	32.3	(1,528.9)
Net debt before derivatives and joint venture and associates loans	(580.8)	49.0	(886.3)	(23.5)	25.2	(1,416.4)
Net debt derivative	(3.5)	–	–	–	55.7	52.2
Joint venture and associate loans	50.6	(12.0)	–	–	–	38.6
<b>Net debt</b>	<b>(533.7)</b>	<b>37.0</b>	<b>(886.3)</b>	<b>(23.5)</b>	<b>80.9</b>	<b>(1,325.6)</b>

## 30 (a). Acquisitions – current year

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 (SEK 84.2 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 acquires 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.

On 31 March 2015 the Group acquired 100% of DSG Land Equipment Support Limited (DSG) for £140 million. 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.

## Notes to the Group financial statements *continued*

### 30 (a). Acquisitions – current year (continued)

Details of the provisional fair value of assets acquired and the provisional goodwill are as follows:

	Avincis £m	SAA £m	WRN £m	MacNeillie £m	DSG £m	Total £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	–	16.1
Purchase consideration	899.5	25.3	11.5	66.3	140.0	1,142.6
Fair value of assets acquired (see below)	(5.2)	(2.5)	2.1	34.2	140.0	168.6
<b>Goodwill</b>	904.7	27.8	9.4	32.1	–	974.0

Net assets and liabilities arising from the acquisition are as follows:

	Avincis Provisional fair value acquired £m	SAA Provisional fair value acquired £m	WRN Provisional fair value acquired £m	MacNeillie Provisional fair value acquired £m	DSG Provisional fair value acquired £m	Total Provisional fair value acquired £m
Acquired intangibles*	413.5	15.5	2.9	15.3	130.6	577.8
Other intangible assets	4.9	–	–	–	–	4.9
Property, plant and equipment	574.2	41.4	3.4	3.2	2.5	624.7
Investments	8.3	–	–	–	–	8.3
Deferred tax	(65.8)	(1.4)	(0.4)	(3.1)	(26.1)	(96.8)
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	25.8	56.1
Current assets	138.9	5.9	1.9	6.4	24.8	177.9
Current and non-current liabilities	(162.3)	(23.0)	(3.5)	(13.8)	(17.6)	(220.2)
Provisions	(68.4)	(1.3)	(0.8)	(0.2)	–	(70.7)
Non-controlling interest	–	0.4	–	–	–	0.4
<b>Net assets acquired</b>	(5.2)	(2.5)	2.1	34.2	140.0	168.6

\* Acquired intangibles are: customer relationships, both contracted and non-contracted plus brand valuations (see note 13).

Cash outflow to acquire businesses net of cash acquired:

	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>	832.5	9.0	3.9	49.3	140.0	4.4	1,039.1

### 30 (a). Acquisitions – current year (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:

	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

	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 (b). Acquisitions – prior year

On 23 July 2013 the Group acquired Conbras Engenharia Ltda (Conbras), a privately owned Brazilian company, for a consideration of £22.6 million (R\$75 million), including a maximum £4.4 million (R\$15 million) deferred consideration based on an earn out payable to non-employees based on financial performance. The full deferred consideration was paid subsequent to the year end. Conbras operates in the facilities management sector, serving private and public customers across Brazil.

On 16 December 2013 the Group acquired Context Information Security Limited (Context) for a consideration of £33.0 million including £4 million of deferred consideration which is payable over three years. Context provides specialist technical consultancy services in the cyber-security market, with offices in London, Germany and Australia.

On 10 December 2013 the Group acquired Skills2Learn Limited for a consideration of £7.3 million including £1.5 million deferred consideration which is repayable which is payable over three years. Skills2Learn is one of the UK's premier developers of interactive digital learning and virtual reality simulation solutions. Deferred consideration relates to warranty obligations.

On 29 January the Group acquired National Training Institute LLC, (NTI) for a consideration of £12.3 million. NTI is an Oman based technical training specialist providing high quality training solutions to the energy, oil and gas, and construction sectors in Oman.

The goodwill arising on the acquisitions derives from the market position of the entities involved and the value of the workforce acquired.

