

**babcock**<sup>TM</sup>

# The built in advantage



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## The built in advantage

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

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

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

### Realignment and reporting structure

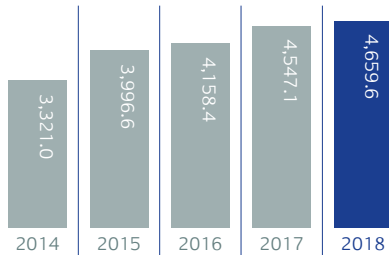
Following the realignment on 1 April 2017, we formally report the Group in four sectors to reflect how we manage the business. In this year's Annual Report and Accounts we report for the first time the Strategic, Financial, Operational reports and Accounts in full alignment with our reporting structure.

# A year of progress

## Statutory results

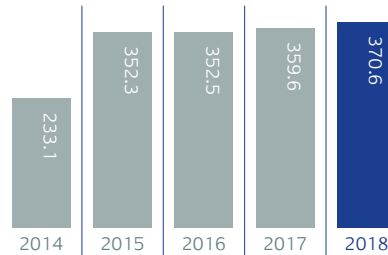
**Group revenue**  
**£4,659.6m**

**+2%**



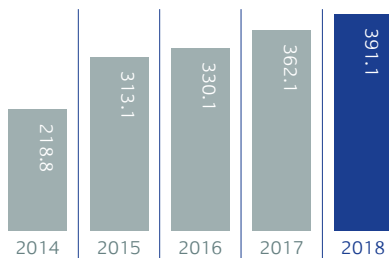
**Operating profit**  
**£370.6m**

**+3%**



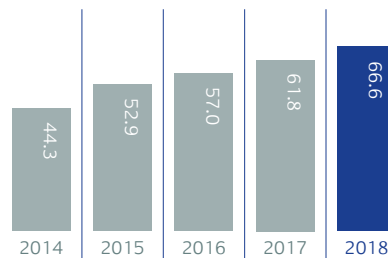
**Profit before tax**  
**£391.1m**

**+8%**



**Basic earnings per share**  
**66.6p**

**+8%**

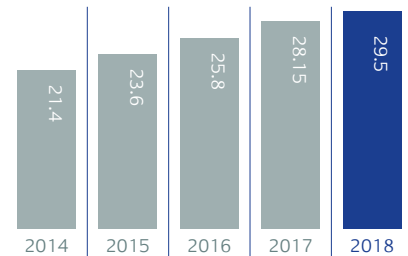


## Sustainable profitable growth

We have continued to deliver across new and existing contracts, demonstrating the quality of our operations and the resilience of our business. A healthy combined order book and bid pipeline of £31 billion was replenished with £4.5 billion of booked contracts and the bid pipeline had £7 billion of opportunities added, providing clear visibility of revenues. At 28%, the Group is on target to reach its aspiration to grow international revenue to 30% by 2022 while also growing the UK business.

**Full year dividend\***  
**29.5p**

**+5%**



## \*Underlying

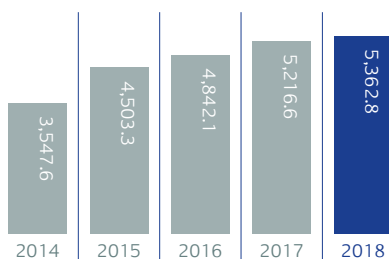
The adjustments described below, collectively, are made to derive the underlying operating results of the Group. The underlying figures provide a consistent measure of business performance year to year. They are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance.

Throughout the Strategic report, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Underlying revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures and associates. Underlying operating profit and operating margin include investment income arising under IFRIC 12 which is presented as financial income in the Income Statement. All numbers are stated before the effect of corporate tax rate changes. A reconciliation of statutory to underlying results is set out on page 23.

## Underlying results

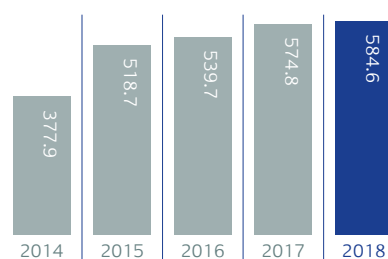
**Total revenue\***  
**£5,362.8m**

**+3%**



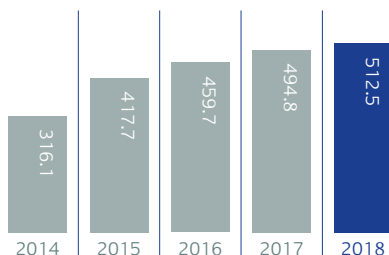
**Operating profit\***  
**£584.6m**

**+2%**



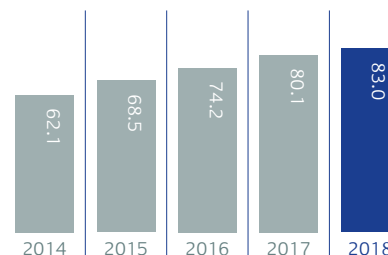
**Profit before tax\***  
**£512.5m**

**+4%**



**Basic earnings per share\***  
**83.0p**

**+4%**



# The built in advantage

Defence  
**47%**

of 2018 revenues

**2nd**

biggest supplier to UK MOD

**Largest support** provider to UK MOD

**No1**

flying trainer in UK

**Largest** maritime support business

Provide support and **training worldwide**  
to armies, navies and air forces

Defence technical support operations in  
**10** countries



Emergency  
services

**12%**

of 2018 revenues

**World leader** in aviation  
emergency services

Manage and own fleet of over  
**500** aircraft across **320** bases

Provide **complex fleet  
management** for large  
blue-light ground fleets

Own **unique infrastructure**  
across the sector

Nuclear

**13%**

of 2018 revenues

**No1**

UK civil nuclear engineer

Operate **17** of the UK's  
37 nuclear licensed sites

Working on Europe's  
**largest and most complex**  
decommissioning project

Lead partner in  
decommissioning **12**  
Magnox sites

**Support decommissioning,**  
nuclear services and new build

## Our sectors

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



### Marine

UK Naval	72%
International Naval	14%
Technology	14%

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



### Land

Defence	34%
Emergency Services and Training	12%
Networks and Equipment Support	32%
South Africa	22%

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



### Aviation

Defence	33%
Emergency Services	51%
Oil and Gas	16%

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

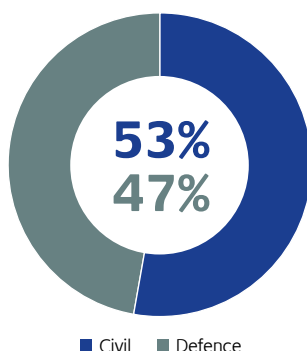


### Cavendish Nuclear

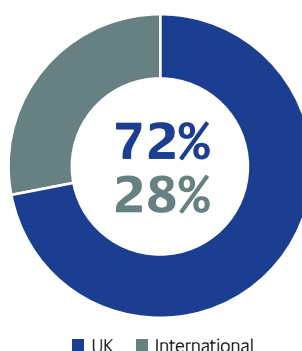
Decommissioning JVs	69%
Projects	31%

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

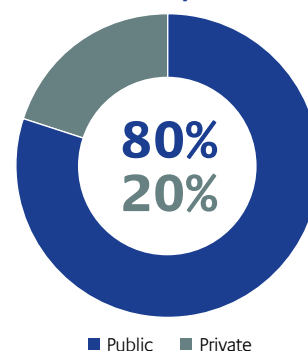
Civil vs defence



UK vs international



Public vs private



## Our capabilities

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

### Technology

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

### Training

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

### Infrastructure

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

### Global Growth

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

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“Managing and being involved at each stage of the hybrid electric vessel project is the kind of work I dreamt of doing after graduating.”



**Eirini**

Naval Architecture graduate  
at Devonport Royal Dockyard

# Advantage: Unique infrastructure

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



## Aviation

- Technical support for 17 RAF bases
- Owned, leased and managed aircraft fleets
- Training centres and advanced maintenance, repair and overhaul sites



## Land

- DSG sites
- Training centres
- Major fleet management sites



## Nuclear

- Own and manage 13 of 37 UK nuclear licensed sites
- Advanced nuclear facilities
- Decommissioning major sites



## **Marine**

- Devonport  
Royal Dockyard
- Rosyth Royal  
Dockyard
- HMNB Clyde
- HMNB Devonport
- Devonport  
Dockyard  
(New Zealand)

# Advantage: Technical skills

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



- Deep sector-specific expertise
- Expert understanding of risk and resilience
- We refit 100% of UK and Canadian submarines and 75% of UK surface fleets
- Provide expert training to growing workforces

- Drive innovation and capability insertions across all platforms
- 125+ years' experience
- Platform-agnostic, work with any OEM
- Ability to identify and integrate innovation and technology

- Through-life support expertise in all four sectors
- Highly regulated environments
- Proprietary Intellectual Property
- Excellent health and safety record

A man in a white lab coat and gloves is working on a large, complex industrial machine. The machine has many circular components, possibly valves or ports, arranged in a grid-like pattern. The man is looking up at the machine, and his hands are positioned to work on one of the components. The background is dark and industrial.

In December, we were awarded the Sellafield 'Glove box' contract to design and fabricate technically complex engineering solutions for the treatment, handling and management of nuclear materials. Following the success of synergies with the Marine sector in delivering the Sellafield PFCS project, the expertise and unique equipment in technical fabrication at Rosyth will again be employed for this 10-year framework contract.

# Advantage: Long-term relationships and contracts

Babcock is used to working in long-term partnerships with governments and blue chip companies, often embedded with our customers. We are incentivised to perform, aligning our interests with theirs, using strong management of balancing and sharing risks and rewards through pain share/gain share agreements. Our strong track record includes unique reference cases which prove our ability to deliver. Our £18 billion order book and £13 billion pipeline of long-term contracts and framework agreements give excellent visibility of future revenues. We are aligned with our customers and we have an excellent track record of delivery with a rebid win rate of over 90%.



- Trusted partner
- Incentivised to perform
- Embedded and aligned with customers
- Long-term contracts: ToBA, LFB, UKMFTS, SASEMAR, RSME
- Innovative output/availability-based contracting models
- Target cost/fixed price
- Bid review processes
- Pain share/gain share
- Management of risk and reward
- Proven track record of delivery



In April 2018, the HADES contract to deliver technical support for 17 air bases for the UK RAF began mobilising. RAF Valley was one such site where we also train advanced jet pilots as part of UK MFTS contract, reflecting the UK Government's commitment to future military air capabilities outlined in the 2015 SDSR.

# A year of further progress



Mike Turner CBE, Chairman

## We had another year of progress in 2018/19; taking in £4.5 billion of orders and again reducing our net debt.

We had another year of progress in 2018/19; taking in £4.5 billion of orders and again reducing our net debt. The Board is delighted therefore to recommend a 4.6% increase in the final dividend for 2017/8 of 22.65 pence per share (2017: 21.65 pence per share). This will give a total dividend for the year of 29.5 pence per share (2017: 28.15 pence per share), an increase of 4.8%. The final dividend will be paid on 10 August 2018 to Shareholders on the register at 29 June 2018.

### Governance and the Board

The realignment of our divisional structure at the start of the financial year into the four industry sectors of Marine, Land, Aviation and Cavendish Nuclear has helped us to focus on developing the opportunities that play to our unique strengths — our technical skills in what are highly regulated industries, our owned and operated critical infrastructure and our deep customer relationships. Each year the Board reviews the five-year strategy, and I'm delighted to confirm that there is a great deal to play for over the coming years, both in the UK and internationally. In particular, we expect to continue to build our presence across the key markets of defence, emergency services and civil nuclear using our unique skills to do critical work needed to keep countries and communities safe.

Last October it was with deep sadness that we announced that Anna Stewart, our Non-Executive Director, had passed away. Anna had served on the Board for five years, and made an invaluable contribution during that time. She will be greatly missed.

I also want to thank Bill Tame, our CEO of Global Growth and Operations, who is retiring this summer after 16 years with the Company. Bill has been a key member of the leadership team during our transformation from a small cap business to a leading engineering company, and we all wish him the very best for his retirement.

The loss of Anna and Bill's retirement left a gap on the Board and we were keen to ensure that their replacements were of a similar high standard. I am delighted to say that we found two excellent candidates who were invited to join the Board as Non-Executive Directors with effect from 1 April 2018.

Kjersti Wiklund brings international technology and business expertise gained across Western and Eastern Europe and Asia, having held a number of senior roles, including Director, Group Technology Operations for Vodafone and CEO of VimpelCom Russia. A Norwegian national, Kjersti is currently a non-executive director of Laird PLC and Spectris PLC.

Lucy Dimes also has significant experience in technology-based industries. A UK national, Lucy is currently CEO, EMEA of UBM, and was previously Fujitsu's CEO, UK & Ireland and an Executive Director of Equiniti Group. Lucy served as a non-executive director at Berendsen PLC between 2012 and 2017.

### Valuing diversity

Babcock's strong culture and our continued commitment to be Trusted to Deliver — by our customers, our stakeholders and by each other — remains hugely important to all of us across the Group. A key element of this is our pledge to respect people and value their diversity. We want to keep building a business which is about fairness, equality and inclusion. In the last three years the total number of women working at Babcock has increased by 24%, faster than the 10% total increase in employees during that

time. But we recognise there is still much to be done, particularly in terms of having more women in senior roles. We are committed to doing everything we can to encourage women to succeed throughout their careers.

Closing the gap will take time — the engineering sector has traditionally been male dominated, and at 10% the UK has one of the lowest percentages of women engineering professionals in Europe — but we are working closely with schools, universities and youth organisations to encourage girls and young women to consider a career in STEM. We are also working to increase the number of women on our early career programmes, and in 2017 were a finalist in the Women In Science and Engineering (WISE) apprenticeship awards. We work closely with organisations like the Women's Engineering Society and the Institute of Marine Engineering, Science and Technology to help encourage women to return to the sector after career breaks and keep our recruitment processes under regular review to guard against any unconscious bias. We're not yet as diverse as we want to be and we acknowledge that the gender pay gap is still too big — but we're working on it.

Maintaining a strong health and safety performance continues to be a focus for all our businesses. The Board was deeply saddened by the loss of two of colleagues in our South African business, and our thoughts are with their families and friends. We are determined to live up to our commitment to get our people 'home safe every day'.

### Looking forward

We expect to make further progress this year and are confident about Babcock's longer-term prospects which are underpinned by our technical expertise, unique infrastructure and a sustainable business model which is increasingly relevant to our key customers in non-cyclical and highly regulated markets.

Mike Turner CBE  
Chairman

# being babcock



# Delivering through a consistent strategy

Babcock is the UK's leading engineering services company. Our objective is to grow from our position both in the UK and overseas, delivering sustainable value for our stakeholders.

## Key differentiators

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

### Technical skills

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

### Long-term relationships

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

### Unique infrastructure

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

### Long-term contracts

Our £18 billion order book and £13 billion pipeline of long-term contracts give excellent visibility of future revenues. We are aligned with our customers and incentivised to perform, with strong management of balancing risk and reward. We have an excellent track record of delivery with a rebid win rate of over 90%.

## 'Trusted to deliver'

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

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

## Growth delivered through a consistent 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.

### Public bodies and blue chip customers

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

### Customer focused long-term relationships

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

### Integrated engineering and technical expertise

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

### Balancing risk and reward

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

### Excellent health and safety record

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

## Creating value for all stakeholders

We aim to serve the interests and meet the needs of all our stakeholders: employees, customers and shareholders and have regard for suppliers and the environment, by conducting business responsibly. A strong Babcock culture integrates our values and beliefs into every aspect of our business, ensuring value creation. The foundations on which we build value for our stakeholders are the six pillars of our consistent strategy.

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

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

We seek to create value for our shareholders by investing in and growing the business, growing the value of their investment over time, maintaining a strong balance sheet and returning capital to shareholders.

# Long-term business in sustainable markets

## Our markets

### Marine

- New platforms in build
- Sustainment of existing naval platforms
- Capability upgrades to fleet and infrastructure
- Increasing need for efficiency savings
- Insertion of new technology
- International and commercial market opportunities

[Read more on page 33](#)

### Land

- Large army vehicle sustainment programmes
- Continued need for additional efficiencies
- Increased demand for technical training
- Increased demand for savings across fleets
- Safety and improved operations driving investment in Rail and Power Networks
- International opportunities

[Read more on page 41](#)

### Aviation

- International Military Aviation training
- Continued growth in UK and international Aerial Emergency Services
- UK Military Air seeking greater efficiencies and improved availability
- HADES air base technical support a significant win
- Oil and Gas helicopter market remains under pressure

[Read more on page 49](#)

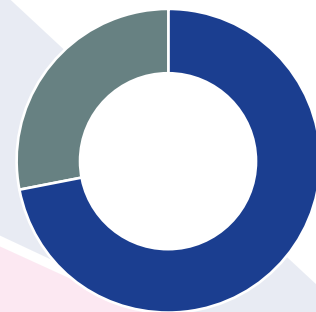
### Cavendish Nuclear

- UK requirement for expertise in decommissioning
- Fuel management for active AGR reactor fleet UK
- UK new build underway at Hinkley Point C
- International consultancy opportunities
- Continuing demand for expert projects services

[Read more on page 57](#)

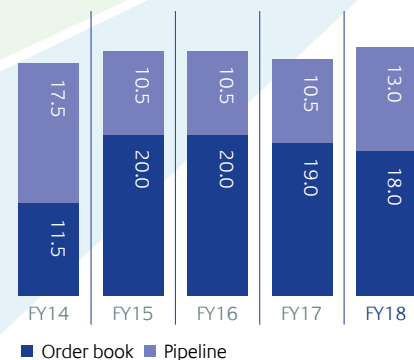
#### International revenue

28%



#### Order book and pipeline

£31bn



## Delivering profitable growth

Our focus is on delivering returns and cash and strengthening the balance sheet. This means our contracts deliver — and management are incentivised on — profitable growth.

We therefore have a tightly controlled bidding process. This requires a multi-gate review process of each bid, at business unit, sector and — for all contracts worth over £25 million or lasting five or more years — approval from the Chief Executive and Group Finance Director. Bid teams are embedded in the business and typically transition to the operational team.

Once a contract is underway, it is subject to regular reviews at business unit, sector and Group level to ensure that we are on track, both in terms of operational delivery and financial performance.



# Sustaining profitable growth

Babcock has enviable market positions with a broad base of loyal customers, enabling us to deliver improved financial results, year on year, for well over a decade.

## Overview

Babcock enjoyed another successful year in 2017/18, with underlying revenue, operating profit and profit before tax at record levels. The Group delivered growth of 2.8% in underlying revenue, 1.7% in underlying operating profit and 3.6% in underlying profit before tax. This has resulted in a 3.6% growth in underlying basic earnings per share.

Our focus remains on delivering returns and cash and on strengthening the balance sheet. We have further reduced net debt and have achieved targeted cash conversion of 106% before capex (2017: 115%) and 82% after capex (2017: 86%). Excluding the one-year effect on working capital outflow of the French Air Force pilot training contract (FOMEDEC), this represents cash conversion of 116% before capex and a five-year high conversion rate of 92% after capex.

This improved financial and operational performance, delivered in a year when the political and economic environment has created concern and uncertainty, demonstrates the stability and quality of our business. Babcock has unique market positions in many areas with a broad base of loyal customers whom we support through thick and thin.

Over the last fifteen years or so, Babcock has steadily established strong long term positions in three major markets: defence, emergency services and civil nuclear — initially in the UK but increasingly worldwide. These three long term markets currently account for over 70% of our underlying revenue and will be the main focus of growth over the next few years.



Archie Bethel CBE, Chief Executive

This strategy is supported by the realignment of the Group into four sectors — Marine, Land, Aviation and Cavendish Nuclear — at the beginning of the financial year. The realignment was implemented quickly and smoothly and has brought added clarity and transparency to our operations and financial results. It has brought together our capabilities and our specific sector expertise and experience, equipping us to compete for contracts which we would not otherwise have been able to pursue. Importantly, the realignment has helped us to transition from our old ways of working into an organisation which is structured to take our business model outside the UK and create a compelling proposition for new customers.

This focus on international markets has seen our non-UK business growing to 28% of Group underlying revenue (2017: 25%) without any change to overall Group margin, positioning us to beat our target of securing 30% by 2022. Australia and South Africa have been established as our first international 'home countries', recognising that they are delivering Babcock solutions across multiple sectors. We have secured a number of important new contracts in Spain, Australia, Sweden, Oman and Norway, and mobilisation for the French Air Force pilot training contract

at Cognac, France is well advanced in preparation for the service starting later this year.

We have also established a new Technology Group, focused on driving technology transfer across the four sectors. Technology is playing an ever more important role in delivering innovative support and sustainment solutions across the Group — and technology and data are at the heart of our operating solutions. We have designed the weapons handling and discharge systems for every UK submarine ever built, and are the technical authority for a number of classes of ships and submarines in the UK and Canada — and are often the partner of choice to introduce new helicopters to the market. We have developed and operate sophisticated training simulations to help train French and UK military pilots. We use Augmented and Virtual Reality to enhance our training and smart through-life sustainment solutions and are a technology application partner. We recently won a contract to provide specialist equipment for Sellafeld which will utilise our unique engineering expertise at Rosyth and in Cavendish Nuclear — this is the kind of complex engineering work which really plays to our strengths.

We continue to successfully deliver major projects, and after twelve years are now in the final stages of the UK's Queen Elizabeth Class Aircraft Carrier build programme. This year saw two significant milestones in this landmark project — HMS Queen Elizabeth was officially handed over to the Royal Navy, and her sister ship, HMS Prince of Wales, was formally named and floated out of the build dock.

We also completed a review of our contracts against the new IFRS 15 accounting standard, and were able to confirm at the half year that adoption of the standard will not result in changes to our contract control and revenue recognition processes.

Finally, we continue to focus on continuous improvement of our Health and Safety performance, and once again had an excellent year achieving even higher standards across the Group.

### Being Babcock

Babcock is a well-founded business with a solid track record of delivering engineering and operational solutions for our customers. The vast majority of the work we do — which very few people can do — isn't optional; we enable the delivery of the vital services which help safeguard both countries and communities.

We make sure that navies are ready to sail, that air forces are fit to fly, that army and blue light vehicles are ready to respond when needed. We provide the technical training that helps the Armed Forces to serve, the fire brigade to fight fires and apprentices to learn the skills they need. We support the nuclear power stations that generate energy for the UK, and we decommission them when they come to the end of their life. We are trusted to deliver.

We can do all of this because we own and operate extensive equipment, facilities and infrastructure, and within our circa 35,000-strong workforce, we protect and develop our intellectual property and hard-earned know-how by having one of the highest concentrations of qualified technician and professional

engineers in our sector. And that's as well as employing almost 2,500 qualified pilots.

Fundamentally, we support our customers, doing critical work in challenging and highly regulated environments. We are the UK Ministry of Defence's largest provider of complex engineering support, we are the UK's largest provider of nuclear engineering services, and we are Europe's largest integrated supplier of Aerial Emergency Services operating a fleet of around 400 helicopters and fixed wing aircraft across Italy, Spain, Portugal, France, Australia and Scandinavia, as well as the UK.

This unique profile, with its high barriers to entry and our focus on our areas of expertise, sets us apart in many ways. It drives our ability to maintain relationships with our customers over decades and even generations, and to deliver returns and cash to our shareholders.

And this is all made possible by our values and guiding principles — you can see those principles on page 13. Our reputation is built on not just technical expertise and a track record of delivery, but on a strong health and safety culture and respect for people and the communities in which we operate. We continually invest in the development and improvement of the skills and capabilities of our teams around the world. We value diversity, and are committed to recruiting and training young people through our large apprenticeship and graduate intake programmes.

### Creating shareholder value

As we continue to grow the business, I'm very clear that our focus continues to be on protecting margins, improving returns and delivering strong cash flow — which is of course how our management team is incentivised. That's how we look to create value for our shareholders and for our people — by continuing to deliver on the bottom line.

Maintaining a strong balance sheet is also crucially important, and we plan to continue to reduce net debt, particularly during this period of political and economic uncertainty. Whilst the

market has been challenging this year, we believe that through sustained strong cash generation and future improvement in Return On Invested Capital, we will see the share price return to levels that better reflect the true underlying value of the business.

### Outlook

The revenue visibility provided by around £31 billion of secured orders and near term opportunities offers continued prospects for growth in line with previous expectations for this year and over the medium term. The Board is confident that the Group will achieve low mid-single digit organic revenue growth with broadly stable margins in 2018/19, despite the scheduled step downs in the Aircraft Carrier and Magnox decommissioning programmes. The Group expects continuing good cash generation and is targeting a net debt to EBITDA ratio of 1.4 times at the end of the current financial year.

### 2018/19 sector outlook:

- Marine: low to mid single digit underlying revenue growth with stable margins
- Land: underlying revenue flat with stable margins
- Aviation: strong underlying revenue growth but mix of business will result in a softening margin
- Cavendish Nuclear: underlying revenue flat with stable margins.



**Archie Bethel CBE**

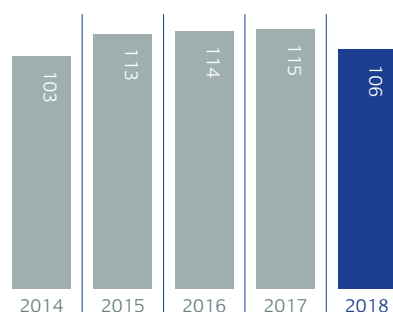
Chief Executive

# Delivering on our strategy

## The areas we focus on

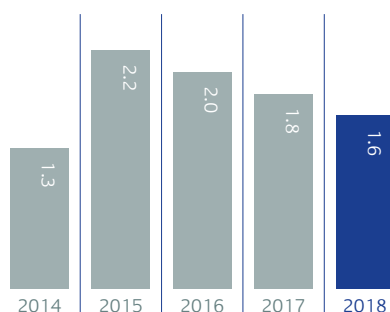
We have identified a number of Group and sector level financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy. These enable investors and other stakeholders to measure our progress.

### Operating cash flows (%) 106%



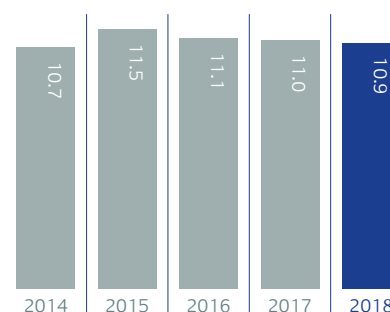
Operating cash flow (OCF) conversion rate is defined as cash generated by operations after adding back retirement benefit contributions in excess of income statement as a percentage of operating profit (page 25).

### Net debt/EBITDA (times) 1.6x



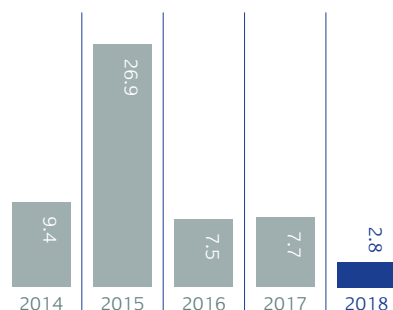
Net debt/EBITDA is calculated as net debt divided by earnings before interest, tax, depreciation and amortisation (page 25).

### Operating return on revenue (%) 10.9%



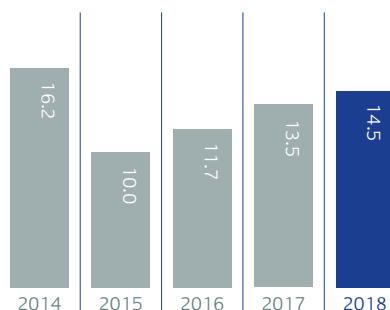
Operating return on revenue (ORR) is defined as underlying operating profit expressed as a percentage of underlying revenue (page 23).

### Revenue growth (%) 2.8%



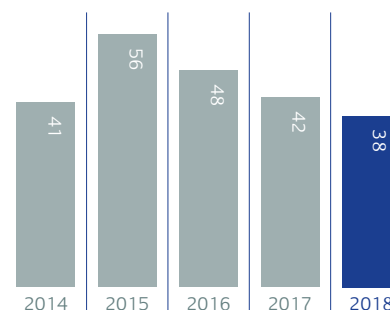
Underlying revenue growth is defined as the increase in the Group's revenue (including jvs) when compared to that of the previous year (page 23).

### EBITDA/interest cover (times) 14.5x



Interest cover is earnings before interest, tax, depreciation, and amortisation, (page 25), divided by net Group interest payable (income statement). EBITDA in this KPI is redefined to aid understanding.

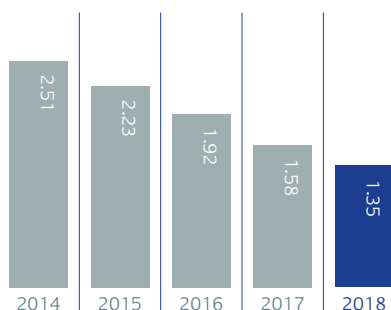
### Gearing ratio (%) 38%



Gearing ratio measures the extent to which a company is funded by debt, calculated as net debt (page 25) divided by shareholder funds (balance sheet), excluding retirement benefit deficits or surpluses (Note 24).

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

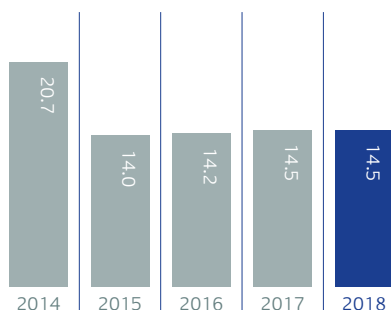
## 1.35



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

### Return on invested capital (ROIC) (%)

## 14.5%



Return on invested capital is defined as underlying operating profit (page 23) divided by shareholder funds (balance sheet) excluding retirement benefit deficits or surpluses (Note 24).

### Non-financial statistics and measures

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

## 605

#### Number of graduates

Number of graduates currently on a graduate programme across the Group (2017: 597).

## 905

#### Number of apprentices

Number of apprentices currently on apprenticeships across the Group (2017: 717).

[More information: Read our report on sustainable development and people starting on page 60.](#)

### Operational performance measures

In the Operational reviews we used the following KPIs to measure each sector'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 sector's continuing underlying revenue when compared to that of the previous year.

[More information: Read the operational review starting on page 30.](#)

# Continuing to deliver

## Overview

Babcock continued to deliver sustainable profitable growth in 2017/18, with growth of 1.7% in underlying operating profit (1.6% organic growth at constant exchange rates) and 2.8% growth in underlying revenue (2.8% organic growth at constant exchange rates). This growth demonstrates the quality of our operations and the resilience of the Group's business, and has resulted in an 3.6% increase in underlying basic earnings per share.

We continue to focus on cash generation and on maintaining a secure financial base to support our future growth. We have reduced our net debt during the year, reducing the ratio of net debt to EBITDA to 1.6x, and expect to continue to reduce that ratio over the coming years.

## Operational performance

We have made significant progress and provided critical support to customers dealing with exceptional issues in a number of long term contracts, including:

- UKMFTS flying training started at the new training school, RAF Cranwell
- Successful delivery of the Royal School of Military Engineering (RSME) benchmarking programme
- Supported the Metropolitan Police and London Fire Brigade through a challenging period
- Delivered first batch of Missile Launch Tube Assemblies for the new Dreadnought Class of Trident nuclear submarines
- Naval Service Apprenticeships scheme awarded Outstanding rating from OFSTED
- Four vessel OPV contract for Irish Naval Service approaches successful completion
- In Oman, Duqm JV: successful completion of first packages of marine support work for the US Navy
- Reached formal agreement on hand back of Magnox contract to BEIS at the end of August 2019
- At the Sellafield nuclear facility, Pile Fuel Cladding Silo decommissioning project is progressing well
- FOMEDEC French Air Force pilot training contract on track.



Franco Martinelli, Group Finance Director

## Contract awards

Order intake remained strong in the period, with over £4.5 billion of new contracts added to the order book. Contracts secured include:

- HADES, a new contract to provide technical support services at 17 RAF bases
- 10-year Sellafield nuclear decommissioning contract to provide 'Glovebox' equipment
- First orders received for patented ecoSMRT® liquid natural gas marine transportation system
- Renewed core firefighting contract in Italy for a further seven years
- Selected as preferred bidder for renewal of significant Spanish aerial search and rescue contract (SASEMAR)
- Further Type 23 frigate life extension awards: HMS Lancaster and Richmond
- Hinkley Point C: new contract from EDF to deliver training for the new build nuclear plant
- Naval support contracts for Collins Class submarines and ANZAC Class frigates
- Australian Defence Force ground support equipment.

Long term visibility continues to be one of our consistent strengths, with the combined order book and bid pipeline growing to around £31 billion (2017: c£30 billion). This provides clear visibility of future underlying revenues, with 76% of underlying revenue already secured for 2018/19 and 50% for 2019/20. The bid pipeline continues to be supported by a buoyant tracking pipeline of opportunities which have yet to formally come to market.

During the year, we maintained our win rates, achieving success in over 40% of our bids for new contracts, and over 90% for renewals.

## Statutory to underlying reconciliation

	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	Underlying £m
<b>31 March 2018</b>								
Revenue	4,659.6	703.2						5,362.8
Operating profit	370.6	85.9			30.0	98.1		584.6
Share of profit from jv	68.5	(85.9)	22.2	17.5	(28.1)	5.8		–
Investment income	1.9				(1.9)			–
Net finance costs	(49.9)		(22.2)					(72.1)
Profit before tax	391.1	–	–	17.5	–	103.9	–	512.5
Tax	(53.4)			(17.5)		(22.2)	0.8	(92.3)
Profit after tax	337.7	–	–	–	–	81.7	0.8	420.2
Return on revenue	8.0%							10.9%
<b>31 March 2017</b>								
Revenue	4,547.1	669.5						5,216.6
Operating profit	359.6	72.8			29.7	112.7		574.8
Share of profit from jv	56.7	(72.8)	24.6	14.2	(28.5)	5.8		–
Investment income	1.2				(1.2)			–
Net finance costs	(55.4)		(24.6)					(80.0)
Profit before tax	362.1	–	–	14.2	–	118.5	–	494.8
Tax	(46.5)			(14.2)		(26.4)	0.5	(86.6)
Profit after tax	315.6	–	–	–	–	92.1	0.5	408.2
Return on revenue	7.9%							11.0%

### Income statement

Statutory revenue for the year was £4,659.6 million (2017: £4,547.1 million), an increase of 2.5%. Statutory operating profit increased by 3.1% to £370.6 million (2017: £359.6 million). Statutory profit before tax increased by 8.0% to £391.1 million (2017: £362.1 million), reflecting the net profit growth from joint ventures and associates and a reducing finance cost. Basic earnings per share, as defined by IAS 33, was 66.6 pence (2017: 61.8 pence) per share, an increase of 7.8%.

Underlying revenue for the year was £5,362.8 million (2017: £5,216.6 million), an increase of 2.8%. The Babcock businesses, excluding acquisitions, delivered underlying revenue growth at constant exchange rates of 2.8% (2017: 4.9%). The largest contributors to this growth were the Aviation and Cavendish Nuclear sectors which reported underlying organic revenue growth at constant exchange rates of 15.6% and 11.7% respectively, with continued progress in

Aviation Defence contracts, further Emergency Services contract wins and in Cavendish Nuclear where additional work in the Projects business combined with continuing progress in the Decommissioning JVs.

Marine sector underlying organic revenue declined 5.6% at constant exchange rates reflecting the step down in QEC revenue during the year. Excluding the step down in QEC revenue, the sector achieved underlying organic revenue growth of 1.3% at constant exchange rates with International and UK Naval growing well.

The Land sector's underlying organic revenue at constant exchange rates grew by 2.3% in the year. Good performances in Defence and South Africa were largely offset by a slowdown in Rail as the Network Rail Control Period 5 slowed into its final year and some slowing in apprentice training as the new government levy scheme transitioned during the year.

Total underlying operating profit across the Group increased by 1.7% to

£584.6 million (2017: £574.8 million).

At constant exchange rates, Babcock achieved organic growth in operating profit of 1.6%, with the Group's operating margin stable at 10.9% (2017: 11.0%). Improving Marine margins were offset by declining Aviation margins.

In the Marine sector, underlying operating profit increased by 0.5%, with margin improvement driven by contract performance, efficiency and the removal of low margin QEC revenue partially offset by an increase in pension costs.

The Land sector achieved a 0.3% increase in underlying operating profit, with South Africa and Defence (including the RSME JV) offsetting revenue shortfalls in Rail and apprentice training.

The Aviation sector's underlying operating profit declined by 0.8%, with continued pressure in the oil and gas sector on contract renewals and H225 costs offset by the increased revenues in the Military air and Emergency Services business.

The Cavendish Nuclear sector's underlying operating profit grew by 12.1% with both the Projects businesses and the Decommissioning JVs showing good growth.

Total net finance costs reduced to £72.1 million (2017: £80.0 million) reflecting reductions in net debt and pensions interest, together with some favourable movement on Ascent JV swap valuations. The Group net finance costs reduced to £47.6 million (2017: £49.0 million) and we expect these to reduce further in future, in line with the decrease in the average amount drawn on the Group's revolving credit facilities at a marginal rate of around 1%. The Group's share of joint venture net interest expense reduced to £22.2 million (2017: £24.6 million), largely reflecting favourable swap valuations within the Ascent JV. The IAS 19 pension finance charge was £2.3 million (2017: £6.4 million) as expected.

Underlying profit before tax increased by 3.6% to £512.5 million (2017: £494.8 million). The associated tax charge, including the Group's share of joint venture tax of £17.5 million (2017: £14.2 million), totalled £92.3 million (2017: £86.6 million), representing an effective underlying rate of tax of 18.0% (2017: 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 of acquired intangibles. We expect the effective underlying rate of tax to be around 18% in 2018/19. The Group's net pension deficit reduced to £5.0 million (2017: £104.5 million), as growth assets performed well along with continuing annual deficit contributions. The projected pension charge within operating profit for 2018/19 is £44.1 million (2018: £47.3 million), a £3.2 million cost decrease which will be enhanced by a £2.8 million reduction in retirement benefit interest.

Amortisation of acquired intangibles was £103.9 million (2017: £118.5 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Half year income statement phasing for 2018/19 is expected to be similar to the phasing in 2017/18.

### Exchange rates

The impact of foreign currency movements over the year resulted in an increase in underlying revenue of £7.7 million and a corresponding £2.4 million increase in underlying operating profit. A 10% movement in the Euro against Sterling would affect full year revenue by

around £50 million and operating profit by £5 million. A 10% movement in the Rand would affect full year revenue by around £38 million and operating profit by £2 million. A 10% movement in Canadian Dollars would affect full year revenue by around £15 million and operating profit by £2 million.

### Earnings per share

Underlying earnings per share for the year was 83.0 pence (2017: 80.1 pence), an increase of 3.6%. Basic continuing earnings per share, as defined by IAS 33, was 66.6 pence (2017: 61.8 pence) an increase of 7.8%.