## Notes to the Group financial statements *continued*

### 30 (b). Acquisitions – prior year (continued)

Details of the assets acquired and the provisional goodwill are as follows:

	Conbras £m	Context £m	Other £m	Total £m
<b>Cost of acquisition</b>				
Cash paid	18.2	29.0	18.7	65.9
Deemed consideration	4.4	4.0	1.5	9.9
Purchase consideration	22.6	33.0	20.2	75.8
Fair value of assets acquired (see below)	6.5	12.3	6.6	25.4
<b>Goodwill</b>	16.1	20.7	13.6	50.4

Net assets and liabilities arising from the acquisition are as follows:

	Conbras Fair value acquired £m	Context Fair value acquired £m	Other Fair value acquired £m	Total Fair value acquired £m
Acquired intangibles*	9.3	13.5	5.5	28.3
Other intangibles assets	–	0.2	–	0.2
Property, plant and equipment	0.3	0.4	1.2	1.9
Deferred tax	(2.7)	(3.1)	(0.7)	(6.5)
Income tax	0.2	(0.1)	(0.2)	(0.1)
Cash, cash equivalents and bank overdraft	1.3	0.7	1.4	3.4
Bank loan	(1.3)	–	–	(1.3)
Current assets	8.9	2.9	3.8	15.6
Current and non-current liabilities	(6.8)	(2.0)	(2.0)	(10.8)
Provisions	(2.7)	(0.2)	(2.4)	(5.3)
<b>Net assets acquired</b>	6.5	12.3	6.6	25.4

\* Acquired intangibles are: customer relationships, both contracted and non-contracted (see note 13).

Cash outflow to acquire businesses net of cash acquired:

	Conbras £m	Context £m	Other £m	Total £m
Purchase consideration paid in cash	18.2	29.0	18.7	65.9
Cash, cash equivalents and bank overdrafts	(1.3)	(0.7)	(1.4)	(3.4)
<b>Cash outflow in period</b>	16.9	28.3	17.3	62.5

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2013 are:

	Conbras		Context		Other	
	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
Revenue	26.1	42.0	3.0	9.9	2.6	13.1
Operating profit	1.5	3.8	0.3	0.5	0.6	2.4

### 31. Disposals

In January 2015 the Group disposed of its 50% interest in Greenwich BSF SPV Limited (Greenwich) for £12 million.

During both the current and previous years the Group paid certain accrued costs on previously disposed of businesses.

During the previous period the Group received the deferred consideration on the disposal of the UKAEA Pension Administration Office.

Details of the final assets disposed of are:

	2015			2014		
	Greenwich £m	Previously disposed of business £m	Total £m	UKAEA Pensions £m	Previously disposed of business £m	Total £m
Goodwill	0.4	–	0.4	–	–	–
Investments in and loans to joint ventures and associates	1.1	–	1.1	–	–	–
Mark to market amortisation recycled from hedging reserve	0.7	–	0.7	–	–	–
Net assets disposed	2.2	–	2.2	–	–	–
Profit on disposal of joint ventures and associates	8.5	–	8.5	–	–	–
Disposal costs/Deferred consideration	1.3	–	1.3	4.2	–	4.2
Sale proceeds	12.0	–	12.0	4.2	–	4.2
Sale proceeds less cash disposed of	12.0	–	12.0	4.2	–	4.2
Less costs paid in the year	–	(9.9)	(9.9)	–	(3.5)	(3.5)
Net cash inflow/(outflow)	12.0	(9.9)	2.1	4.2	(3.5)	0.7

### 32. Transactions with non-controlling interests

During the 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.

There were no transactions with non-controlling interests in the previous financial year.