### Dividend

This year, underlying basic earnings per share increased by 3.6%. The Group continued to strengthen the balance sheet and achieved its target of delivering pre capital expenditure cash conversion of over 100%. Together with a combined order book and bid pipeline of around £31 billion, this enables the Board to remain confident in the long-term future of our business and it therefore is recommending a 4.6% increase in the final dividend per share for 2018 of 22.65 pence (2017: 21.65 pence). If approved by shareholders at the AGM on 19 July 2018, this will give a total dividend for the year of 29.5 pence per share (2017:

## Underlying Organic Growth

	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
<b>Underlying revenue</b>						
31 March 2017	1,901.6	1,811.7	874.0	629.3	–	5,216.6
Exchange adjustment	(5.8)	2.1	11.4	–	–	7.7
Disposals	–	(7.2)	–	–	–	(7.2)
Organic growth	(106.9)	42.5	136.7	73.4	–	145.7
31 March 2018	1,788.9	1,849.1	1,022.1	702.7	–	5,362.8
Underlying revenue growth	(5.9%)	2.1%	16.9%	11.7%	–	2.8%
Organic growth at constant exchange rates	(5.6%)	2.3%	15.6%	11.7%	–	2.8%
<b>Underlying operating profit</b>						
31 March 2017	233.9	139.7	145.5	61.4	(5.7)	574.8
Exchange adjustment	(0.7)	0.9	2.3	–	(0.1)	2.4
Disposals	–	(1.8)	–	–	–	(1.8)
Organic growth	1.9	1.3	(3.5)	7.4	2.1	9.2
31 March 2018	235.1	140.1	144.3	68.8	(3.7)	584.6
Underlying operating profit growth	0.5%	0.3%	(0.8%)	12.1%	–	1.7%
Organic growth at constant exchange rates	0.8%	0.9%	(2.4%)	12.1%	–	1.6%

28.15 pence per share), an increase of 4.8%. The final dividend will be paid on 10 August 2018 to shareholders on the register at 29 June 2018.

### Acquisitions and disposals

There were no acquisitions in the current year. During the previous year, in April 2016 the Group acquired 100% of Heli Aviation GmbH for £5.7 million plus acquired loans of £5.2 million giving a total cost of £10.9 million.

Deferred consideration of £19.0 million was paid in the previous year in respect of the Defence Support Group, Scandinavian AirAmbulance AB, Context Information Services Limited and Skills2Learn Limited.

During the year the Group disposed of its schools infrastructure business, which resulted in a loss of £0.9 million.

During both the current and the previous year the Group paid certain accrued costs on previously disposed of businesses of £2.0 million (2017: £0.6 million).

### Cash flow and net debt

The Group has once again achieved its target of delivering pre capital expenditure cash conversion of over 100% and around 80% post capital expenditure. The cash flow has delivered a net debt to EBITDA reduction to 1.6 times at the year end and we expect to continue to reduce the net debt to EBITDA ratio to around 1.4 times by the end of 2018/19. We continue to focus on the generation of cash and cash conversion remains an important key performance indicator (KPI) for the Group. The analysis below reconciles the management KPI for cash conversion.

Cash generated from operations was £447.9 million (2017: £504.0 million), from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was down 8.7% to £495.2 million (2017: £542.2 million), however this was principally due to the FOMEDEC contract cash flows of £50.4 million which will reverse in 2018/19. Excluding these, operating cash flow was £545.6 million and represents a conversion rate of operating profit to cash of 116% (2017: 115%).

### Cash flow and net debt

	2018 £m	2017 £m
Operating profit before amortisation of acquired intangibles	468.7	472.3
Amortisation and depreciation	104.3	92.3
Other non-cash items	4.3	13.7
Working capital (excluding excess retirement benefits and FOMEDEC)	(4.0)	(7.7)
FOMEDEC	(50.4)	–
Provisions	(27.7)	(28.4)
<b>Operating cash flow</b>	<b>495.2</b>	<b>542.2</b>
Cash conversion % /excluding FOMEDEC	106%/116%	115%
Capital expenditure (net)	(112.7)	(134.9)
<b>Operating cash flow after capital expenditure</b>	<b>382.5</b>	<b>407.3</b>
Cash conversion % — after capital expenditure/ excluding FOMEDEC	82%/92%	86%
Interest paid (net)	(53.6)	(51.6)
Taxation	(74.3)	(61.5)
Dividends from joint ventures	42.9	26.7
<b>Free cash flow before pension contribution in excess of income statement</b>	<b>297.5</b>	<b>320.9</b>
Retirement benefit contributions in excess of income statement	(47.3)	(38.2)
<b>Free cash flow after pension contribution in excess of income statement</b>	<b>250.2</b>	<b>282.7</b>
Acquisitions and disposals net of cash/debt acquired	(0.2)	(30.5)
Issue of shares	–	0.9
Investments in joint ventures	(6.0)	2.1
Movement in own shares	(4.2)	(7.8)
Dividends paid	(147.7)	(133.8)
<b>Net cash inflow</b>	<b>92.1</b>	<b>113.6</b>
<b>Net debt reconciliation (Note 26)</b>		
Opening net debt	(1,173.5)	(1,228.5)
Net cash inflow	92.1	113.6
Exchange difference/other	(33.6)	(58.6)
<b>Closing net debt</b>	<b>(1,115.0)</b>	<b>(1,173.5)</b>
A reconciliation between the statutory cash flow and trading cash flow table above.		
Cash generated from operations (Note 25)	447.9	504.0
Retirement benefit contributions in excess of income statement	47.3	38.2
<b>Operating cash flow</b>	<b>495.2</b>	<b>542.2</b>
<b>Net debt to EBITDA</b>		
<b>Underlying operating profit (page 23)</b>	<b>584.6</b>	<b>574.8</b>
Depreciation	91.3	82.4
Amortisation of software and development costs	13.0	7.6
Non-controlling interests	(1.4)	(3.8)
<b>EBITDA</b>	<b>687.5</b>	<b>661.0</b>
<b>Net debt</b>	<b>1,115.0</b>	<b>1,173.5</b>
<b>Net debt/EBITDA</b>	<b>1.6x</b>	<b>1.8x</b>

### Cash flow and net debt continued

Working capital cash outflows during the period, excluding excess retirement benefits, were £4.0 million (2017: £7.7 million) excluding FOMEDEC. These contract-driven modest working capital cash outflows over the last two years are better than expected and may see some reversal in 2018/19. FOMEDEC working capital outflows were £109.3 million in debtors offset by £58.9 million in creditors, with a net effect of a £50.4 million outflow which will reverse in 2018/19. The FOMEDEC working capital will reverse in the first half of 2018/19 as a result of finance leases accepted by the government customer and some securitisation proceeds from the sale of the first finance leases offset by supplier payments. In the second half the balance of finance leases will be sold and outstanding supplier payments made.

The cash outflow includes £27.7 million of provision movements (2017: £28.4 million) relating to contracts (primarily pain share/gain share and warranties),

onerous leases, personnel (taxation and reorganisation) and property. There has been some acceleration of the settlement of contract matters, which is expected to occur again in 2018/19. The level of provision outflow in 2018/19 is expected to be similar to 2017/18, after which we expect the provisions balance to stabilise. During the year there was a £9 million income statement charge to provisions and over the last eight financial years the cumulative net provisions charge was £19.7 million and averaged 0.8% of underlying operating profit.

Net capital expenditure, including new finance leases, during the year was £112.7 million (2017: £134.9 million). The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to operating profit of 82% (2017: 86%); excluding FOMEDEC we achieved a conversion rate of 92%, a five-year high. Capital expenditure for the year was 1.1 times the Group's depreciation and amortisation charge of £104.3 million. For the 2018/19 financial year capital expenditure will be around 1.2 times depreciation. Net Group cash interest paid, excluding that paid by joint ventures, was £53.6 million (2017: £51.6 million), which reflects the refinancing of the Group's debt and the timing of due payments.

Pension cash outflows in excess of income statement charge were £47.3 million (2017: £38.2 million). Guidance for 2018/19 is an outflow of around £50 million. However, the pension environment has deteriorated in the year and, combined with the uneven distribution of funding deficits between the three large schemes, may see more volatility in pensions funding, although funding levels have improved.

Cash taxation payments of £74.3 million (2017: £61.5 million) increased due to increased overseas profits and prior year utilisation of overseas tax losses, but benefited from pension deficit payments in the UK.

Free cash flow pre-excess pension payments and FOMEDEC improved to £347.9 million (2017: £320.9 million),

up 8.4%, representing a free cash flow yield at 31 March 2018 of 10.3% (2017: 7.2%). Free cash flow post excess pension payments and FOMEDEC increased to £300.6 million (2017: £282.7 million), up 6.3%.

During the year the Group received £42.9 million in dividends from its joint ventures (2017: £26.7 million). Cash dividends (including to minorities of £3.8 million) paid out in the year totalled £147.7 million (2017: £133.8 million). The Group expects dividends from its joint ventures to increase to around £45 million in 2018/19 and 2019/20.

Group net cash inflow was £92.1 million (2017: £113.6 million inflow), decreasing total net debt at 31 March 2018 to £1,115 million (31 March 2017: £1,174 million). This gives a net debt to EBITDA ratio of 1.6 times (31 March 2017: 1.8 times).

Half year cash flow phasing for 2018/19 is expected to be at a similar level to 2017/18, with the exception of the FOMEDEC reversion.

### Return on invested capital (ROIC)

We define ROIC as underlying earnings before financing costs, divided by the average of opening and closing equity plus net debt, excluding retirement benefit deficits. ROIC, pre tax, was 14.5% (2017: 14.5%). Post tax ROIC was 11.9% (2017: 11.9%). This compares to the Group's current weighted average cost of capital of c7.5%. The Group continues to focus on capital employed and on improving returns, and management compensation includes this as a performance measure.

### Available financial capital

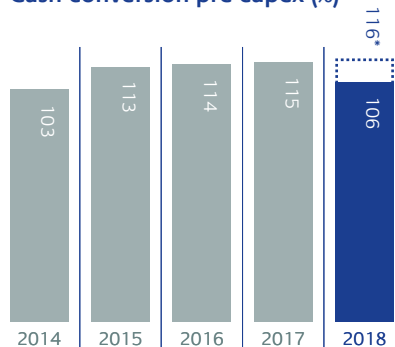
The Company defines available financial capital (AFC) as shareholder equity, net debt plus undrawn committed borrowing facilities.

### Objective

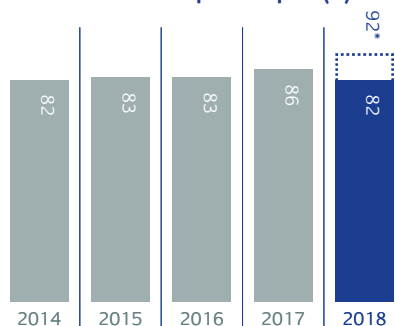
To ensure an appropriate level of AFC to:

- maintain operational flexibility and meet financial obligations
- fund the Group's organic and acquisitive growth

### Cash conversion pre-capex (%)



### Cash conversion post-capex (%)



\* excluding FOMEDEC

## Available financial capital performance

		Covenant	2018	2017
Debt service cover	Net debt/ shareholders' funds	>4	13.0x	12.0x
Debt cover	Net debt/EBITDA	<3.5	1.6x	1.8x
Gearing	Net debt/ shareholders' funds	n/a	38%	42%

- 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 circa 2.0 times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above 2.5 times, as illustrated by previous acquisitions, but only if the Group can see a clear path to reducing net debt to EBITDA back to circa 2.0 times or below within a reasonable time frame.

### Performance

The Group's gearing and debt cover ratios, used by the Group to evaluate capital, saw an improvement to 1.6 times net debt to EBITDA in 2017/18 (2017: 1.8 times), demonstrating further progress in bringing gearing down, both in the pay down of debt and through increasing profits attributable to shareholders. Debt ratios are below covenanted levels and gearing has continued to reduce, leaving sufficient headroom for bolt-on acquisitions and the funding of organic growth. The Company believes that capital markets remain accessible if or when required.

### Treasury

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes. The Group only enters into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group 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 in financial markets.

### Debt

#### Objective

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

#### Policy

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.

## Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the financial year, US private placement loan notes of US\$150 million were repaid at maturity, the Group issued a £50 million note, in a tap of the ten year October 2026 Sterling bond, increasing the total in issue to £300 million, and entered into a two and a half year £100 million Term Debt Facility, maturing August 2020. The revised Group capital structure of committed facilities and headroom are sufficient to meet the Group's ongoing commitments. In addition to the aforementioned Sterling bond and Term Debt Facility, the other main Group debt facilities comprise of: £40 million loan note maturing January 2020, US\$500 million US private placement notes maturing in March 2021, a €550 million Eurobond maturing in October 2022 and a Revolving Credit Facility of £750 million maturing December 2021. Taken together, these debt facilities provide the Group with a total of c £2.0 billion of available committed banking facilities and loan notes. For further information see note 2 to the Group financial statements.

### Interest rates

#### Objective

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

#### Policy

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

## Performance

As at 31 March 2018, the Group had 69% fixed rate debt (31 March 2017: 74%) and 31% floating rate debt (31 March 2017: 26%) based on gross debt of £1,475.6 million (31 March 2017: £1,424.8 million). For further information see note 2 to the Group financial statements.

## Liquidity

### Objective

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

### Policy

- i. All the Group's material borrowings are arranged by the treasury department and funds raised are lent onward to operating subsidiaries as required.
- ii. To ensure that the Group has sufficient cash on hand and that its committed RCF is appropriately sized and has sufficient term to meet the Group's general corporate funding requirements. Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a key performance indicator.

- iii. The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counterparty credit risk is monitored closely on a systematic and ongoing basis.

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

### Performance

- i. The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. During the year, the Group raised a further £50 million via a tap of the 2026 Sterling bond, entered into a £100 million Term Debt Facility, repaid US\$150 million of US private placement notes.
- ii. The Group had cash and cash equivalents as at 31 March 2018 of £286.3 million (2017: £191.4 million).

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

## Foreign exchange

### Objective

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

### Policy — Transaction risk

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

### Policy — Translation risk

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

### Performance

There was a net foreign exchange loss of £16.1 million in the income statement for the year ending 31 March 2018 (2017: £9.3 million). For further information see note 2 to the Group financial statements.

## Pensions

The Group provides a number of defined benefit and defined contribution pension schemes for its employees. The largest schemes are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme whose combined assets are £4.3 billion representing 88% of the total assets of the Group's defined benefit schemes. It also has employees in two industry-wide schemes, the Railways Pension Scheme and the Cavendish Nuclear section of the Magnox Group of the Electricity Supply Pension Scheme, as well as employees in other smaller occupational defined benefit schemes and local and central government schemes. All the occupational defined benefit schemes have been closed to new members for some years. The Group continues to review all options to reduce the risks inherent in such schemes. In the last financial year, it consulted with employees of two of the largest schemes on changes to better share costs of the scheme to help ensure the schemes remain sustainable and will be consulting with employees in the third of the largest schemes this year including alternative

options for those employees who may wish to leave the schemes whilst remaining employed. In the last financial year it made a significant investment in the education of current and former members coming up to retirement to help them understand all their options under the so-called 'pension freedom changes' introduced by the UK Government. The Group anticipates that some members will take advantage of these freedoms and will transfer their funds out of the scheme. The Group also provides an occupational defined contribution scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit scheme. Over 70% of its UK employees are now members of the defined contribution scheme. The Group pays contributions to these schemes based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk is borne by the employees.

### Investment strategy

The Group has agreed a long-term investment strategy with trustees across the three largest schemes designed to generate sufficient assets by April 2037 to be fully self-sufficient, although our expectation is that this target will be met significantly earlier. It also operates within an agreed risk budget to ensure the level of risk taken is appropriate. An investment committee operating across the three schemes, which includes Group representation, has been established for a number of years to maximise effectiveness and to ensure consistency. To implement the strategy, the committee has divided the schemes' assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category varying by scheme reflecting the schemes' different maturities. The growth assets are systematically de-risked over time by comparing and equating the expected and required returns each month. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self-sufficiency measure increases,

and this approach has protected the schemes against the falls in interest rates over the last few years.

### Funding valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. Work has commenced on the valuation of the Rosyth scheme as at 31 March 2018.

### Cash contributions

	2018 £m	2017 £m
Future service contributions	47.2	34.6
Deficit recovery	41.5	36.4
Longevity swap	10.7	6.0
<b>Total cash contributions – employer</b>	<b>99.4</b>	<b>77.0</b>

Cash contributions made by the Group into the defined benefit pension schemes during the year are set out in the table below. In the 2018/19 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £97.8 million. £9.6 million of this is for salary sacrifice contributions, £30.1 million is in respect of the cost of future service accrual, £47.4 million is to recover deficits over periods of time agreed with the Trustee and £10.7 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity. This total cash cost is expected to be around £50 million in excess of the charge within the income statement per annum over the medium term.

### Accounting valuations

	Devonport		Babcock		Rosyth	
	2018	2017	2018	2017	2018	2017
Discount rate %	2.6	2.6	2.6	2.6	2.6	2.6
Rate of increase in pensionable salaries %	2.2	2.3	2.2	2.3	2.2	2.3
Rate of increase in pensions in payment %	2.2	2.2	2.9	3.0	3.2	3.3
Life expectancy of male currently aged 65 years	21.1	21.2	22.2	22.6	20.2	20.3

The current level of bond yields and inflation expectations has increased cash service costs for pension schemes. The members' pension contributions are increasing for two schemes and consultation has begun on a third in order to mitigate the increase in cash service cost.

### Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,735 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,740 million. The total net accounting deficit, pre deferred tax, at 31 March 2018, was £5.0 million (2017: £104.5 million), representing a 99.9% funding level. A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the risk of increasing allowances for longevity.

### Governance

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

# Technology in action: Marine

## The future of support

Babcock is harnessing the power of innovative technology to advance through-life support opportunities, improving platform availability and readiness.

The use of iFrigate™ architecture is heralding a new world of optimised engineering support. The introduction of a suite of technology, equipment and system sensors into build projects means that a wide range of operational data can be fused, modelled, transformed and visualised, improving proactive maintenance decision support and optimising planning.

An on-board analytics suite allows informed risk-based maintenance decisions to be made and aids defect diagnosis, whilst shore-side data analysis helps forward deployed support, optimising the next maintenance period and de-risking Class support. This enables our expert engineers to plan, procure for and execute cutting-edge remote and shore side capabilities to deliver next generation efficiency.

Babcock thrives in complex environments which require specialist engineering expertise. The future of engineering support is here, and Babcock is shaping its application.

### Prediction

The predictive analysis of equipment is a game-changer in informing future service and maintenance requirements

### Optimisation

The use of digital 'smart' technology on naval vessels will ensure maintenance planning is optimised against known risks



### Design

Babcock's focus on designing and trialling embedded technology allows engineers to better understand, and visualise, platform and system performance in real time

### Specialist expertise

This functionality empowers the maintainer by giving access to up-to-the-second performance data and maintenance documentation at the right time, allowing them to optimise availability

### Availability

Understanding the condition of existing equipment to support maintenance decisions is a key driver to constantly improve through-life management and support of customers' critical assets

# Marine

## Strategy in action

The Marine sector remains focused on providing through-life support of submarines, naval ships and infrastructure, whilst continuing to grow its international naval support business. With unique owned and managed infrastructure around the world, we also look to apply our technical expertise to adjacent energy and commercial marine markets, using our capabilities in engineering, equipment management, consultancy, information and knowledge management.

### 2018 Underlying performance highlights

		2018 £m	2017 £m
<b>Revenue</b>	total (including jvs)	1,789	1,902
	joint ventures	22	28
<b>Operating profit</b>	total (including jvs)	235	234
	joint ventures	4	7
<b>Operating margin</b>	total (including jvs)	13.1%	12.3%
	joint ventures	17.0%	24.8%

**Revenue % of Group** 33%

**Operating margin** 13.1%

**Revenue growth\*** -6%

\*Excluding QEC, 1.1%

### Key highlights

- The first of two new aircraft carriers, HMS Queen Elizabeth, entered service in December 2017
- Successfully completed a record package of work for HMS Albion
- Flood-up of fourth Irish OPV in March 2018
- Won missile tube assembly work for UK Dreadnought and US Columbia submarine programmes
- Third WHLS contract for South Korea
- Our Oman JV has successfully completed five packages of work for the US Navy and US Military Sealift Command
- Our Australian NSM JV extended its contract to support the ANZAC fleet for a further five years
- UK Royal Navy training contract rated outstanding in all five categories by OFSTED
- Appledore and Rosyth awarded the British Safety Council 5 Star award, with Rosyth receiving the Sword of Honour for the 11th time

## Market overview

The Marine sector's core UK naval market has remained stable, with the Ministry of Defence (MOD)'s 10-year Equipment Plan forecasting a planned spend of £20 billion over the next decade on procurement and support for surface ships, including the Queen Elizabeth Class (QEC) aircraft carriers, and Type 26 and Type 31e frigates; and £44 billion on submarine programmes, including the new Dreadnought Class submarines.