The following were the transactions with non-controlling interests:

	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	–	–
Transactions with non-controlling interests – 2015	5.5	(2.1)	4.3

## Notes to the Group financial statements *continued*

### 33. Operating lease commitments – minimum lease payments

	2015		2014	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:				
Within one year	33.8	65.0	19.9	29.0
Later than one year and less than five years	77.5	153.3	51.9	26.0
After five years	44.2	29.1	20.9	–
	155.5	247.4	92.7	55.0

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 £250.8 million (2014: £47.7 million) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

### 34. 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.

### 35. Capital and other financial commitments

	2015 £m	2014 £m
Contracts placed for future capital expenditure not provided in the financial statements	79.4	18.0

### 36. 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 15.

	2015 Revenue to £m	2015 Purchases from £m	2015 Year end debtors 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	9.8	–	3.8	3.5
FSP (2004) Limited	–	0.8	–	–
Ascent Flight Training (Management) Limited	1.5	–	0.3	–
Advanced Jet Training Limited	1.6	–	0.2	–
Rear Crew Training Limited	0.8	–	0.1	–
Airtanker Services Limited	12.0	–	1.3	–
ALC (Superholdco) Limited	2.3	–	–	–
Naval Ship Management (Australia) Pty Limited	1.7	–	0.2	–
Lewisham Schools for the Future LEP Limited	0.8	0.1	0.4	–
Lewisham Schools for the Future SPV Limited	2.2	–	0.5	–
Lewisham Schools for the Future SPV2 Limited	0.4	–	0.1	–
Lewisham Schools for the Future SPV3 Limited	0.8	–	0.2	–
Lewisham Schools for the Future SPV4 Limited	1.7	–	0.4	–
Greenwich BSF SPV Limited	0.1	–	–	–
Cura Classis (UK) Limited	5.2	–	–	–
Cura Classis (US) LLC	5.2	–	–	–
Cura Classis Canada (Hold Co) Inc.	12.2	–	–	–
Cavendish Dounreay Partnership Limited	7.9	0.1	0.9	–
Cavendish Fluor Partnership Limited	14.8	0.1	2.5	–
Cavendish Boccord Nuclear Limited	1.2	–	0.5	–
	287.2	1.9	25.9	3.5

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.

Please refer to note 26 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 8 and in the Remuneration report.

(d) Transactions in employee benefits trusts are shown in note 24.

## Notes to the Group financial statements *continued*

### 36. 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 15.

	2014 Revenue to £m	2014 Purchases from £m	2014 Year end debtors balance £m	2014 Year end creditor balance £m
<b>Joint ventures and associates</b>				
Debut Services (South West) Limited	139.4	–	0.3	–
Holdfast Training Services Limited	76.2	0.1	8.0	–
First Swietelsky Operation and Maintenance	10.1	–	1.9	0.5
Ascent Flight Training (Management) Limited	1.8	–	0.1	–
Advanced Jet Training Limited	1.6	–	0.2	–
Rear Crew Training Limited	0.8	–	0.1	–
Airtanker Services Limited	5.8	–	0.7	–
ALC (Superholdco) Limited	3.2	–	0.1	–
Naval Ship Management (Australia) Pty Limited	1.5	–	0.1	–
Lewisham Schools for the Future SPV Limited	1.5	–	0.3	–
Lewisham Schools for the Future SPV2 Limited	0.4	–	0.1	–
Lewisham Schools for the Future SPV3 Limited	0.8	–	0.1	–
Lewisham Schools for the Future SPV4 Limited	1.4	–	0.1	–
Greenwich BSF SPV Limited	0.2	–	–	–
Cura Classis (UK) Limited	4.1	–	–	–
Cura Classis (US) LLC	6.3	–	0.1	–
Cura Classis Canada (Hold Co) Inc.	5.9	–	–	–
Dounreay Site Licence Company	15.1	0.1	–	–
	276.1	0.2	12.2	0.5

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes

Please refer to note 26 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 8.

(d) Transactions in employee benefits trusts are shown in note 24.

### 37. Post balance sheet events

#### (a) Dividend

Details on dividends are given in note 11. There are no further material events subsequent to 31 March 2015 that require disclosure.