In the UK, we provide 100% of submarine and 75% of surface fleet refits at our own facilities. Our Terms of Business Agreement with the MOD defines our position as the MOD's strategic support partner at both HMNB Devonport and HMNB Clyde and enables us to support the transition of HMNB Clyde to be the UK submarine centre of specialisation from 2021. Additionally, our experience of delivering technical training to more than 30,000 service personnel each year gives us a strong platform to grow our training business in the UK and internationally.

With increasing but ever-present pressure on support budgets, the MOD continues to work closely with industry partners to deliver better military capability and value for money in a sustainable and affordable way. This includes seeking opportunities for industry to expand its role in the delivery of core support capabilities. The UK's Modernising Defence Programme, due later in 2018, should provide a welcome clarification of the wider future naval support programme.

Launched in September 2017, the UK National Shipbuilding Strategy represents a step change in the Government's approach to naval ship procurement, presenting immediate opportunities for the design and build of five Type 31e frigates and up to three Future Solid Support Ships as well as providing a platform to develop our position in the growing global light frigate market.

Internationally, the Canadian Government has published its revised defence policy confirming its commitment to life-extend the existing fleet of four Victoria Class submarines and invest in a range of new build marine requirements, including



### Prince of Wales

HMS Prince of Wales, the second of the Royal Navy's two new flagships being built by the Aircraft Carrier Alliance, was officially named in September during a ceremony at our Rosyth facility by the ship's new sponsor, Her Royal Highness The Duchess of Rothesay. The significant milestone came just three weeks after the first aircraft carrier HMS Queen Elizabeth made her first entry into her home port of Portsmouth as part of her maiden sea trials programme. The Queen Elizabeth Class Aircraft Carrier project represents one of the largest and most complex engineering projects currently being undertaken in the UK and will give the UK a world-class capability over the next 50 years.

HMS Prince of Wales will be the eighth ship in the Royal Navy to bear the name, honouring Britain's history as a seafaring nation from the Sixth Rate gun ship in 1693 to the 'King George V' Class Battleship that fought in World War II. With a crew of 679, HMS Prince of Wales is expected to carry out sea trials in 2019 before entering Royal Navy service. The ship is fitted with a unique and innovative Highly Mechanised Weapon Handling System that allows the automated movement and storage of the ship's weapon load in a safe manner that significantly reduces the ship's crew numbers.

15 new surface combatants and a range of Coast Guard vessels. These programmes are likely to increase the demand for technically complex naval support services. In Oman, the overall market environment remains positive, and we expect more contracts over the course of 2018. In Europe, we see potential future opportunities from a number of submarine programmes which are currently in the early concept phases. In New Zealand, the defence force intends to acquire around NZ\$3 billion of marine capability over the next 14 years.

The UK and international specialised manufacturing markets continue to

provide opportunities within defence, civil nuclear, decommissioning and commercial marine, including programmes like the UK Dreadnought and US Columbia Class submarine build, North Sea decommissioning and civil nuclear new build with Cavendish Nuclear.

The gas equipment market continues to provide a strong pipeline of future opportunities for our new technologies in Gas Supply Vessels and Liquefied Natural Gas (LNG) handling. We see opportunities in the liquefied gas carrier market driven by demand from major economies such as China, South Korea, India and Africa.

## Strategy

Across our naval support business we remain focused on offering our customers the potential to combine reductions in the cost of providing complex engineering support services with improvements in the availability of equipment, platforms and infrastructure. Customer feedback suggests that this mix of cost reduction and performance improvements remains vitally important to the delivery of our customers' strategies.

In addition to our core service offering, we expect technology to play an increasing role in our strategy. Our iSupport embedded system brings together our specialist support expertise with targeted data analytics and information management to improve the way we design, build and support naval platforms and shore side facilities and will offer improvements in availability and reductions in operating costs. iSupport is capable of being bundled with the whole spectrum of our specialist engineering, support, equipment management and training capabilities to offer our customers a

unique support capability for both new and existing platforms.

We also see opportunities to provide a trusted and secure global support solution for international naval customers and operators of worldwide fleets of complex commercial vessels. With the number of planned new international submarine programmes growing, we see opportunities for the provision of our specialist systems and equipment, building on our strong track-record on a number of existing international programmes. Our strategy of pursuing an increased international presence is being supported by our naval support JV in Oman and our recent decision to establish an in-country facility in South Korea to build our relationship with both the defence and commercial shipbuilding businesses.

In the commercial market we are focused on building our market position in new technology areas for gas handling and processing for commercial marine platforms. We continue to build a portfolio of technologies including solutions for LNG and LPG, ethane/ethylene cargo handling systems, ecoSMRT® LNG

re-liquefaction, ecoVOCC® volatile organic compound capture and recovery for oil shuttle tankers and specialist software to optimise the design of gas carrier tanks.

Our strong capability in specialised complex manufacturing continues to offer opportunities for growth, including the Dreadnought and Columbia Class submarine programmes as well as civil nuclear new build and decommissioning work (for Cavendish Nuclear).

Within the cyber, intelligence and security market we continue to see growth in the cyber market and demand for support in the intelligence and security sectors as the international security environment becomes less predictable. In the UK, General Data Protection Regulation (GDPR) regulations are increasing business awareness of the need for cyber security and the rise in UK military spending on Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) continues to present opportunities, with a number of large-scale programmes currently being monitored.

## Babcock to develop base in Busan, South Korea

Further strengthening our international reach and presence in South Korea, we have opened a facility in Busan. With a long-standing presence in the country through our Weapons Handling and Launch System (WHLS) design and manufacture contract for the Jangbogo III submarine programme, and work in the commercial marine market, Babcock is looking to further invest in the country as we drive forward with our global growth ambitions. A key element of Babcock's in-country investment is to maximise the pool of local engineering talent to champion Babcock's marine capability and to grow our Korean portfolio.

In late 2017 we secured a seven-year contract with Daewoo Shipbuilding and Marine Engineering to continue the manufacture and delivery of WHLS equipment for the South Korean



Jangbogo III submarine programme, third boat set. The WHLS features an air turbine pump and programmable firing valve launch system and is based on the principles used in the WHLS supplied by Babcock for other international navies.

With procurement and manufacture already underway, boat one is due to be handed over to the Republic of Korea Navy (ROK) at the end of 2020, and boat two at the end of 2022.

Working from its new Korean base and from its UK facility in Bristol, Babcock is well positioned to deliver its long-term commitments to Jangbogo III by utilising a global supply chain network that spans from leading South Korean companies such as Hyundai Heavy Industries (HHI), to suppliers in the UK, Spain and Germany.

## Financial review

Marine revenues excluding the QEC Aircraft Carriers grew by 1% in the year with UK and international naval marine growing well and the Technology business gaining orders towards the year end which provide a good start to 2018/19. Including QEC revenues, Marine underlying revenue decreased 5.9% to £1,788.9 million (2017: £1,901.6 million).

In the UK, Technology equipment orders delayed in financial year 2017/18 are now forthcoming, and there is increasing demand for our complex technology applications such as ecoSMRT®. The large, one-off, QEC build and assembly programme is on schedule for completion in FY20. During the year major programme milestones were passed; HMS Queen Elizabeth was handed over to the Royal Navy for sea trials and HMS Prince of Wales was undocked; as such QEC revenue declined 45% to £163 million (2017: £294 million). QEC step down in 2018/19 is expected to be around £90 million as the further milestones are passed. International Naval saw good growth in the year with progress across contracts in Australia, New Zealand, South Korea and Canada.

Efficiency and contract performance, combined with a change of mix with the reduction in QEC volumes, allowed margins to improve to 13.1% (2017: 12.3%) despite an increased pension cost. Margins excluding the QEC effect were flat year on year with profit flat overall.

## Operational review

### UK naval marine

Babcock is successfully operating 23 naval support projects for the UK Royal Navy and we are on track to deliver the cost and performance requirements at HMNBs Clyde and Devonport through our five-and-a-half year Maritime Support Delivery Framework (MSDF) agreement. We have also achieved significant milestones on the Type 23 Frigate Life Extension programme having completed the first three of the planned 13 vessel programme. We have also completed work on a range of in-service submarines

including a major work package for the first of the seven Astute Class submarines, HMS Astute.

At our unique Devonport Dockyard facility, we are continuing to progress the first life extension package for the Vanguard Class ballistic missile submarines whilst, at Rosyth, the first submarine dismantling project is now underway.

We are leading 'Team 31' a group of industry leaders, including Thales, with the capability to deliver a competitive design and build solution for the MOD's new Type 31e general purpose frigate, destined for both UK and export markets. The project is expected to be awarded in 2019.

As a leading member of the Aircraft Carrier Alliance, we were delighted to see the first of these iconic vessels, HMS Queen Elizabeth, enter service with the Royal Navy in December 2017. The second vessel, HMS Prince of Wales, was named at our Rosyth facility in September 2017 and is now afloat while we complete the vessel and begin systems testing. At our Appledore facility, the fourth Offshore Patrol Vessel for the Irish Naval Service was floated out in March 2018, with commissioning expected in summer 2018.

As part of our contracted commitments under MSDF, and recognising that the QEC project is nearing completion, we are undertaking a headcount reduction programme across the business aimed at ensuring that we are ready to respond to the growth challenge whilst meeting our customer commitments and supporting our financial forecasts. A total of 1,100 redundancies have been announced across the business with the vast majority of the reductions likely to be achieved through voluntary means.

We are approaching completion of the first block of missile launch tube assemblies for the UK Dreadnought and US Columbia submarine programmes, and have already started work on the second. We have prequalified to bid for assemblies for the US Virginia Class submarine programme.

We have extended our Royal Navy training contract to 2020, worth c£60 million, and have successfully completed the delivery of a new suite of training tools to enable the Royal Navy to train the next generation of naval engineers. We have also augmented our Future Training Unit, increasing our support offering for the aircraft carriers.

### International naval marine

In Canada, our Victoria In-Service Support Contract continues to meet expectations, and we are providing support to all Royal Canadian Navy submarines, in particular HMCS Corner Brook, which is currently in refit, to be followed by HMCS Victoria. Additionally, we are examining the potential to offer a similar complex support capability to other Canadian federal vessels (Navy and Coast Guard).

In Australia, while Government studies begin on potential life extension of the Collins Class submarines, our sustainment contract with the Australian Submarine Corporation was renewed with a five-year programme. Our capability in submarine life extension should create further opportunities on the Collins Class programme whilst we continue to work with both Naval Group and Lockheed Martin in equipment supply and sustainment options for the Australian SEA1000 Future Submarine programme. Technical support capabilities are critical selection criteria and will demand the transfer of know-how to Babcock Australia, which will increasingly become the focus for delivery of all contracted solutions.

Our NSM JV extended its contract to provide support to the Royal Australian Navy's ANZAC Class frigates for a further five years. Within the wider Warship Asset Management Agreement, the programme is designed to ensure the frigates stay in service until 2031.

In Oman, we have undertaken deployed support periods for Royal Navy vessels as well as a number of vessels for the US Navy and US Military Sealift Command. The unique strategic location of the Duqm facility will provide a number of opportunities to build our relationship with the US and other international navies.

In South Korea, we secured a contract to deliver Weapons Handling and Launch Systems for the third Jangbogo III submarine and have opened a facility in Busan to support ongoing projects and future growth.

### Technology

We have mobilised to provide both an equipment support capability and a technical authority service for the platform systems fitted to the Type 45 Destroyer and QEC aircraft carriers. We have also delivered significant improvements in performance from our Equipment Management Operations Centre (EMOC) across a range of equipment support contracts with the UK MOD.

Within our analytics business, we have been successful in providing secure collaboration and information management capability to the UK's Naval Marine enterprise. We have helped Network Rail transform their management of asset-related data. We continue to push our technical capabilities into new sectors, including helping United Utilities develop their asset management strategy by embedding predictive analytics into their decision-making process.

Additionally, we have had a record level of demand for our cyber products and incident response services and supported our financial services customers through the establishment of offices in New York and Frankfurt.

In our Energy and Marine business we have maintained market share of around 50% in the LPG sector and have secured our first orders for our proprietary system ecoSMRT® in LNG reliquefaction. Our After Market Operational Support Services for ship owners, which includes plant performance monitoring and analysis, control system upgrades and obsolescence control, is progressing well. Highlights include the successful delivery of 22 LPG ships, including our first LPG projects in China and successful patents for our VentGasCooler technology in South Korea, China, Japan, Vietnam and USA.

### The future is ecoSMRT® with Babcock



Babcock has been contracted to supply its ground-breaking ecoSMRT® LNG reliquefaction technology to four recently ordered LNG carriers being built at Hyundai Heavy Industries' Ulsan and Samho shipyards in South Korea.

Offering unparalleled efficiency, cost and footprint savings, ecoSMRT® innovative technology enables LNG carriers to operate at the cutting edge of efficiency with greater reliquefaction capacity and significantly reduced power consumption — at a lower cost — than competing mixed refrigerant or nitrogen expansion systems.

Requiring only one compressor, ecoSMRT® benefits from a significantly lower power consumption, meaning reduced maintenance requirements and lower operating costs (OPEX). The technology also minimises emissions, and ecoSMRT®, the result of a joint-development project between HHI and Babcock, leads the

way in meeting and exceeding global environmental legislation requirements within the industry.

A specialist technology provider within the marine and onshore liquefied gas markets, Babcock LGE is celebrating 50 years of providing unrivalled engineering, procurement and operational support services to the liquefied gas and petrochemical industries across a significant stream of business activities.

Since 1967, the business has been developing strategic global relationships, especially in Asia, from the mid-eighties, and business has been thriving. The continued success has included several ground-breaking patented technologies and enhancements for gas carriers and crude oil shuttle tankers, bolstering Babcock's proven capability within the global marine transportation industry.

The last 12 months have also seen Babcock deliver on the E-On Rampion and Ørsted Hornsea 1 offshore renewable contracts from our Rosyth base, with one element of the Siemens Beatrice contract complete and the second element to be delivered shortly. There are no current plans to pursue further opportunities in this market.

## Sustainability

Marine works within highly regulated and tightly governed environments, supporting some of the UK's most critical assets and infrastructure. We demand the highest levels of security and compliance and safety is paramount across all of our operations.

During the period, we reduced our 'total accident' and 'over three day' injury rates by 20% and 19% respectively on already low levels. Across the sector, reporting of injuries, diseases and dangerous occurrences regulations (riddor) rates of note are Sea Training with 4,000,000 work-hours riddor-free.

We continue to develop numerous initiatives to support our health, safety and environmental directives through our Visible Leadership programme, Safety Lens and SHE passport, which have all been designed with our employee and site welfare at the core. Our Rosyth team recently celebrated its eleventh consecutive Sword of Honour from the British Safety Council for the exemplary management of health and safety risks on site. Our Appledore site achieved BS OHSAS 18001 and ISO 14001 and was awarded a prestigious five star rating by the British Safety Council.

'Zero Waste to Landfill' remains a key priority with ongoing mandatory training and awareness sessions across sites to support our target of diverting all suitable landfill waste to alternative legitimate routes wherever possible. Our Rosyth site has successfully achieved ZWTL for the last two quarters consecutively.

At HMNB Clyde we have invested in campaigns to support and understand the local environment in which we operate. We have developed species awareness booklets in support of World Environment Day highlighted environmental concerns — including ecological protection, energy conservation and spill mitigation — through annual events with over 400 attendees across the base. Devonport supports environmental sustainability and, along with customer and trade union partners, has signed up to an annual charter to reduce emissions, minimise consumption and manage risk.

We have an extremely active STEM outreach programme which promotes initiatives with local community groups. The Future Brunels programme is run by first year graduates in our Defence Systems Technology business in association with SS Great Britain. HMNB Clyde has supported 25 STEM and careers events reaching more than 150 school pupils and hundreds of older students interested in a career in engineering. Devonport has held educational days on board HMS Bulwark while Rosyth has hosted vessel build and design activities.

Our Diversity and Inclusion programme has recorded an award-winning performance this year with many individuals and teams recognised for their impressive technical and innovative skills. Our 'Pride in Babcock' network was awarded Best LGBT+ Employee Network at the Bristol Pride awards, and is now working with OUTstanding to further develop our LGBT+ inclusion work.

All of our networks — Pride in Babcock, Babcock Women's Network and the 'good allies' programme — are led by under-represented groups. With a combined membership of over 1,000, the groups are working collaboratively with the business to develop, share and promote best practice across the sector. Supporting this, we continually work with external stakeholders, including WISE and the Association of BAME Engineers, to solidify our brand as an employer of choice.

## Outlook

Through our ToBA and strong relationship with the MOD, we continue to have excellent visibility of the UK future naval support programme of work. We are continuing to apply new and innovative technologies, thereby increasing the scale and scope of engineering support that we are able to deliver, not just from the UK, but as a global support provider.

Outside our core defence business we continue to see opportunities to apply our expertise in complex and critical engineering in adjacent commercial marine and energy markets, both in the UK and internationally. We believe the outlook for the Marine sector is positive, with a strong bidding and tracking pipeline of growth opportunities in the UK and our established international markets, complemented by our continually increasing intellectual property and internal capability.

We expect a c£90 million step down in QEC revenue in 2018/19, and overall we expect low to mid single digit underlying revenue growth with stable margins.

# Technology in action: Land

## Augmented reality driving efficiencies

We use technology to support our customers by adapting and implementing innovative solutions often in highly regulated and complex areas. Whatever the business need, we have created virtual reality (VR) scenarios to port people into the environment they need to be in — at the touch of a button.

When we were challenged by the UK MOD to see how we could improve efficiencies for engineers working in remote environments, we gave them a pair of digitally enhanced glasses to see things a little differently.

Working together with the customer we created a scenario focused on the benefits of Augmented Reality that could support the maintenance activity with any asset. We developed a prototype offering a truly immersive Augmented Reality experience which overlaid digital information in the real world and in real time for them.

Through our technology concept the engineer could now access several layers of information on any aspect of the asset he or she was working on.

### Driving efficiencies

As the volume of data we have to deal with increases, Babcock works to secure solutions that enable information to be called up seamlessly and on demand — empowering employees whilst being safer and more efficient.

### Maintenance support

We work with the customer to provide them with a seamless view into the digital world, reducing timelines whilst enhancing skills, safety and auditability.

#### Informed decisions

The technology in these glasses informs the engineer if a pump is overheating or offers the history of a particular asset, allowing them to make better informed decisions.

#### Collaboration and partnership

The success of this prototype and the efficiencies its innovation has created are leading us to develop even further our technological capabilities for Babcock and our customers.

#### Design

Our technology support is always designed with the customer in mind, whether it's our defence, education or blue light partnerships.



# Land

## Strategy in action

The Land sector provides large-scale critical vehicle fleet management, equipment support and technical training for military and civil customers worldwide.

We are building on our experience of delivering critical services to key customers, including the UK's Ministry of Defence and Emergency Services, to continue to grow our business internationally.

### 2018 Underlying performance highlights

		2018 £m	2017 £m
<b>Revenue</b>	total (including jvs)	1,849	1,812
	joint ventures	89	126
<b>Operating profit</b>	total (including jvs)	140	140
	joint ventures	31	27
<b>Operating margin</b>	total (including jvs)	7.6%	7.7%
	joint ventures	35.4%	21.1%

**Revenue %  
of Group**

**35%**

**Operating  
margin**

**7.6%**

**Revenue  
growth**

**2.1%**

### Key highlights

- New contract to support the Australian Defence Force's fleet of ground support equipment
- Developed Babcock-designed virtual reality training system for engineers
- Babcock Sponsored Reserves deployed alongside British Army personnel overseas
- Strong support for London's emergency services during a challenging year in the capital
- Successful delivery of Royal School of Military Engineering benchmarking programme
- Airports baggage team contributed towards record-breaking performance at Heathrow airport
- New contract won to deliver training for EDF Energy's new nuclear plant at Hinkley Point C
- Jaguar Land Rover training delivery expanded with new technical apprenticeship programme
- Eskom contract extension for high pressure systems

## Market overview

We continue to see demand for fleet management, equipment support and technical training services in the UK and overseas, particularly for customers with critical and complex fleets in the defence and civil sectors.

In our Defence business, we continue to build our relationship with the British Army through our strategic partnership for equipment support and individual training. We use enhanced data and analytics to inform their decisions on equipment support solutions and we have developed innovative solutions to support planning for major change programmes. We see opportunities to provide fleet management and equipment support solutions to new 'blue light' emergency services customers in the UK and overseas. Our investment in strategic fleet management capabilities and decision support and data analytics has positioned us strongly in this sector.

We experience continuing demand for our specialist technical training services. The introduction of the Apprenticeship Levy in 2017 has had a significant impact on the market for apprentice training. Whilst SMEs have reduced their uptake of new apprentices, larger firms are seeking support from large-scale providers such as Babcock to enable them to extract maximum value from the levy by optimising the mix of training they provide.

In our Rail business, we continue to support Network Rail and expect this relationship to continue as they move into Control Period 6 from April 2019, which will see the delivery of a £47 billion five-year expenditure plan.

In South Africa, political uncertainty has remained which has significantly impacted economic growth, however we have seen a resurgence in the mining markets with international demand driving production output and demand for our specialist mining equipment. The latter part of the year saw some political leadership changes relating to Eskom, the state owned power facility, which has brought some stability to the landscape.

## The HUB — advanced data analytics

Babcock's complex information analysis capability, the HUB, has fused multiple data sources together for the Army on a single analysis platform, minimising information siloes. The 'at a glance' dashboards allow the user to view key facts about a whole fleet, or drill down to an individual vehicle type, studying aspects such as fleet usage, failure and maintenance patterns, location analysis and availability.

By providing a life map view of a vehicle, we have given the customer an improved understanding of the complexity of vehicle programmes and

their interrelation with other aspects such as training and supply chain management.

The Army and Babcock now have a decision support capability for testing fleet-related questions, forecasts and assumptions, modelling and simulating fleets. Skilled cognitive analysis means we are visualising and understanding today's issues as well as predicting and testing the impact of future challenges. This gives the customer the ability to plan effectively and make the most of valuable resources.



## Strategy

The Land sector provides engineering-led critical vehicle fleet management, equipment support and technical training services to customers operating in mission-critical environments. We have established a successful track record of delivery and developed strong long-term relationships with customers in our core markets of defence and emergency services, and will continue to develop our specialist services to meet the changing requirements of our customers, exploiting advances in technology and information systems.

We are focused on growing our vehicle support and technical training services to UK and international defence and emergency services customers including vehicle support for European military customers and on increasing the scale of our technical training and apprenticeship work for key UK customers.

This growth will be supported by investment in technology and technical capabilities to deepen and extend our data and analytics activities. We will introduce new technologies to increase the value and competitiveness of our services and broaden the scope of our vehicle systems engineering and integration capabilities. In other businesses that are of relatively small scale or are in markets offering more limited near-term growth, our activities and investments will be aimed at improving operational efficiency and maximising shorter-term value creation.

In South Africa, we continue to develop a route to market for Fleet, expand export markets in the South African region and organically grow profitability in our product businesses through market share expansion and new technology from our OEM partners.

## Financial review

The Land sector underlying revenue grew 2.1% to £1,849.1 million (2017: £1,811.7 million) as Defence and South Africa performed well. Organic growth at constant exchange rates was 2.3% in the period. DSG is progressing well, with discussions to transition into an availability based contract ongoing. South Africa has benefited from improved commodity pricing in the equipment business and continuing strong demand from its main power customer.

Organic underlying operating profit at constant exchange rates increased 1% to £140.1 million (2017: £139.7 million). Operating margin for the sector was broadly stable at 7.6% (2017: 7.7%). There was some weakness in Rail as previously flagged as the Control Period 5 slows down in anticipation of Control Period 6, and some disruption in apprentice training as the new Government levy regime is introduced. This was largely offset by performance in the South Africa business and the Royal School of Military Engineering (RSME) JV.

## Operational review

The Land sector continues to perform well in its chosen markets, providing critical services to civil and military organisations worldwide. It remains focused on its core capabilities, providing vital support for its customers' large-scale fleets of complex vehicles and equipment, and delivering high quality technical training to our customers' workforces.

### Defence

In our Defence business, we have also provided around 300 vehicles as part of the Army's deployment in Estonia, demonstrating our ability to meet changing demands. We continued our work building the Warrior Capability Sustainment Programme demonstration vehicles for Lockheed Martin and were awarded a further year's extension of maintenance to the Protected Mobility Vehicle Fleet. We have recruited and trained two units of sponsored reserves, who work for Babcock each day, but who can be deployed as soldiers by the British Army. This capability has been used as part

of the Whole Force Approach, supporting the Army's equipment repair in Canada.

Following our contract extension, last summer, to provide critical asset support to British Forces Germany up to their planned drawdown in March 2020, we have now been awarded an extension to our service delivery in Italy, supporting the European Support Group, in their role for NATO. Babcock Australia was awarded the Australian Defence Force ground support equipment asset management services contract, which is due to begin operations in the first half of 2018/19.

Our Defence Training business continues to perform well, delivering over 20,000 training days to the British Army. We successfully concluded the benchmarking of the RSME PPP contract, and have implemented the service transformation which will provide the MOD with around £80 million of further efficiencies over the rest of the contract.

We continue to develop training technology. We have designed and delivered a £2 million virtual reality system

## Mobile technology in Emergency Services fleets

The demands placed upon our Emergency Services customer vehicle fleets continue to grow as a result of increasing budgetary and operational challenges, demanding ever-faster turn-around of maintenance activities.

Thanks to a series of innovative technological solutions, Babcock's Mobile Maintenance Technicians are now able to manage their daily activities via 4G-enabled rugged tablets. Repair information is entered directly into our Fleet Management system via an app, eliminating the need for paper job cards and employee timesheets. Mobile Technicians are also able to request parts and additional repair activities without the need to pause repairs. A built-in authorisation process ensures that all stock requests are logged automatically, reducing the administration burden across the organisation.

This secure new technology supports the faster completion of jobs, benefiting customer fleet availability. It also enables enhanced real-time fleet status reporting to customers and improves our overall Fleet Management capability through improved measurement of asset productivity, efficiency and utilisation. This latest initiative builds upon other recent

innovations including a stores barcoding system and the workshop touchscreen terminals.

By connecting our entire workforce through technology we are able to drive overall benefits in performance, cost and operational efficiency across Babcock-managed fleets.



for the Electro-Mechanical training contract and have started to use data and analytics to support service improvements and drive further efficiencies. Our close relationship with the Royal Electrical and Mechanical Engineers (REME) continues, as we prepare for their move to the new Apprenticeship Standard for REME engineers later this year.

Our ALC joint venture, which provides construction vehicles for the MOD, has performed strongly, with high demand for the service throughout the year. We are working on a bid to bring together the construction vehicle fleet and the mechanical handling fleet. The contract to deliver fleet services for the MOD's 17,000 administrative vehicles, Phoenix II, continues to progress, with the integration of the fleets in Germany, the rest of Europe, and the MOD Military Police. Enhanced capabilities are being evaluated

for future implementation that will deliver greater efficiencies for our customer through better utilisation of the fleet.

### Emergency services and training

We have continued to provide strong support and high levels of equipment availability to UK emergency services customers in a challenging year. In September, we were awarded a 12-month extension to our contract with the Metropolitan Police Service (MPS), ensuring continuation of service delivery until the MPS announces the preferred bidder for its future fleet management contract later this year. In parallel, Babcock Vehicle Engineering (formerly MacNeillie) extended its contract with the MPS to provide vehicle conversions. Further progress has been made, assisting London Fire Brigade in modernising its fleet of vehicles and appliances

under its asset replacement programme. Throughout the year, we have engaged with a number of international emergency services customers and in the year ahead we anticipate participating in competitive programmes to provide fleet management services outside the UK.

In our civil training business, we were successful in our bid to deliver training services for the Project Management Office of EDF Energy's Hinkley Point C construction project. We will provide systems and assurance to ensure that site personnel are suitably qualified and experienced to operate on this key engineering project, and will procure and deliver related training. Operational performance on our training contract for the London Fire Brigade has been strong and we are in early discussions with a range of other emergency services customers around their training needs, all of which are also impacted by the introduction of the Apprentice Levy.

Our engineering and technical training contracts continue to perform well, and we have seen encouraging account growth with some of our key customers, such as Network Rail. We won a contract with Jaguar Land Rover for their technical apprenticeship programme in the UK. We now train over 500 Jaguar Land Rover apprentices each year across a range of technical, commercial and manufacturing specialisms. We see further potential training opportunities with other UK automotive sector customers.

Despite challenging weather conditions throughout the winter, our fleet management team also delivered strong operational performance to our Heathrow airport customers, and is participating in competitive tenders to extend these relationships, with preferred bidder announcements expected during FY19. In Australia, the Qantas ground support equipment contract became operational on 1 July 2017, and the focus is now on rolling out new systems and processes to improve availability and performance.

Our Airports baggage operations business had a second year of record performance and has successfully secured a two-year extension to the Heathrow baggage

### Technology in simulator training

In our training business we developed a virtual reality simulator to support the blue light driver training work we do with emergency services. Our technology experts took that training to a whole new level when they created a simulator with built-in haptic feedback and a 200 degree wraparound screen which is now used to teach drivers in a safe and risk-free learning zone.

Initially created to replicate the experience of driving a real fire engine,

our concept can also be adapted to simulate any emergency response vehicle, and support the training of blue light drivers anywhere in the world.

It's equipped with true to life cutting-edge technology and is another example of Babcock's ability to design and create a fully flexible and portable product that reflects and meets the changing needs of our Emergency Services, not just in the UK but internationally.



system maintenance contract. In addition to delivering baggage operations at Heathrow and Schiphol, our team has also delivered baggage upgrade projects at a number of major UK airports and secured new contracts at Heathrow, Gatwick and Birmingham.

### Networks and equipment support

In Network Engineering, our Rail business continues to experience a slowdown as we approach the end of Network Rail's Control Period 5 in March 2019. We will begin bidding for Control Period 6 shortly. Our on-track joint venture SB Rail successfully rebid a National Plant contract, with our share worth around £70 million, which will see its fleet of machines contracted until 2025.

Our work on Translink's seven-year signalling and telecommunications contract is progressing well, with further framework opportunities being explored in Northern Ireland. Our ABC joint venture successfully completed the electrification of Scotland's busiest rail route between Edinburgh and Glasgow as part of an alliance with Network Rail and Morgan Sindall.

The Power business delivered a full programme of work, including three major overhead line refurbishment projects for National Grid and a number of complex schemes for Western Power Distribution. Tenders won during autumn and winter mean a substantially full order book for the coming year, with the focus already on the pipeline for FY20 and beyond.

### South Africa

All of the African businesses, with the exception of our transmission line operation, have grown significantly during the year with underlying revenue growth being 21% over prior year in local currency. The stand out performer has been our Equipment business that has grown 38% over prior year on the back of market share won and new products launched. The power generation business has grown 16% over prior year and the truck business has met budget expectations.



### London Fire Brigade training

Babcock manages a portfolio of over 250 courses and trains circa 24,000 delegates each year through a 25-year contract with the London Fire Brigade. We have two purpose-built dedicated training centres in London, and also operate out of a number of fire stations across the capital.

At Beckton, a three-storey firehouse simulates real fires within a number of different scenarios. As the number of fire related incidents has fallen over time within London, so this has placed increased importance on providing high quality, realistic training to London's firefighters. Beckton also offers an Urban Search and Rescue (USAR) facility, consolidating USAR elements under one roof, including breaching and breaking, shoring, lifting and moving, technical search, line rescue and confined space.

Our indoor rig facility is a true to life environment where we can be confident we can deliver the best training courses covering a whole host of crisis situations.

We have been delivering our new Firefighter Development (FFD) trainee programme for over three years and have trained close to 300 trainees. A combination of our blended learning approach and highly skilled trainers has seen a significant improvement in the pass rate. The FFD programme will develop into an 18-month apprenticeship programme from September 2018, with circa 300 trainees per year over the next three years.

### Sustainability

We have continued to invest in our people through initiatives to develop talent, recognise achievements and increase diversity across our business.

We implemented a new Talent Management Framework to identify the highest performers with potential for our

Talent Development programme, and to enable those with potential to develop in a structured, formal and supported way. During the year we launched a 'First Line Leader Programme' to enhance our First Line Leader skills and maximise the potential in their teams.

## DSG breakout for Estonia

When equipment was required at short notice for NATO operations in Estonia and Poland, the Army called upon Babcock to deploy vehicles from the high readiness fleet maintained in Ashchurch.

Just over 300 vehicles, ranging from Challenger tanks to quad bikes, were made ready in only five days and delivered to nine locations across the UK. Each vehicle had to be inspected, possibly repaired and prepared for

deployment by the combined Army and Babcock team, working in close partnership together.

At Ashchurch, Babcock's Receipt, Inspection, Issue and Storage (RIIS) team of over 200 people maintains and repairs a vital fleet of over 7,000 vehicles and pieces of equipment, ensuring they are ready to meet future demand.

The event successfully demonstrated the viability and practicality of holding large numbers of vehicles at high readiness in specialist storage conditions, whilst simultaneously supporting the move to Central Europe of several hundred British military personnel. Army units received the right equipment, correctly configured, at the right time, easing the preparations for a major deployment.



We remain focused on attracting, employing and developing future talent. Our graduate programme was again a finalist in the Institute of Student Employers' Development awards, in the 'Strategic Alignment' category. Recognising the valuable contribution our graduates make to the sector, we held the first alumni programme which helps to continue their professional development. We also work closely with schools to promote STEM activities — our graduates have all become STEM Ambassadors.

In Australia we joined a procurement initiative with the Indigenous Defence Consortium which supports Aboriginal and Torres Strait Islander businesses as part of the national agenda on Reconciliation in Australia.

We continue to focus on improving our health and safety procedures and systems to ensure that everything reasonably practicable is being done so everyone affected by our operations goes 'home safe every day'. We have seen a reduction in the over three-day accident frequency rate of 20% and the all accident frequency rate of 15% compared to last year.

Implementing a structured approach to the safety lens survey process has seen a 26% increase in the number of staff being consulted on health and safety across the sector. These consultation sessions produced valuable feedback which has enabled a sector-focused improvement programme to be implemented to drive common standards.

## Outlook

Our specialist experience and technical capability in delivering critical fleet management and technical training solutions place us in a strong position to capitalise on the outsourcing opportunities that are emerging, both in the UK and internationally.

In Defence, we expect our strong working relationship with the UK MOD to continue as the next generation of programmes is determined, and we have identified equipment support opportunities for European defence customers. We expect Holdfast joint venture profits in 2018/19 to step down by £5-10 million.

In the civil sector we will continue to expand our footprint with key UK customers for equipment support and training services and we are pursuing several similar opportunities in European markets.

2018/19 underlying revenue is expected to be flat with stable margins.

# Technology in action: Aviation

## Technology at full flight

Technology underpins everything we do at Babcock, but it's our proven ability to innovate, implement and integrate our technology solutions for our customers that sets us apart.

Our international footprint in technology is growing too. We collaborated with leading Spanish technology organisation, Indra, to develop and create an unmanned aerial vehicle (UAV) concept called Lua. The pioneering concept behind using the drone is in its ability to identify and combat outbreaks of forest fire.

Lua is pioneering in several ways. It is equipped with three hours of flight autonomy and, through the use of predictive modelling of changing meteorological conditions, we are able to use these UAVs to help decide which incident locations to focus on and how best to optimise the number of helicopters available.

Through our innovative technology collaboration Lua supports the safety-critical work of our firefighting teams and also demonstrates a prototype that can be rolled out to other areas of the world.

### Innovation

We recruit, develop and value people with a passion for technology and innovation. That's why we got our graduates directly involved in the Lua project.

### Design

The Lua is designed with a maximum take-off weight of 25kg and an endurance airspeed of 100 kph.



#### Inspiring future engineers

Supporting our STEM agenda, we are also working with Spanish universities to ensure we have a steady flow of young engineers coming through.

#### Life saving

Since the start of the 2017 firefighting season, Babcock has supported the extinction of 613 fires in Spain alone, with more than 17,000 flight hours and 72,500 water drops from our aircraft.

#### Surveillance

The Lua's capabilities include on-shore emergency surveillance, day and night time operations and vehicle and people detection.

# Aviation

## Strategy in action

We have four strategic priorities. In UK Military we aim to broaden our customer base into naval aviation and Joint Helicopter Command. In European Military we are delivering our first major French contract and have good prospects for delivering training in other countries. In Aerial Emergency Services we are developing excellent new capabilities, and in Aerial Fire Fighting we are building new approaches for this vital service.

### 2018 Underlying performance highlights

		2018 £m	2017 £m		
Revenue	total (including jvs)	1,022	874	Revenue % of Group	19%
	joint ventures	101	81		
Operating profit	total (including jvs)	144	146	Operating margin	14.1%
	joint ventures	41	39		
Operating margin	total (including jvs)	14.1%	16.6%	Revenue growth	17%
	joint ventures	40.8%	47.7%		

### Key highlights

- Awarded HADES contract to provide technical support services at 17 Royal Air Force sites across the UK
- Delivered the first group of PC-21 training aircraft and construction of new PC-21 simulation building underway in Cognac, in support of our French Air Force flying training contract
- Renewed a major firefighting contract with the Italian Ministry of the Interior
- Secured a new four-year air ambulance contract in Gothenburg
- Signed a new four-year search and rescue contract with the Coast Guard of Galicia, Spain
- Opened a new school for Ascent's UK Military Flying Training System at Cranwell

## FOMEDEC progressing well

In December 2016, Babcock was awarded an 11-year FOMEDEC contract by the French Ministry of Defence, DGA (French Defence Procurement Agency), to deliver and maintain new training aircraft and

simulation systems and provide related services for the fighter jet crews of the French Air Force.

The first flight of the aircraft took place in July 2017 at the Pilatus factory in Stans, Switzerland.



Babcock will provide aircraft maintenance and integrated logistics services as part of the contracted delivery. When fully operational, 14 aircraft will be required to be ready for flying operations on any given day to support up to four sorties of 14 aircraft per day, plus a demanding night flying programme. 11,000 flight hours are to be delivered each year.

FOMEDEC also provides for pilots' basic flying training on new PC-21 aircraft in Cognac. On 12 February 2018, the FAF and Babcock laid the foundation stone for the Simulation Building. It will house three Part Task Trainers, two Full Mission Simulators and an Ejection Seat Training Device together with other equipment (cockpit egress trainer, ejection seat trainer and under canopy trainer) and training areas. The building is set for completion by summer 2018.

## Market overview

Our business covers both military and civil aviation, with several sector-wide capabilities including technology, safety and training. Our competitors range from large multi-national aviation companies to smaller localised competitors, particularly in our civil aviation business.

Our focus in military is the delivery of airbase support, training support and aircraft engineering support to UK and European customers including France and Spain. The Royal Air Force (RAF) is undergoing a period of ground-breaking training and estate transformation and the UK Military Flying Training System (UKMFTS) is moving into the operational training phase. We expect to see a number of major programmes developing in the UK military air domain to support the broad range of new capabilities and platform investments as well as legacy fleets of helicopters and training aircraft.

European defence aviation markets are developing, with an increasing desire to

engage with non-OEMs for support and training capabilities such as our FOMEDEC contract in France. European air forces are procuring latest generation combat aircraft and live flying training is an increasingly expensive activity, with fewer, and increasingly obsolescent, training assets available. Simulation and synthetic training is becoming more prominent. Broader international markets show strong growth potential and we see increasing interest in our full life-cycle offering and capabilities, which we are already delivering in the UK, France and Spain.

In our civil aviation business, aerial Emergency Medical Services (EMS) is a large and growing global market providing complex and critical services. Babcock is the second largest EMS provider in the world with around 10% of the market and the leading position in all markets where we operate. We see an increasingly complex medical care market, with an estimate of global spend between £2-3 billion annually. Search and Rescue is a small part of our

business today, but with a multi-billion global market, only 20% of which is currently outsourced, we believe it presents significant opportunities.