### 38. Group entities

Principal related undertakings	Principal activities	Group interest in allotted capital	Country of incorporation
Babcock Marine (Rosyth) Limited	Trading company	100%	Scotland
Rosyth Royal Dockyard Limited	Owner of Rosyth dockyard	99.999%	Scotland
Babcock Marine (Devonport) Limited	Trading company	100%	England and Wales
Devonport Royal Dockyard Limited	Maintains Royal Navy ships and provides support services to naval base	100%	England and Wales
Babcock Marine (Clyde) Limited	Trading company	100%	Scotland
LSC Group Limited	Consultancy and project management	100%	England and Wales
Frazer-Nash Consultancy Limited	Systems and engineering technology services	100%	England and Wales
Appledore Shipbuilders (2004) Limited	Shipbuilding	100%	England and Wales
Babcock (Pty) Limited	Engineering and maintenance support	100%	Australia
Babcock Integrated Technology Limited	Design, supply and installation of specialist handling equipment	100%	England and Wales
Babcock Canada Inc.	Trading company	100%	Canada
Liquid Gas Equipment Limited	Design and build plants for processing, storage and handling of liquid gasses	100%	Scotland
Context Information Security Limited	Technical cyber-security consulting	100%	England and Wales
Babcock Support Services Limited	Support services and facilities management	100%	England and Wales
Babcock Flagship Limited	Naval training services	100%	England and Wales
Babcock Aerospace Limited	Airfield support services	100%	England and Wales
Babcock Land Limited	Fleet management and training services	100%	England and Wales
Babcock Land (Whitefleet Management) Limited	Contract management services	100%	England and Wales
BNS Nuclear Services Limited	Engineering solutions and services	100%	England and Wales
Babcock Airports Limited	Airport support services	100%	England and Wales
Babcock Critical Services Limited	Fleet management and support services	100%	England and Wales
S. MacNeillie & Son Limited	Specialist vehicle converter	100%	England and Wales
Cavendish Nuclear Limited	Nuclear site maintenance	100%	England and Wales
Babcock Rail Limited	Rail infrastructure repair and maintenance	100%	England and Wales
Babcock Networks Limited	Powerline erection and maintenance	100%	England and Wales
Babcock Communications Limited	Communication services	100%	England and Wales
Conbras Engenharia Ltda	Facilities management	100%	Brazil
Babcock Training Limited	Education and training services	100%	England and Wales
Babcock 4S Limited	Education and training services	80.1%	England and Wales
Babcock Learning and Development Partnership LLP	Education and training services	80.1%	England and Wales
Babcock Africa Services (Pty) Limited	Equipment sales, hire and maintenance	100%	South Africa
Inaer Helicópteros S.A.U.	Helicopter mission critical operations	100%	Spain
Inaer Galicia S.L.	Helicopter mission critical operations	100%	Spain
Inaer Helicopter France S.A.	Helicopter mission critical operations	100%	France
Inaer Helicopter Portugal, Ltda	Helicopter mission critical operations	100%	Portugal
Inaer Aviation Italia, S.p.A.	Helicopter mission critical operations	100%	Italy
Bond Air Services Limited	Helicopter mission critical operations	100%	England and Wales
Bond Air Services (Ireland) Limited	Helicopter mission critical operations	100%	Ireland
Bond Offshore Helicopters Limited	Helicopter mission critical operations	100%	England and Wales
Bond Helicopters Europe Limited	Helicopter mission critical operations	100%	England and Wales
Bond Helicopters Australia Pty Limited	Helicopter mission critical operations	100%	Australia
Australian Helicopters Pty Limited	Helicopter mission critical operations	100%	Australia
Scandinavian Air Ambulance AB	Helicopter mission critical operations	100%	Sweden

## Notes to the Group financial statements *continued*

### 38. Group entities (continued)

Principal related undertakings	Principal activities	Group interest in allotted capital	Country of incorporation
<b>Equity accounted investments</b>			
Holdfast Training Services Limited	Military training	74%	England and Wales
ALC (Superholdco) Limited	PFI operator	50%	England and Wales
Airtanker Limited	In-flight refuelling support	13.3%	England and Wales
Ascent Flight Training (Holdings) Limited	Flight training	50%	England and Wales
Cavendish Dounreay Partnership Limited	Nuclear site decommissioning	50%	England and Wales
Cavendish Fluor Partnership Limited	Nuclear site decommissioning	65%	England and Wales
Helidax S.A.S	Helicopter mission critical operations	50%	France

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 by providing information only in relation to related undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. A full list of subsidiary, equity accounted investments and other associated undertakings as at 31 March 2015 will be annexed to the Company's next annual return filed with the Registrar of Companies.

All subsidiary undertakings are included in the consolidation.