Babcock is one of the world's leading providers of fixed-wing and rotary-wing firefighting services. Wildfires are becoming a serious global issue, increasing in frequency and ferocity annually, as the world saw last year. Current operations primarily rely on unsophisticated small operators with limited capability and technology enhancement. With our scale and investment Babcock is beginning to professionalise the sector and will develop a global deployable model offering technology-based differentiated services.

In the commoditised oil and gas helicopter market we are a relatively small operator, with roughly 4% of the global market share. Competition in this area remains intense.

## Strategy

We have four strategic priorities. In UK Military we aim to broaden our customer base into naval aviation and Joint Helicopter Command. In European Military we are delivering our first major French contract and have good prospects for delivering training in other countries. In Emergency Services we are developing excellent new capabilities, and in Firefighting we are building new approaches for this vital service.

Aviation brings together all of Babcock's military and civil aviation capabilities under a single leadership, which has resulted in an updated strategy that we believe will deliver growth in both revenue and profits.

We plan to grow our successful UK military aviation business to become an indispensable aviation support partner to the Royal Air Force, Royal Navy and British Army. Today we are a critical component of the UK military flying training system and we provide engineering support to more than 30% of all UK military aircraft. Our aim is to become the UK MOD's aviation training, operational assurance

and technical support partner, with early evidence seen in our recent HADES win, and to develop a UK military rotary-wing support business. We are currently exploring the air support to defence operational training market, which globally is worth around £1.5 billion a year.

Western air forces commit around 80% of their time in training and they are increasingly looking to industry support to deliver the outputs that they demand and we are developing a number of new opportunities to become the flight training partner for a number of European air forces.

Our strategic vision for Emergency Medical Services is to become the global market leader through innovation driving a higher quality and more cost effective service than our competitors. We also aim to be the world's first fully integrated and professional aerial firefighting company building on the best practice that we already deliver across southern Europe, supported by technology to improve safety and operations.

## Financial review

The Aviation sector had a year of strong growth with underlying revenue up 16.9% to £1,022.1 million (2017: £874.0 million). Organic growth at constant exchange rates was 15.6%. Both UK and European Defence alongside Emergency Services were strong drivers of growth with contract wins throughout the year. Our training support contract with the French air force, FOMEDEC, is progressing well with revenue and cash improving. Aircraft delivery will be completed during 2018/19 with the customer accepting finance leases, which will then be converted into cash through our signed securitisation agreements with a major French bank. UK training programmes are also progressing well, and we expect our prudent margin recognition to build towards Group levels as risks are retired and project milestones are met.

Despite a strong year of revenue growth, underlying operating profit decreased marginally to £144.3 million (2017: £145.5 million). As defence contracts build to Group margin levels, our oil and gas helicopter business continues to

## Viking Recovery Programme

The Viking glider is used by the RAF Air Cadet organisation to give basic gliding training to air cadets. Nine volunteer gliding squadrons operate the type at locations around the UK, training air cadets to a standard sufficient for them to fly solo. Since 2014 the entire fleet of Viking gliders has been grounded due to airworthiness concerns. This grounding has resulted in the loss of the aircraft available to air cadets meaning they no longer have access to the fundamental early RAF flying training that is such an important part of their youth engagement programme.

In 2016, the RAF came to Babcock to help recover their fleet of gliders and we were awarded a contract to lead and manage a programme to recover sufficient Viking gliders to provide UK wide coverage. The contract is to strip, inspect, repair and refurbish the aircraft

in order to return them to an approved airworthiness baseline and allow safe cadet gliding operations to continue into the future. We are now halfway through the recovery programme at Membury in West Berkshire, working with our partner Southern Sail Planes who are the UK's leading experts in glider maintenance.

In March 2019, at the end of a c £6 million programme, the RAF will once

again have their fleet of Viking gliders back to an airworthiness condition, allowing them to continue their essential air cadet flying training programme giving access to flying to many air cadets all over the UK. This programme of youth engagement is a core tenant of the RAF100 celebrations that Babcock is proud to be sponsoring this year, aiming to commemorate, celebrate and inspire.



underperform in a deteriorating and saturated market environment, and are furthered hampered by H225 helicopter costs. Aviation margin for the year was 14.1% (2017: 16.6%), a reduction from the previous year, which benefited from the end of long-term contracts at a closing phase of margin recognition. Emergency Services continues to deliver healthy margins.

## Operational review

### UK military air

The UK Military Air business secured a key new contract in November 2017 with the award of the £160 million Royal Air Force (RAF) HADES contract. The contract went live on 1 April 2018 and provides a wide range of technical support to 17 RAF stations employing over 800 people. In support of the UKMFTS, Babcock has programme-managed the commissioning of 10 new facilities comprising five training buildings and five hangars used for aircraft storage, aircraft maintenance and simulator housing.

These facilities will now be used by Ascent (a Babcock joint venture) alongside the recently procured fleets of new aircraft to deliver a world class training programme for all future military pilots. Looking forward, the business is currently preparing a bid for the RAF Air Support to Defence Operational Training (ASDOT) opportunity to provide adversary air combat training in partnership with experienced military air training provider Elbit Systems.

### European military air

As our European Military Air business approaches its first anniversary, it has delivered on its key targets and positioned itself successfully to execute its strategy. The mobilisation of FOMEDEC has progressed well to reach critical milestones including the successful first qualification test flight, the laying of the foundation stone on the simulator building, the relocation of the team to the site in Cognac and signing of the securitisation agreement. We are developing strategic military OEM

relationships across Europe, including with Leonardo and Airbus. Helidax, our helicopter pilot training contract, continues to perform well in France and our European pipeline continues to develop with more strategic opportunities of scale.

### Aerial emergency services

We are a leading provider of aerial EMS, both in existing territories and in new countries. Earlier this year we were awarded a contract by the Norwegian Government to provide high-specification fixed-wing air ambulance services across Norway for an initial six years, with options to extend by a further five years. We continue to drive technological innovation in markets characterised by world-leading standards, with the aim of continuously delivering operational excellence and safety, improving patient outcomes, and consequently the efficiency of health agencies. In Italy we enhanced our service by introducing night operations in several Italian regions, as well as starting new trials to integrate Remotely Piloted

## HADES

Babcock has been awarded three significant new regional contracts by the UK Ministry of Defence under the Technical Support Services Provision (TSSP) programme for 17 sites across the whole of the UK. Worth a total of around £160 million for the first five years for all three regions, with options for a further

two one-year extensions which could increase the value to around £220 million, the TSSP contracts include the provision of aircraft maintenance and operations, airfield support and operations and vehicle fleet logistics, together with specialist armoury and engineering support.

Babcock's programme will support over 19 separate services and almost 5,000 requirements to Single, Joint and Tri Services. These contracts cement our position as a key support partner to the RAF. We will deliver excellent integrated service capability as well as significant cost savings to our customer.

The three HADES contracts went live on 1 April 2018 on two existing Babcock sites, Wyton and Henlow, and eight new sites. These will be added to in June with Cosford and in July with Linton and five more new sites, making a total of 17 sites. Following a very collaborative discovery exercise with the customer we will be TUPEing over around 800 new staff after which we then enter a stabilisation phase, followed by a transition phase culminating in around 1,000 people working on HADES at steady state.



Aircraft System technology into EMS. In Spain, we successfully renewed EMS contracts, including a new service covering the Canary Islands, while in France we are delivering multi-base operations for the South West contract. We will continue to deliver as we grow our global presence and reputation as a leading EMS provider. Also in Spain, we have been selected by the Spanish Safety Maritime Agency (SASEMAR), part of the Public Works Ministry of Spain, as preferred bidder for the renewal of a nationally significant aerial search and rescue contract worth around £160 million for the first four years.

Last summer, Southern Europe experienced the worst forest fires in over five years. Since the start of the 2017 firefighting season, we have supported the extinction of 613 fires in Spain alone, with more than 17,000 flight hours and 72,500 water drops from our aircraft. In addition, the Italian Government's fleet of amphibious firefighting aircraft, which we operate and maintain, played a crucial role in the extinction of major fires in Portugal and Southern France. Babcock participated in the European Union firefighting pool in these two countries. We were a trusted partner to local, regional and national governments all over Europe throughout this complex firefighting campaign. We also successfully renewed a number of contracts for nationwide and regional services in Spain. Deep engagements on high standards of health and safety have resulted in a safe campaign. Investing in innovation and cutting edge technology is positioning Babcock as a leading company on firefighting resources.

### Oil and gas

Whilst the Oil and Gas business is a small part of the Aviation sector, it continues to be impacted by challenging industry conditions, with options to use aircraft in other lines of business being explored. Our operational delivery however remains strong with significant focus on safety where we continue our work as a founding member of HeliOffshore and customer satisfaction remains positive.



### Southern Europe firefighting support

Wildfires are becoming a serious global issue, increasing in frequency and ferocity annually, with seasonal patterns affecting different regions throughout the year. 2017 saw some of the most ferocious wildfires for many years. Babcock supports the fight against these fires across the Mediterranean from our bases in Italy and Spain, and using our fleet of more than 100 aircraft. In 2017 we extinguished 613 fires in Spain alone with more than 17,000 flight hours and 72,500 water drops. Our aim is to continue this support and develop a globally deployable model offering technology-based differentiated services.

Demonstrating our world-class capability in this area, Babcock has

been awarded a significant national contract by the Italian Ministry of Interior for a fully outsourced aerial firefighting service.

The contract started in February 2018, and is worth a total of around £160 million for the first four years and includes an option for a further four-year extension which could increase this value to around £320 million.

The contract, which Babcock has been successfully operating for seven years, will see the delivery of firefighting services across up to 10 bases across Italy, together with fleet management, operations and maintenance of 19 CL-415 Canadair aircraft owned by the Italian Government.

## Cutting edge firefighting

Every second counts when it comes to tackling fires and preventing loss of life. In Southern Europe, our work in aerial fighting is at the forefront of technology innovation and it's where our EINFOREX technology solution is making a real difference. The EINFOREX system gathers intelligence and data from firefighting missions, which is then sent in real time to command and control centres. Analysis of vital information is then used to enhance firefighting tactics and safety for firefighters, and to save lives.

Mapped images of the fire are sent to emergency control centres giving them an instant picture of the incident they are working on including temperature changes within the fire so they can decide from the information received the best places to deploy firefighters. Using the helicopter as a relay, the geo-position of the aircraft, firefighters and ground vehicles, are also transmitted back to the command and control centre, giving accurate information on the locations of all those involved in the firefighting mission.

Our technology solution doesn't stop there. EINFOREX can also detect the mobile phones of civilians in the fire affected areas and can advise those running the mission of the best escape routes for those caught up in the fire.

Our technology solutions such as EINFOREX show how Babcock really does thrive in complex environments which require specialist engineering expertise.



We have continued to build on developing leadership capability, extending our successful first line manager behavioural development programme into Spain and delivering an Executive Leadership Coaching programme for senior managers. In UK Military Air, we have developed and implemented a bespoke framework and toolkit to support our people in working inclusively and respecting each other, in line with the Group's guiding principles.

In November, 20 apprentices and their managers participated in an Outward Bound Trust development programme to integrate development of a range of personal and professional skills into our existing technical apprenticeship programmes. We have also extended our involvement with educational STEM activities, working with Women In Science & Engineering to develop a STEM Toolkit and partnering with STEM Learning on a range of educational liaison activities within our contractual areas.

## Outlook

Our prospects are strong in our chosen markets of UK Military, European Military, EMS and Firefighting. We have an excellent pipeline of opportunities in UK Military as the RAF introduces new platforms and needs increased training and cost effective ways of supporting them. Our new European Military Aviation business has quickly established a pipeline of new training related opportunities. EMS remains an area of ever increasing demand and, after an incredibly busy summer in 2017, we look to add new technical capability in our Firefighting business to improve the capacity and effectiveness of this service.

We expect strong underlying revenue growth in 2019 but that the mix of business will result in a softening margin.

## Sustainability

Safety remains our highest priority. Throughout the year we have continued to develop and implement an industry leading Safety Management System within our civil businesses, which we are now expanding across the wider sector. Our safety culture stresses the importance of learning from experience and working to develop and maintain an efficient learning cycle through communication, reporting and feedback. At the end of 2017 we rolled out a refreshed Safety Behaviours & Expectations programme.

Our civil business continues to improve its safety performance, which remains well below industry peers. Workplace Health, Safety and Environment has enjoyed an overall reduction in workplace injuries and lost time.

We continue to develop safety initiatives such as Fatigue Risk Management and Crisis Preparedness. We continue to be the global leader in the implementation of aviation fatigue risk management systems in advance of regulation.

We have extended our talent recognition and talent development capability, developing international graduate placement opportunities to foster more diverse and international talent. Our 2018 graduate intake has increased by 50% and, working with other Babcock sectors, we have implemented a behavioural graduate development programme to ensure our graduates are equipped to work effectively in cross-cultural, dynamic and complex environments.

# Technology in action: Cavendish Nuclear

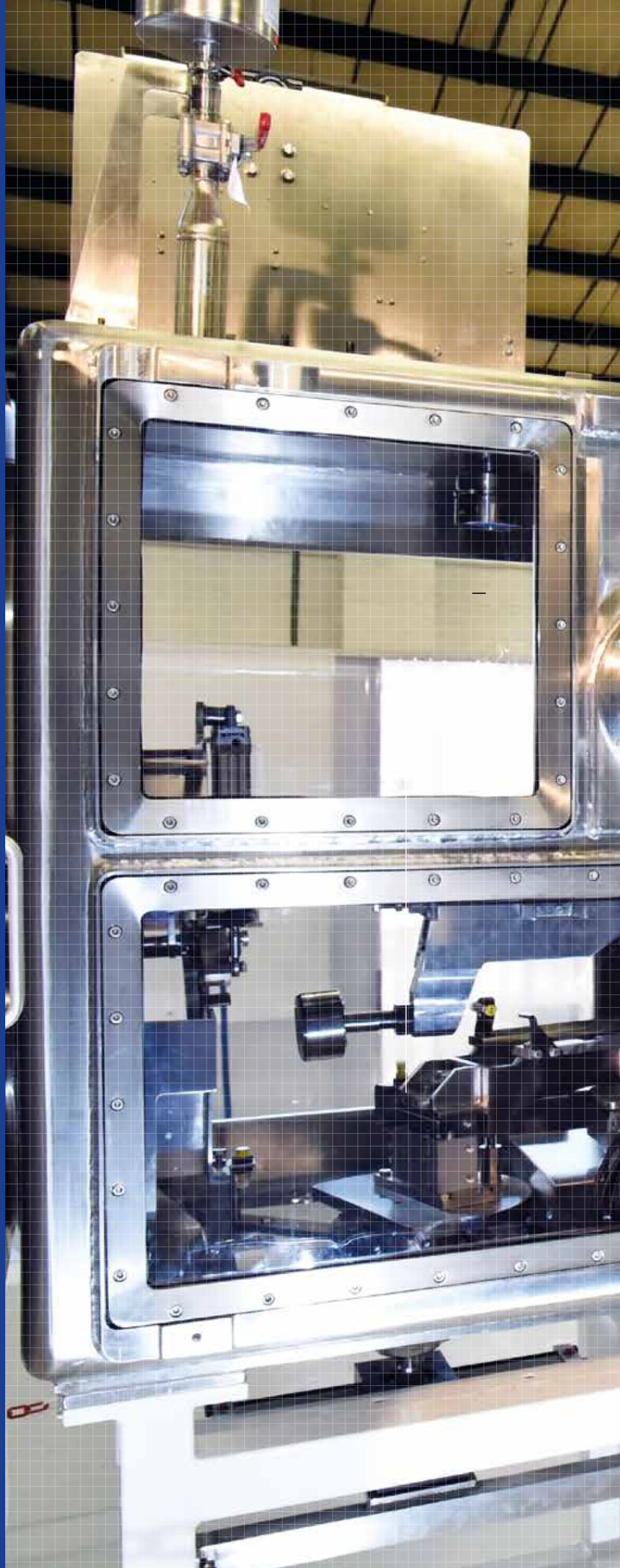
## Technology minimising risk

Cavendish Nuclear and its key supplier have been awarded a 10-year contract to supply Sellafield Ltd with Glove Box Systems to process nuclear material. As part of this contract Cavendish Nuclear will be applying the innovative use of virtual reality (VR) simulation to de-risk and, where possible, accelerate delivery.

The design of the glove boxes will be completed using the latest 3D tools. Once the 3D design of each glove box is complete, the models will be transferred to a VR interface. Users will wear VR headsets and gloves, which will allow them to test out the ergonomics and identify any modifications at the earliest possible stage. The VR suite will comprise a single skeleton glove box incorporating moveable rings and real gloves to accurately simulate operator constraints.

A key advantage of this arrangement is that it can be located within the design office, whilst providing the ability to simulate any glove box in the entire plant.

This approach helps mitigate the risk of requirements to change the design identified after assembly, which can impact delivery of the project and schedule and cost.





#### Ergonomics

Simulated glove box environments will enable the customer to test the ergonomics.

#### Mitigating risk

Applying VR to delivery of nuclear decommissioning solutions de-risks and accelerates delivery.



#### Smart simulation

Virtual reality simulation will play a key role in the Sellafield Glove Box Systems contract.

#### Problem solving

Use of VR will enable any required modifications to be identified early.

#### Trusted to deliver

This will be delivered by drawing on our proven VR capability from within the wider Babcock Group.

Glove box manufactured by Jordan Manufacturing Limited

# Cavendish Nuclear

## Strategy in action

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

### 2018 Underlying performance highlights

		2018 £m	2017 £m
<b>Revenue</b>	total (including jvs)	703	629
	joint ventures	491	435
<b>Operating profit</b>	total (including jvs)	69	61
	joint ventures	38	29
<b>Operating margin</b>	total (including jvs)	9.8%	9.8%
	joint ventures	7.7%	6.7%

**Revenue %  
of Group** 13%

**Operating  
margin** 9.8%

**Revenue  
growth** 12%

### Key highlights

- Won 10-year Sellafield Glovebox framework contract
- Bidding £1.6bn of new work including Hinkley Point C Auxiliary pipework & PPP at Sellafield
- Significant milestone at Wylfa: reactors are 50% defuelled
- Delivered a successful outage at EDF Dungeness site both on time and on budget
- Reached formal agreement on terms of hand back of Magnox contract in August 2019
- Pile Fuel Cladding Silo project — all six doors installed, six penetrations cut, concrete monoliths removed, doors sealed and handed over to Sellafield

## Market overview

The civil nuclear market in the UK continues to progress. The global energy market is still impacted by relatively low prices, which has resulted in pressure on decision making for new major programmes both in the UK and internationally as the wider industry seeks further investment. We have seen an increase in Tier 2 and 3 decommissioning projects issued for tender, despite budgetary pressures, and there is still opportunity within the UK new build programmes. We are currently bidding in excess of £1.6 billion of new Tier 2 and Tier 3 work across new build, decommissioning and international markets.

In the UK, the Nuclear Decommissioning Authority (NDA) is currently determining the structure of Magnox decommissioning work following the end of the initial contract in August 2019, which is expected to provide further potential opportunities for the sector. The sector is also investigating entering into new markets where it can deploy its programme management, decommissioning and hazard management expertise in other highly regulated industries.

## Strategy

Our strategy is to accelerate growth by developing the current Tier 2 and 3 capabilities in the UK, underpinned by our order book and growing pipeline of opportunities. We will also continue to develop our products and the expertise of our workforce to maintain our position as the UK's leading nuclear engineering services business. We aim to secure and deliver projects at Hinkley Point C (HPC) new build facility while developing a position in both Wylfa and Moorside.

Following the NDA's decision to terminate the current Magnox contract in August 2019, the sector aims to secure further opportunities to support the decommissioning programme.

Across the sector our focus is on improving performance and efficiency by safely accelerating programmes where possible and by implementing and applying

## Pile fuel cladding silo

A Cavendish Nuclear joint venture is behind the opening up of the world's oldest radioactive waste store for the first time. Experts at the Sellafield nuclear site have cut the first hole in the Pile Fuel Cladding Silo (PFCS), a locked vault which was never designed to be opened.