Of the undertakings listed above, the Company holds 100% of the Group's interest in Babcock (Pty) Limited. It does not directly hold any share of the Group's interest in the other listed undertakings.

# Independent auditors' report to the members of Babcock International Group PLC

## Report on the Company financial statements

### Our opinion

In our opinion, Babcock International Group PLC's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2015;
- 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

Babcock International Group PLC's financial statements comprise:

- the Company balance sheet as at 31 March 2015; 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 and Accounts 2015 (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 applicable law and United Kingdom Accounting Standards (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 124, 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 2015.

#### John Baker (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

18 May 2015

## Company balance sheet

As at 31 March 2015	Note	2015 £m	2014 £m
<b>Fixed assets</b>			
Investment in subsidiary undertakings	4	2,359.5	2,121.7
<b>Current assets</b>			
Debtors – amounts due after more than one year	6	963.3	403.3
Debtors – amounts due within one year	6	1,438.7	368.1
		2,402.0	771.4
Creditors – amounts due within one year	7	1,080.4	978.8
Net current (liabilities)/assets		1,321.6	(207.4)
Total assets less current liabilities		3,681.1	1,914.3
Creditors – amounts due after one year	7	1,339.7	622.0
Provisions	8	–	9.0
Net assets		2,341.4	1,283.3
<b>Capital and reserves</b>			
Called up share capital	9	301.3	217.2
Share premium account	10	873.0	873.0
Capital redemption reserve	10	30.6	30.6
Other reserve	10	851.3	–
Profit and loss account	10	285.2	162.5
Total shareholders' funds		2,341.4	1,283.3

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The financial statements on pages 185 to 190 were approved by the Board of Directors on 18 May 2015 and are signed on its behalf by:

P L Rogers  
Director

F Martinelli  
Director

## Notes to the Company financial statements

### 1. Significant accounting policies

The principal accounting policies adopted by the Company are disclosed below:

#### Basis of accounting

The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and in accordance with applicable United Kingdom Accounting Standards and in compliance with the Companies Act 2006 and on a going concern basis. The Directors have reviewed the Company's existing accounting policies and consider that they are consistent with last year.

#### Investments

Fixed asset investments are stated at cost less provision for impairment in value.

#### Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis.

#### Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### 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 26 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 25 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 26 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 26 of the Group financial statements).

## 1. Significant accounting policies (continued)

### 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.

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.

### Cash flow statement and related party disclosure

A cash flow statement has not been prepared by the Company under the terms of FRS 1, available to wholly owned subsidiaries of a company whose consolidated financial statements include a consolidated cash flow statement and are publicly available. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Babcock International Group PLC group.

## 2. 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 profit for the financial year was £120.1 million (2014: £37.9 million).

Fees payable to the parent auditors and its associates in respect of the audit of the Company's financial statements was £0.1 million (2014: £0.1 million).

## 3. 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 £7.9 million (2014: £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 £6.3 million (2014: £9.2 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 £6.0 million (2014: £4.9 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

## 4. Investment in subsidiary undertakings

	2015 £m	2014 £m
At 1 April	2,121.7	2,121.7
Additions	1,025.0	–
Disposals	(787.2)	–
Investments in shares	2,359.5	2,121.7

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.

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.

## Notes to the Company financial statements *continued*

### 5. Tangible fixed assets

	Leasehold property £m
Cost	
At 1 April 2014	0.5
Additions	–
At 31 March 2015	0.5
Accumulated depreciation	
At 1 April 2014	0.5
Charge for the year	–
At 31 March 2015	0.5
Net book value at 31 March 2015	–
Net book value at 31 March 2014	–

### 6. Debtors

	2015 £m	2014 £m
Non-current debtors		
Amounts owed by subsidiary undertakings	38.5	5.7
Preference shares in a subsidiary undertaking	923.3	395.8
Other debtors	1.5	1.8
	963.3	403.3
Current debtors		
Amounts owed by subsidiary undertakings	1,420.4	352.5
Other financial assets	–	1.6
Deferred tax	18.3	13.1
Prepayments and accrued income	–	0.9
	1,438.7	368.1

Of the preference shares in a subsidiary undertaking, the A preference shares of US\$150 million mature on 19 March 2018 and carry interest at 4.94%. The B preference shares of US\$500 million mature on 17 March 2021 and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings, issued during the year, 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 £32.8 million (2014: £nil) carries interest at EURIBOR + 4% and the balance is interest free. The current amounts owed by subsidiary undertakings are repayable on demand and are interest free apart from £713.0 million (2014: £nil) which carries interest at EURIBOR + 4%, £2.1 million (2014: £nil) which carries interest at EURIBOR + 2%, £140.0 million (2014: £nil) which carries interest at LIBOR + 5%, £29.2 million (2014: £22.0 million) which carries interest at LIBOR + 4%, £5.0 million (2014: £5.0 million) which carries interest at LIBOR + 1% and £100.8 million (2014: £nil) which carries interest at 4.5%.

## 7. Creditors

	2015 £m	2014 £m
<b>Amounts due within one year</b>		
Bank loans and overdrafts	119.0	57.5
Trade creditors	–	1.6
Amounts owed to subsidiary undertakings	955.9	905.8
Other financial liabilities	–	0.7
Accruals and deferred income	5.5	13.2
	<b>1,080.4</b>	<b>978.8</b>
<b>Amounts due after one year</b>		
Bank loans and other borrowings	1,338.2	620.2
Other creditors	1.5	1.8
	<b>1,339.7</b>	<b>622.0</b>

The Company has £1,685.8 million (2014: £989.9 million) of committed borrowing facilities, of which £1,331.6 million (2014: £616.9 million) was drawn at the year end. The interest rate applying to bank loans is 1.0% (2014: 1.22%) and is linked to LIBOR, the Eurobond is at 1.75% whilst the interest rate applying to overdrafts is 1.5% (2014: 1.5%).

The amounts due to subsidiary undertakings are repayable on demand and £774.8 million (2014 £760.4 million) is interest free. £136.3 million (2014: £136.3 million) carries interest at LIBOR + 4%, £35.6 million (2014: £nil) carries interest at 4.5% and £9.1 million (2014: £9.1 million) carries interest at LIBOR + 1%.

## 8. Provisions

	2015 £m	2014 £m
At 1 April	9.0	–
Charged to the profit and loss account	–	9.0
Utilised during the year	(9.0)	–
At 31 March	–	9.0

The provisions relate to costs for the acquisition of Avancis Mission Critical Services.

## 9. Share capital

	Ordinary shares of 60p Number	Total £m
<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
At 1 April 2013	362,071,802	217.2
Shares issued	2,130	–
At 31 March 2014	362,073,932	217.2

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.

## Notes to the Company financial statements *continued*

### 10. Reserves

	Share premium account £m	Capital redemption reserve £m	Other reserve £m	Profit and loss account £m
At 1 April 2014	873.0	30.6	–	162.5
Shares issue in the period	–	–	993.3	–
Other reserves realised	–	–	(142.0)	142.0
Share-based payments	–	–	–	12.1
Tax on share-based payments	–	–	–	5.2
Fair value adjustments to interest rate hedges (net of tax)	–	–	–	(46.9)
Retained profit for the year – profit for the year	–	–	–	120.1
– dividends	–	–	–	(109.8)
At 31 March 2015	873.0	30.6	851.3	285.2
At 1 April 2013	873.0	30.6	–	204.8
Shares issue in the period	–	–	–	–
Share-based payments	–	–	–	12.9
Tax on share-based payments	–	–	–	3.3
Fair value adjustments to interest rate hedges (net of tax)	–	–	–	0.3
Retained profit for the year – profit for the year	–	–	–	37.9
– dividends	–	–	–	(96.7)
At 31 March 2014	873.0	30.6	–	162.5

### 11. Operating lease commitments

The Company has an operating lease commitment for land and buildings as at 31 March 2015 with an annual commitment expiring after more than five years of £2.2 million (2014: £2.2 million).