It follows years of collaboration, designs, innovation and painstaking rehearsals by Bechtel Cavendish Nuclear Solutions for Sellafield Ltd and the Nuclear Decommissioning Authority.

It's the first of six holes that will allow radioactive waste to be removed from one of the site's most hazardous buildings. Preparations have been under way for a number of years, which involved practising the cutting operation at a full-scale replica test rig in Rosyth, Scotland.

The six holes are cut at the top of each of the facility's six compartments, allowing access to the waste within the silo's walls for the first time in 65 years. Each section is cut away in a single piece and withdrawn into a containment bag. A containment door is then lowered over the aperture and closed.

The giant steel doors will provide a safe barrier between the waste inside the silo and the outside world. Work to remove the material will start in 2019.

To remove the waste, a crane will extend through the cut holes, a grabber will then drop down to scoop the waste up, lifting it out of the container and back through the hole.

It will then be dropped into a specially-designed metal box, for safe and secure storage in a modern facility.

Steven Carroll, Head of the PFCS, said: "I am incredibly proud of the work that our teams have achieved together, in preparing the silo for successful waste retrievals. The level of challenge involved with this facility is unparalleled, considering the age of the building, the lack of historical information about the waste itself, the atmosphere inside the silo and its position on one of the most congested sites anywhere in the world. Despite this, the teams have carried out some world class engineering in difficult environments to get us closer to getting the waste out and into safer storage earlier than planned."

"This project harnesses the engineering expertise and ingenuity of two companies with global reach to provide Sellafield with the tools it needs to deliver hazard reduction on a truly epic scale," said Paul Smith, managing director of UK projects at Cavendish Nuclear.



technical innovation across our sites and services while managing and mitigating risk. We continue to build on current capabilities and infrastructure through collaboration with our Marine sector colleagues to develop highly complex nuclear module fabrication capability for both the decommissioning and new build markets. We continue to drive new technology and innovation to embed simpler processes and increase efficiency. Above all, we continue to drive for the highest health, safety and environmental performance across our operations.

### Financial review

Cavendish Nuclear saw strong growth during the year in underlying organic revenue and underlying operating profit as both the Projects business and the Decommissioning JVs performed well. Underlying organic revenue increased 11.7% to £702.7 million (2017: £629.3 million). New build activity has increased at Hinkley Point C and the Decommissioning

JVs have increased volume at both Magnox and Dounreay. As previously flagged we expect the step down in Magnox revenue to be around £60 million in 2018/19 as decommissioning progresses.

Strong growth in underlying organic operating profit of 12.1% delivered profit of £68.8 million (2017: £61.4 million). Project margins were softer on prudent profit recognition during the ramp up stages of newly awarded contracts with some additional IT costs following the implementation of new systems. The Decommissioning JVs saw margin increase and we expect the Magnox margin to remain at current levels until contract completion in August 2019.

### Operational review

Throughout the year the sector's long-term contracts continued to perform well with the Decommissioning JVs delivering on schedule. We have seen a

wide selection of technical contract wins including full life-cycle decommissioning solutions for Magnox sites, major design contracts, complex module fabrication and waste package flasks for Sellafield, additional maintenance projects for the EDF AGR fleet and new packages of work from Hinkley Point C.

### Decommissioning JVs

During the year we reached successful agreements with the NDA for the termination of the Magnox contract, our joint venture with Fluor. The productive negotiations resulted in commercial arrangements for the period until contract completion in August 2019. Performance at the 12 sites continues aligned with our commitments and schedule, with milestones achieved in line with expectations and a continued focus on delivering cost effective solutions to the decommissioning programme. The NDA is undergoing a review and the intended operational arrangements for

## Dungeness B outage

Cavendish Nuclear works with EDF Energy to support all eight of its nuclear generating plants in the UK. But Dungeness B alone accounts for 25% of the company's business.

It's day 47 of the statutory outage. The twin reactors at the heart of the station's output are shut down for their scheduled service.

On one, three of the four huge gas circulators that drive the heat from the reactor's core have been removed from line, maintained and re-instated. Any moment now, EDF Energy will remove the fourth unit and the pressure will be on the Cavendish Nuclear team



again to turn around the last one as quickly as possible, working round-the-clock in shifts.

To the untrained eye, it's hard to tell the difference between those working for EDF Energy and those working for Cavendish Nuclear. They all wear the same coveralls, get the same toolbox talk information, and fill out the same safety reporting forms.

There's a good reason for that, as Gavin Schlechter, outage manager and year-round operations manager for the EDF Energy business at Cavendish Nuclear, explains:

"The more we can do to make it feel like 'one team', the better it becomes for efficiency and morale. There's less stress. It makes for a more open reporting culture, too. We get very good feedback from the customer about our willingness to report things that some others may feel less inclined to flag up, especially the very minor events."

The closeness of the working relationship between EDF Energy and Cavendish Nuclear isn't unique to Dungeness B — Cavendish Nuclear supports the operation of all seven AGRs and one PWR in its generating fleet. But there is one aspect that definitely is.

Dungeness B was the first production model of the Advanced Gas-Cooled Reactor to be built in the UK. Construction started in 1965 but it wasn't completed until 1983 — a full 13 years late. Later models learned from the difficulties experienced during construction and changed their design, which means some features are unique to Dungeness B.

It's the only AGR station where Cavendish Nuclear, as heir to the original equipment manufacturer, has the added responsibility of looking after the four huge gas circulators attached to each of the twin reactors.

Magnox beyond August 2019 are still to be determined, but we believe our continued strong operational performance and technical expertise combined with experience on the Magnox sites put us in a good position to benefit from any new opportunities. Additionally we are working with the NDA, under the Nuclear Sector Deal, to accelerate up to two demonstrator projects for reactor dismantling in 2020.

Key operational deliverables include completing all remaining work at Bradwell to deliver site closure, continued defuelling of Wylfa, commencement of the construction phase for the SGHWR reactor core removal, construction of interim storage at Chapel Cross, Hinkley and Harwell, and progression of removal of the two remaining waste streams in the Berkeley vaults. Magnox will also be focused on delivering the required throughput improvements in the commissioned waste processing plants at Berkeley, Trawsfynydd, Hunterston, Dungeness and Harwell. Asbestos remediation and removal, as well as the management of deteriorating asset conditions, remain priorities across the sites.

The joint venture contract at Dounreay, Europe's most complex decommissioning project, is delivering to the revised scope associated with the Exotics Waste Removal Project as part of the UK Government's strategy. The site operations team has also removed fuel elements from the Fast Reactor, the first time that this has been completed in several decades, representing a significant milestone for the contract. The restructuring is on track, including a reduction in headcount in order that costs and skillsets match the requirements of the future decommissioning programme.

## Projects

Our Projects performance remains strong and we have achieved multiple critical milestones either on or ahead of target across the business. At Sellafield, we continue to deliver exemplary performance preparing the ageing facility for waste retrieval. On the Pile Fuel Cladding Silo (PFCS) project, a joint

venture with Bechtel, we have successfully installed all of the 'Magnificent Six' 12.4 tonne doors (playing a key role in reducing hazard at the site), cut six penetrations, removed the concrete monoliths, sealed the doors and handed over to Sellafield under budget and ahead of schedule. The strong performance in the design frameworks at Sellafield continues to be rewarded with additional new scope.

In December, we were awarded the Sellafield 'Glovebox' contract to design and fabricate technically complex engineering solutions for the treatment, handling and management of nuclear materials. The contract, valued at around £100 million, is currently being mobilised. Following the success of synergies with the Marine sector in delivering the PFCS project, the expertise and unique equipment in technical fabrication at Rosyth will again be employed for this 10-year framework contract.

As we leverage our position as a lifetime partner with EDF, we continue to provide for their generating fleet, providing critical reactor core analysis allowing the plant life extension of the AGR reactors, maintenance and outage support. During the year we delivered a planned outage at Dungeness on time and on budget.

Internationally there has been significant management focus on developing the Japanese business, with Cavendish Nuclear established as the leading UK decommissioning expert with both the Japanese Government and industry.

As a result, we successfully completed a contract for Japan Atomic Power Company and are working on bidding preparations for the upcoming Tokai Bunker project. Fukushima work has also been delivered in support of Hitachi GE Nuclear Energy (HGNE) with the potential for expanded scope and follow on work packages. Cavendish Nuclear is currently the only non-Japanese company to participate in HGNE's seven-strong Fukushima Fuel Debris Removal team.

At the beginning of the year we transitioned from Early Works Involvement to an Early Works Contract, covering supply chain engagement for long lead time materials, design work and

preparations for site mobilisation for the new build work on the Balance of Nuclear Island mechanical installation for Hinkley Point C. The sector also continues to provide a range of engineering and design support for Horizon Nuclear Power's Wylfa Newydd project, including support to Menter Newydd for the design of the radiation waste facilities, under contract to Menter Newydd's partner, JGC.

## Sustainability

Long-term business sustainability is a core focus at Cavendish Nuclear and we continue to focus on three key themes of safety, people and performance. We actively recruit talented young individuals into our graduate and apprenticeship schemes and this year employed around 55 young engineers, supported by a three-year development programme to maximise their experience and expertise across the sector. Over 20% of the current workforce joined as a graduate or apprentice at some point during their technical career at Cavendish Nuclear, including senior and management roles. We are also implementing new planning training for leaders and managers and will roll out the delivery for 100+ employees over the next year.

## Outlook

The outlook for next year looks strong with underlying revenue growth expected in the Nuclear Services business from recent new contract wins, the development of new products and services for our EDF business and an expectation of new opportunities coming from the UK Atomic Weapons Establishment.

This growth will offset revenue step-downs from the Magnox and Dounreay joint ventures as decommissioning works progress in line with the agreed programme. The New Build and Japan businesses will continue to grow as projects start to mobilise, and the sector is expected to benefit from securing projects, inward investment and a continuing focus on efficiency.

2018/19 underlying revenue is expected to be flat with stable margins.

# Delivering and evolving a sustainable business

In order to maintain the resilience of our business over time, our consistent focus remains on creating long-term value for stakeholders through a strong and sustainable Babcock.

Our commitment to sustainability means that the relationships we have with our shareholders, customers, employees, suppliers and local communities and the regard we have for the environment are core to how we plan to deliver performance and achieve our goals. Reporting on material yet non-financial measures is also necessary in understanding the performance, opportunities and long-term sustainability of generating value for all our stakeholders. We have chosen not to prepare a separate Non-Financial Information Statement, but rather address the disclosure of non-financial matters in the following pages and throughout the Strategic report.

Babcock has deep technical expertise in providing bespoke, complex engineering services across four sectors, with a growing international footprint. We work in highly regulated environments managing complex assets in a range of markets and countries, operating and supporting critical infrastructure, equipment and training programmes. We therefore have a responsibility to consider a diverse range of stakeholders, interests and concerns. Our approach is thorough; we maintain three overarching, underpinning and interlinking pillars of sustainability as discussed further in this report and additionally in each of our sectors' operational reviews.

A fundamental part of our Group realignment was, and continues to be, our focus on supporting and investing in our people to deliver sustainable growth across the sectors. At Babcock, we believe that a truly sustainable business is essential to our success, which is why we pride



Archie Bethel CBE, Chief Executive

ourselves on upholding the strictest standards of business ethics, delivering a competitive talent development programme and ensuring that health and safety remain at the forefront.

Looking to the future, our people and their potential are central to our plans for growth, both in the UK and internationally. We firmly believe that we can sustain the long-term success of our business in ways that also serve local communities and individuals. We do this by investing in and supporting our people, whether through technical apprenticeship schemes, graduate schemes, training or career development and succession opportunities across the Group. We strive to identify and train talented people to implement growth, for example, through our tailored Babcock MBA programme in partnership with the University of Strathclyde.

Our ability to continue attracting, recruiting and developing the people we need to help us thrive as a business is key to both our current and long-term success. Initiatives such as the graduate recruitment campaign and annual apprentice networking events as well as talent development and management schemes are all part of our plan to equip our business with the talent we need to grow sustainably.

Protecting the health and safety of our employees is a fundamental value of our business; we work hard to get everyone home safe, every day. This extends to our wider operations, where we seek to avoid or minimise any adverse effects on the surrounding environment. Our Group wide Code of Business Conduct outlines our commitment to strict ethical conduct

together with the importance we place on conducting our work safely and with integrity. Supplemented by appropriate training and guidance, our Code of Conduct reinforces our honest approach to doing business, as well as supporting long-term success by minimising financial risk and sustaining our reputation.

This year, we have demonstrated our support for diversity in engineering by growing our relationships with universities and schools to encourage young people to take up science, technology, engineering and mathematics (STEM) internationally and we are proud to be official partners of the UK Government's Year of Engineering campaign. We continue to foster diversity in the workforce, sponsoring the World Award at this year's Women In Science and Engineering (WISE) Awards, which recognised the invaluable contribution made by women in the industry. Building on the establishment of staff networks in recent years, we continue to support our internal staff Diversity and Inclusion networks as they grow. Our LGBT network, Pride in Babcock, was recognised for its fantastic work within the Diversity and Inclusion arena this year, winning Best Staff Network at the Bristol Pride Awards.

Initiatives like these form part of our continued commitment to enhancing our highly skilled workforce, enabling us to foster the talent needed to achieve and sustain our strategic aims.

Archie Bethel CBE  
Chief Executive

# Our approach to sustainability



## Profit and performance

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



## People and potential

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



## Environment and ethics

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

# Profit and performance

The efficiencies we deliver through effective contract management, innovation and through-life management enable us to return value to our customers, our colleagues and our investors. We buy a wide range of goods and services and need reliable, high-performing suppliers across all aspects of our supply chain. Babcock seeks to ensure that our customers' money is spent efficiently and responsibly and that our supply contracts are managed effectively. We expect our supply chain to adhere to our standards of ethical behaviour, and our environmental, health and safety and other working practices.

## Profit

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

Over the past year, we have looked for supplier efficiencies across the organisation. This has included contract efficiencies through upfront procurement, involvement in the bid process, operational productivity through increased innovation and quality, and streamlined internal processes. Babcock has implemented a rigorous programme across our procurement and supply chain function. The objective has been to drive best practices across the organisation. As a result of this initiative, procurement is engaging earlier in order to help provide our customers with the best possible solution, while improving profitability. Early pre-bid engagement by the procurement function allows our bid teams to understand potential market capabilities, while engagement as part of the team means we can aim to put together a proposal for our customers that meets their needs and requirements in the most efficient way possible, while establishing supplier relationships that are robust and sustainable in the long term. The output of successful procurement

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

## Performance

### Building long-term relationships

We are always looking for better, innovative ways of serving our customers. Our responsibility is to provide them with the best options to ensure success. When we identify a more efficient way of servicing their requirements we discuss these options and work in collaboration with our customers to bring efficiency benefits, while delivering a quality service. The Procurement and Supply Chain team is actively engaged in the bidding process with existing and new customers. This enables us to bring the most effective offer to our customers. We are often able to leverage existing arrangements to offer a cost-effective solution.

### Suppliers

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

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

We continue to develop end-to-end procurement tools that enable us to

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

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

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

### Delivering critical support using high-performing, ethical suppliers

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

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

We pre-qualify suppliers for certain types of supply, before admitting them to the supply chain. This involves satisfying ourselves that they can meet our standards. Certain suppliers will be selected for audit and close monitoring,

based on risk assessment or supplier performance. Planned reviews of supply chain risk are undertaken by our businesses.

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

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

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

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

## Babcock deploys Sponsored Reserves to Canada

As part of the DSG contract, Babcock provides the British Army with 40 fully qualified sponsored reserves — skilled personnel who are employed by Babcock and capable of being deployed world-wide as vehicle mechanics to support the Army's critical vehicle fleet in operations.

Last year, 11 Babcock employees were deployed to the British Army Training Unit Suffield (BATUS) in Canada, the largest military training area in the Commonwealth, having undergone extensive military training.

They worked alongside their Army colleagues to provide invaluable expert, real-time support to the largest overseas unit vehicle fleet (over 1,300 vehicles). Although not required within the commitment, four of these Sponsored Reserves were deployed to a separate exercise (Dark Horse), making up a sixth of the whole unit deployed.

The successful deployment to BATUS not only helped to reduce the burden on regular Army units to support the summer training season, but also proved the concept of a genuine 'whole force approach' in the Land environment, bringing regular Army, reserves and Babcock into one coherent, high performing organisation.



## Supporting local economies by using diverse, locally procured services

We take our responsibility to support local economies seriously. The varied nature of what we do means that we depend on a wide range of talents and abilities from a wide range of suppliers. As part of our supplier programme, we have been managing compliance through a system of preferred suppliers. This approach is enhancing our supplier relationships and allows us to focus on effective management of our SME supplier base. Supplier credibility, responsibility, quality and service performance matter. Many of our suppliers are small and medium sized enterprises. We select and manage suppliers to support our own experienced workforce in delivering complex, critical and often bespoke engineering services. Diversification of supply, where possible, makes our supply chain more robust in helping us to deliver for our customers.

## Critical supply partner for through-life support

Joint teams from Babcock and our supply chain engage on a wide range of issues such as maintenance planning, supply support, support and test equipment, training and training devices, and technical data. Targeted supply relationships use data dashboards to monitor performance and progress. Babcock is actively involved with our suppliers in the Aerospace, Defence and Security Supply Chain development programme. We also lead dialogue with Government, suppliers and skills agencies to help address the skills requirement agenda, with the aim of ensuring that there are enough people with the right skills to fill our own vacancies and those in our supply chain.

## People and potential

To underpin and sustain long-term strategic growth, Babcock must ensure that it has the right people to be able and trusted to deliver to customers on technically complex, long-term contracts, both today and in the future. This means that the development of our people is a critical part of our business strategy. Our Group Director of Organisation and Development coordinates this activity across the Group, ensuring that each of our sectors has appropriate strategies in place to resource and develop the skills required. Our business arrangements require us to deliver services across an

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

### Planning for growth and succession

Succession planning is a key focus throughout the businesses, from apprentices to Board level. We have

plans in place that identify immediate and/or future potential successors to key senior management posts, with personal training and development plans for those identified. Through our annually refreshed resource planning process, we assess whether we have the right number of staff with the necessary skills and capabilities, both now and for the future. This process is based on data and assumptions such as workforce demographics, attrition and business growth and feeds into our resourcing strategies.

### Apprentice week

Tiegan Duff, a Mechanical Engineering Apprentice at our Rosyth site, was one of six 'Hero Apprentices' chosen to be a face of National Apprenticeship Week 2018 for Skills Development Scotland. The campaign sees employers and apprentices from across the UK coming together to celebrate the success of apprenticeships whilst encouraging even more people to choose apprenticeships as a pathway to a great career. This is something which Babcock is passionate about through our work in STEM, in partnership with Primary Engineer and STEM Ambassadors, as well as our involvement in the Year of Engineering.

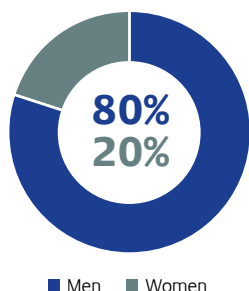
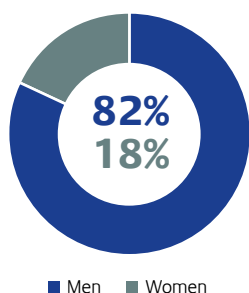
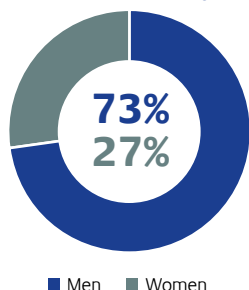
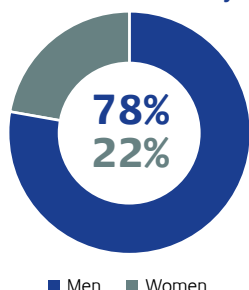
18 year old Tiegan, from Fife, decided on a modern apprenticeship (MA) after a teacher encouraged her to do a foundation apprenticeship (FA) in Mechanical Engineering alongside her Highers. With an interest in engineering whilst studying Graphic Communication, Design Manufacture, Physics and Maths, a hands on apprenticeship is just the beginning of her engineering career.