### 12. Contingent liabilities

- The Company has guaranteed or has joint and several liability for bank facilities of £1,359.5 million (2014: £620.8 million) provided to certain Group companies.
- 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 2015 these amounted to £277.9 million (2014: £173.1 million), of which the Company had counter-indemnified £160.5 million (2014: £119.4 million).
- The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

### 13. Post balance sheet events

#### (a) Dividends

The Directors have proposed a final dividend of 18.1p per 60p ordinary share (2014: 16.4p per 60p ordinary share as adjusted for the rights issue) and it will be paid on 12 August 2015 to shareholders registered on 3 July 2015, subject to approval at the Annual General Meeting on 30 July 2015.

## Shareholder information

### Financial calendar

Financial year end	31 March 2015
2014/15 full year results announced	18 May 2015
Annual General Meeting	30 July 2015
Final dividend payment date (record date 3 July 2015)*	12 August 2015

\* See also 'Results and dividends' on page 119.

### Registered office and company number

33 Wigmore Street  
London W1U 1QX

Registered in England  
Company number 2342138

### Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Tel: 0871 664 0330  
(calls cost 10p per minute plus network extras – lines are open 8.30 am to 5.30 pm Monday to Friday)  
Tel (from overseas): +44 20 8639 3399  
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

### Principal UK bankers

The Royal Bank of Scotland plc  
135 Bishopsgate  
London EC2M 3UR

Lloyds Banking Group  
Level 7 – Bishopsgate Exchange  
155 Bishopsgate  
London EC2M 3YB

Barclays Bank PLC  
Level 27  
1 Churchill Place  
London E14 5HP

### Investment bankers

JPMorgan Cazenove  
25 Bank Street  
Canary Wharf  
London E14 5JP

### Stockbrokers

JPMorgan Cazenove  
25 Bank Street  
Canary Wharf  
London E14 5JP

Jefferies Hoare Govett  
Vintners Place  
68 Upper Thames Street  
London EC4V 3BJ

### 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 0871 664 0454 (calls cost 10p per minute plus network extras, lines are open 8.00am to 4.30pm, Monday to Friday. From outside of the UK dial + 44 20 3367 2699).

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested, Terms, conditions and risks apply. Capital Asset Services is a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

### Dividend Reinvestment Plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash, please complete an application form online at [www.babcock-shares.com](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 9.00 am to 5.30 pm Monday to Friday) from UK or +44 208 639 3402 from overseas. 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)

## Five-year financial record

	2015 £m	2014 (restated) £m	2013 (restated) £m	2012 (restated) £m	2011 (restated) £m
Continuing revenue	3,996.6	3,321.0	3,029.4	2,848.4	2,564.5
Operating profit from continuing operations	352.3	233.1	203.5	175.6	136.2
Share of profit from joint ventures	29.4	20.9	18.0	4.3	6.1
Profit before interest from continuing operations	381.7	254.0	221.5	179.9	142.3
Net interest and similar charges	(68.6)	(35.2)	(39.7)	(45.9)	(66.0)
Profit before taxation from continuing operations	313.1	218.8	181.8	134.0	76.3
Income tax expense	(46.7)	(30.8)	(18.0)	(5.7)	(0.4)
Profit from continuing operations	266.4	188.0	163.8	128.3	75.9
Discontinued operations	–	–	(15.2)	(53.1)	3.7
Profit for the year	266.4	188.0	148.6	75.2	79.6
Non-controlling interest	(6.2)	(7.5)	(5.9)	(3.3)	(3.6)
Profit attributable to owners of parent	260.2	180.5	142.7	71.9	76.0
Non-current assets	4,490.7	2,323.9	2,302.1	2,232.5	2,447.6
Net current liabilities	(223.9)	(246.6)	(240.9)	(153.0)	(219.5)
Non-current liabilities	(2,068.7)	(1,051.2)	(1,092.3)	(1,159.5)	(1,207.5)
Total net assets	2,198.1	1,026.1	968.9	920.0	1,020.6
Equity holders of the parent	2,180.1	1,004.4	947.1	911.4	1,011.7
Non-controlling interest	18.0	21.7	21.8	8.6	8.9
Total equity	2,198.1	1,026.1	968.9	920.0	1,020.6
Total earnings per share – basic	52.9	44.3p	35.0p	17.7p	20.7p
Dividend per share (proposed)	23.6	21.4p	19.0p	16.4p	14.0p

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