"At the moment, I am focused on completing my apprenticeship and gaining an HNC and after that I hope to progress my career at Babcock. I am very proud to work for such a

respected and well-known company and really excited to see what the future holds."

She is currently studying with the rest of her intake at Fife College and will begin working at our Rosyth site in June where she will be hands on in the machine shop, on vessels and on the Prince of Wales aircraft carrier. Her apprenticeship is competency based and takes between three and four years to complete.



**Total workforce diversity****Senior Executive diversity****Board diversity****Graduate diversity****Focus on recruitment, retention and development of talent**

We have found our existing employees to be great advocates for our organisation and we have used their experiences to underpin some of our recruitment campaigns, particularly for graduates. Working with our recruitment partners, a variety of routes are used to ensure vacancies are marketed to the widest possible audience. Our aim is that candidates experience a professional, efficient and friendly recruitment and 'on-boarding' procedure.

Sectors and business units place significant emphasis on the retention and development of talent, with processes in place to identify potential for the future. In addition to local development programmes, we have a number of Group wide management development resources:

- Babcock offers an accredited MBA programme with Strathclyde University to our high-potential employees.
- 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.
- Babcock has always been a strong supporter of apprenticeships and will make increasing use of higher apprenticeships to both retain existing employees and invest in future talent.

**Diversity**

At Babcock, we believe diversity is about embracing the advantages different experiences, skills and outlooks can bring. Our diversity initiative, 'All together different', is championed by a Diversity Steering Group, which drives our diversity agenda and coordinates our diversity conference, 'Dialogue'. This year's conference focused on health and wellbeing, with a particular emphasis on mental health, and provoked significant interest from amongst our workforce. Across the organisation a number of employee networks are supported such as the Babcock Women's Network and Pride in Babcock and we will continue to use these and other groups to motivate and

sustain energy around the topic of diversity. As a business, it is imperative that we ensure access to the widest pool of talent available, selecting the best candidates based on their ability to do the job. Working with these expectations for diversity enables us to deliver our best for our customers and to safeguard the future of Babcock. Babcock operates principally in sectors that have until recently traditionally been regarded as 'male' such as engineering, aviation and 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: 20.2% (around 6,900) of our total workforce is female, (male: 27,255) with 18.3% (98) female senior executives (male: 438), and three (27%) female Directors on our Board (male: eight). We have continued to work on the challenges of being a woman within our organisation. A series of actions and development programmes are being implemented across the organisation to address this. We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2018, 22% (2017: 21%) of those employed on our graduate scheme were female.

In his review on page 12, our Chairman also discusses how we value diversity. Our first UK Gender Pay Gap report is available on our website [www.babcockinternational.com](http://www.babcockinternational.com).

**Our commitment to the Armed Forces**

As a holder of the Gold Award from the Armed Forces Covenant Employer Recognition Scheme (ERS), we are committed to the Total Support Force and actively recruit service leavers and reservists. In 2017 we hosted a reservist conference, bringing together reservists from across the Group with line managers and in-house recruiters. The conference was an opportunity to reaffirm our commitment to the Armed Forces Covenant, and also to share experiences and demonstrate the wider benefits that reservists bring to our organisation.

# Environment and Ethics

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

## Ethics and governance

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

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

## Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we deal in our operations around the world. While we continue to believe that our exposure to the risks of human rights abuses and modern slavery is low within our own business and supply chain, we welcome the opportunity we have to

## Sword of honour

Babcock has been presented with its 11th Sword of Honour award from the British Safety Council for the exemplary management of Health and Safety risks at its Rosyth site.

The prestigious Sword of Honour is awarded to organisations that have demonstrated excellence in the management of Health and Safety risks at work, with Babcock being one of 57 organisations worldwide to achieve it.

In order to compete for the Sword of Honour, Babcock first had to achieve the maximum five stars in the British Safety Council's Health and Safety management audit scheme in the period August 2016-July 2017.

The company also had to demonstrate to an independent panel of experts that their Health and Safety management throughout the business is excellent — from the build hall to the boardroom.

Babcock Rosyth picked up the accolade at an awards ceremony in London.

Mark Dixon, Managing Director of Babcock's Energy and Marine business, said: "Ensuring that all of our employees go home safe every day is our number one priority at Babcock. We invest a lot of time to ensure that our staff are appropriately trained and equipped to carry out their roles.

Our 11th Sword of Honour is due to the combined efforts of everyone on-site and I am extremely proud of them all for helping to achieve this award."



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

## Safety the Babcock way

### Governance

We are committed to ensuring that Babcock sets and achieves high standards for safety across all its operations. Our goal is for everybody to go 'home safe every day'. The key principles that guide us to achieve this goal are:

- Looking after yourself and each other
- Caring about how we deliver, as well as what we deliver
- Setting an example to others by not walking past an unsafe act or unsafe condition
- Continually improving our safety.

	2013/14	2014/15	2015/16 <sup>2</sup>	2016/17	2017/18
Total number of injuries	1,979	2,054	2,084	1,720	1,386
Fatalities	0	0	1	7	2
Major injuries	36	41	38	27	13
Over-three-day injuries	98	127	164	107	101
Babcock riddor <sup>1</sup> totals	134	168	202	141	116

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 and record this as 'Babcock riddor'.

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

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



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



Sector safety leadership teams and the Corporate Safety Steering Group oversee implementation of policy, strategy and initiatives across all of our businesses. The Group Executive Committee reviews monthly commentary and performance reports and the Board receives half yearly commentary and performance reports for discussion.

During the year, we launched a Group wide internal safety audit programme which aims to ensure:

- Alignment of business safety policy with the Group safety policy and capability to discharge duties therein
- Compliance with Babcock's Safety Behaviours and Expectations
- Adequate safety improvement plans are implemented, based on a balanced assessment of safety performance that delivers the commitment to continuous improvement
- Share business unit learning across the Group, supporting continual improvement
- Promote a consistent Babcock approach to safety and share best practice.

Formal audit reports are provided to the business units, with feedback also provided to the Group Executive Committee.

### Performance

Tragically, two of our colleagues died in separate incidents in South Africa whilst working on towers within our powerlines business. Extensive investigations by Babcock, our client and the authorities resulted in a comprehensive review of procedures and retraining of erection teams.

Health and safety is a core value for the Group and we monitor performance through a number of measures. Over the last year, across the Group, we have seen a 15% reduction in the total injuries and a 15% reduction in our 'Babcock riddor' accidents.

### Managing environmental impacts

Babcock seeks to achieve the highest standards in the management of environmental matters. We recognise the impact our operations may have on the environment and seek to minimise or eliminate adverse effects.

An Energy and Environmental Working Group meets quarterly, attended by representatives of each sector and chaired by the Group Energy Manager. The Group reviews our energy and environmental

policy and seeks to share best practice. Each sector sets environmental policies that are appropriate to its business. Energy consumption data is collated into a centrally managed data base that can be accessed by all stakeholders, enabling reduction targets to be set and monitored regularly. In the coming year, Babcock will once again seek reaccreditation for its UK operations to the Carbon Trust, a standard that it has held since 2010.

The continuous monitoring of energy consumption and the attention to environmental policies ensure that the environmental impact of the Group's operations is minimised.

We regularly review our built estate to ensure that the requirements of our clients can be efficiently met, while providing a good standard of environmental conditions for our employees. The utility markets are tracked to enable our utility requirements to be purchased at the best cost. Forward contingency planning ensures that should we lose a utility supply to any of our built estate, the impact to our customers is minimised.

We review our transport fleet regularly to seek means to reduce our fleet's impact on the environment.

Our high level performance indicator for energy consumption is to reduce our overall CO<sub>2</sub> emissions year on year against a metric of tCO<sub>2</sub>/£m revenue.

### Total Group emissions — UK and overseas

Year ending		March 2016	March 2017	March 2018
Scope 1: Direct emissions from owned/controlled operations	tCO <sub>2</sub> e	105,479.66	103,337.30	86,666.26
Scope 2: Indirect emissions from the use of purchased electricity and steam	tCO <sub>2</sub> e	93,558.18	114,514.90	104,074.81
Scope 3: Emissions — business travel	tCO <sub>2</sub> e	10,724.80	9,496.18	22,033.71
Absolute footprint	tCO <sub>2</sub> e	209,762.64	227,348.38	212,774.78
Revenue	£m	4,158.40	4,547.10	4,659.60
Intensity ratio	tCO <sub>2</sub> e/£m	50.44	50.00	45.66

Due to the highly diverse nature of the Company's business, the metric of 'tonnes of CO<sub>2</sub>e per £m revenue' has been used to provide a more meaningful measure of energy use throughout the business. The total emissions from Scope 1, 2 and 3 sources have been divided by the annual revenue to provide a final benchmark figure, the Intensity ratio.

# Our principal risks and how we manage them



**Franco Martinelli, Group Finance Director**

Babcock has an established formal process that aims to identify and evaluate risks and how they are to be managed. A range of internal control processes is in place as part of the risk management regime.

The Board, principally through the Audit and Risk Committee, keeps under review the risks facing the Group, including the appropriateness of the level of risk the Group may accept in order to achieve its strategic objectives. The Board ensures that it controls the risk appetite of the Group through its delegated authorities, which impose strict controls on the Group — for example, all acquisitions and disposals, all material capital expenditure, all material non-ordinary course tenders (material ordinary course tenders are approved by the Chief Executive and the Group Finance Director) and all financing arrangements (unless delegated to the Board's Finance Committee) must be approved by the Board. The Board considers and reviews the controls and mitigation plans in place; these are intended to manage and reduce the potential impact of the risks the Company takes to ensure, so far as possible, that the assets and reputation of the Group are protected. The Group's risk management and internal control systems can, however, only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

## Risk management framework

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

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

The Audit and Risk Committee reviews aspects of the risk management and control system at its meetings and, at least once a year, formally reviews the system's effectiveness as a whole on behalf of the Board (see the effectiveness review statement on page 138). It also receives in-depth presentations on individual major risks throughout the year.

Babcock has a Group Security Committee made up of senior functional and operational managers with responsibility for security and information assurance at Group and operational level. They meet regularly to discuss cyber and other security and information assurance issues and threats facing the Group. The Committee oversees the Group's security and information assurance management infrastructure and specific security projects. The Group Finance Director is Chairman of the Committee, and each meeting is attended by the Group's Chief Information Officer and Chief Information Security Officer. The Board receives regular reports on security and information assurance matters.

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

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

[Read more on page 70](#)

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

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



**Our internal controls include:**

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

## Principal risks, risk mitigation and controls

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

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

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

## Our customer profile

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

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

### Risk description

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

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

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

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

### Potential impact

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

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

- reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities
- in the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour
- favouring the retention or return of in-house service provision, either generally or in the sectors in which we operate

- favouring of small or medium-sized suppliers or adopting a more transactional rather than cooperative, partnering approach to customer/supplier relationships; and
- imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with or that might involve significant extra costs, thereby impacting the profitability of doing business with them.

### Mitigation

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

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

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

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

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

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

### Risk description

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

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

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

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

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

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

### Potential impact

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

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

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

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

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

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

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

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

### Mitigation

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

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

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

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

## Reputation

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

### Risk description

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

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

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

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

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

### Potential impact

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

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

### Mitigation

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere on pages 60 to 67. (See also health, safety and environmental risks on page 75.)

## Regulatory and compliance burden

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

### Risk description

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

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

- Our Mission Critical Services business is subject to a high degree of regulation relating to aircraft airworthiness and certification and also to ownership and control requirements (for example, European air operators must be majority-owned and controlled by European Economic Area nationals — see page 136 for more information).
- Our civil and defence-related nuclear businesses operate in a highly regulated environment. For example, as part of Brexit, the UK may leave the Euratom treaty and it is unclear what agreements will replace the existing arrangements and what the impact of those new agreements will be.

Geopolitical factors, for example the terms of the UK's exit from the EU, could lead to significant tensions between trading countries.

### Potential impact

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

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

Changing international circumstances could result in the rise of trade protectionism and reduce the Group's access to non-UK markets.

### 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 advisors to advise and assist on regulatory compliance.

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

Our Articles of Association empower us to take steps to protect our European air operating licences, if necessary, by controlling the level and/or limiting the rights of non-European Economic Area owners of our shares (see pages 136 to 137 for more information). However, we will be taking steps to structure our Mission Critical Services business such that it continues to satisfy the requirements of the relevant regulation.

Where possible, our non-UK businesses are based locally so that they can deliver the services they need to deliver from within the relevant jurisdiction.

## Health, safety and environmental

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

### Risk description

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

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

### Potential impact

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

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

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

### Mitigation

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

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

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

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

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

## People

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

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### Risk description

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

### Potential impact

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

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

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

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

### Mitigation

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

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

Apprentice and graduate recruitment programmes are run in all sectors.

Further information about this subject and how we address it is on pages 64 to 65 of this Annual Report.

## Pensions

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

### Risk description

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

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

### Potential impact

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

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

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

### Mitigation

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

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

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

## IT and security

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

The Group is rolling out a new Enterprise Resource Planning (ERP) application for our 'back office' operations which also provides some front end functionality.

### Risk description

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

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

### Potential impact

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

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

### Mitigation

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

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

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

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

## Currency exchange rates

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

### Risk description

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

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

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

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

### Potential impact

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

### Mitigation

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

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

## Acquisitions

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

### Risk description

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

### Potential impact

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

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

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

### Mitigation

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

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

### Viability statement

The Directors have assessed the Company's viability over the three-year period to March 2021. The Directors elected to make their assessment on a three-year basis as that is the period of the Group's budget and forecasting review process, which the Directors believe gives the appropriate level of visibility for them to make their assessment.

During the year to 31 March 2018, the Directors carried out a robust assessment of the principal strategic, financial and operational risks, including the principal risks listed on pages 71 to 79 to the Group's solvency and liquidity that were identified within the Group's risk management framework in the context of the controls and mitigating matters described on pages 68 to 70.

In their assessment the Directors considered strategic risks faced by the Group under a number of strategic themes together with the probability of occurrence and likely impact of the risks materialising, as well as the adequacy of the control and mitigation measures in place to counter them. Separately, the detailed and bottom-up risk management process continued throughout the year and this required, at business unit and sector level, that business risks were identified and that the probability and impact of the risks materialising were considered together with risk mitigation measures and the extent to which monitoring of the effectiveness of the mitigation measures was in place. Risk registers, located at business unit level, are subject to robust review and challenge by the Group Risk and Insurance Manager and the Group Financial Controller. The results of these reviews were presented to the Audit and Risk Committee during the course of the year to 31 March 2018.

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

The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to March 2021.

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“I’ve been able to explore different uses of Virtual Reality (VR) and the capabilities we could integrate into our products to make significant cost savings.”



**Matthew**

Project management  
graduate

# Chairman's introduction



Mike Turner CBE, Chairman

The Board is committed to working in an effective, transparent and ethical manner so that it can set and implement strategy in a way it believes will benefit Shareholders by promoting and maintaining the long-term success of the Company while having regard to other stakeholders.

## Board effectiveness

I described key developments in governance during the year in my review on page 12. To help us meet our commitment to good governance, we undertake an annual evaluation of the performance of the Board and its committees to allow the Board to test whether it has the appropriate balance of skills, experience, independence and knowledge of the Company. This year, this evaluation exercise was carried out internally. No significant concerns were highlighted as a result of this process and a summary of the evaluation's review is described on page 91.

We are satisfied as a Board that all our Non-Executive Directors are independent for UK Corporate Governance Code purposes and have the necessary time to devote to their duties.

In July 2018, Sir David Omand will have served nine years as an Independent Non-Executive Director. The Nominations Committee carefully considered whether Sir David remained independent. They decided that Sir David remained independent in character and judgement,

and were satisfied that any existing relationships or circumstances did not affect his judgement or independence. The Committee believes that the Company and the Board benefit from Sir David's specific skills and experience. Accordingly, the Committee extended Sir David's appointment for a further three years until the Company's AGM in July 2021. He will continue in his role as Senior Independent Non-Executive Director and will continue to be a member of the Audit and Risk Committee, Remuneration Committee and Nominations Committee. The Remuneration Committee will review Sir David's membership on an annual basis to ensure that it continues to remain appropriate. In addition, Myles Lee will have served for three years at the time of the Company's AGM in July 2018 and the Committee has decided to extend his appointment for a further three years to the Company's AGM in 2021. We, therefore, recommend to Shareholders that they reappoint each of our Non-Executive Directors at the forthcoming Annual General Meeting in July.

## Compliance with the UK Corporate Governance Code

This year the Company is required to report on how it has applied the UK Corporate Governance Code published in June 2016 (the Code). The Code contains broad principles and specific provisions which set out standards of good governance practice in relation to leadership, effectiveness, remuneration, accountability and relations with Shareholders.

The Board considers that the Company complied with all the provisions of the Code throughout the year to 31 March 2018.

The required governance and regulatory assurances are provided throughout this Governance statement and in some cases in other parts of the Annual Report. The Additional Statutory Information section on page 133 provides further cross references to where in this Annual Report disclosures under the Disclosure and Transparency Rules and Listing Rules can be found.

## Structure of the Governance statement

We have structured our Governance statement to align with the principles set out in the Code:

### Leadership

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

### Effectiveness

The Board and its committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. This section provides details of the 2018 Board evaluation process, including the progress made since the 2017 Board evaluation, and sets out the induction process for new Directors. The Nominations Committee report (on pages 92 and 93) expands on the process for Board appointments, including our diversity policy.

## Accountability

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

## Remuneration

The Remuneration Committee has principal responsibility for determining, in agreement with the Board, the overall remuneration of the Executive Directors. The Directors' Remuneration report (on pages 98 and 99) details the Company's Remuneration policy and how it is applied.

## Relations with Shareholders

The Board recognises the importance of maintaining open dialogue with its Shareholders. Throughout the year, the Company undertook a wide variety of presentations, meetings and roadshows. This section (on pages 131 and 132) outlines how the Board has communicated with Shareholders and how the Shareholders can engage with the Company.

## Mike Turner CBE

Chairman

# Creating the right culture through our governance framework

## Board

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, as well as the structures described in this Governance statement.

## 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 throughout the business
- Ensure effective operation of the Board, and its Committees
- Set the agenda, style and tone of Board discussions in order to promote constructive debate and effective decision-making
- Foster effective working relationships between the Executive and Non-Executive Directors, support the Chief Executive in his development of strategy and, more broadly, support and advise the Chief Executive
- Ensure effective communication with Shareholders and other key stakeholders and make the Board aware of their views.

## 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.

## Executive

Responsible for implementing the strategy, led by the Chief Executive.

## Chief Executive

The Chief Executive is responsible for the day to day leadership of the business. In particular, his role is to:

- Develop strategic proposals for recommendation to the Board and implement the agreed strategies
- Develop an organisational structure, establishing processes and systems 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
- Oversee the application of Group policies and governance procedures
- Develop and promote effective communication with Shareholders and other key stakeholders.

## Group Executive Committee

The Group Executive Committee reviews and discusses all matters of material significance to the Group's management, operational and financial performance as well as strategic development. It is not a formal Board Committee but the minutes of its meetings are circulated to Board members. [For membership of the Committee see page 88.](#)

Babcock's culture is defined through 'being babcock' and our Code of Conduct. Together, these set out what our Company stands for, what we expect from our employees and how we expect our business to deliver our strategy.

The Board recognises that strong governance underpins a healthy culture and it is important that the Board leads by example, setting the tone from the top and championing the behaviours we expect to see.

### 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 different sectors and undertakings (see their biographies on page 87). 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.

### Audit and Risk Committee

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

### Remuneration Committee

Oversees the remuneration arrangements for Babcock's Directors and senior employees across all sectors. The Committee is keenly conscious of the importance of having in place a fair remuneration structure, one that strikes a balance between rewarding employees' hard work and Shareholders' interests.

### Nominations Committee

Refreshing the Board and succession planning are issues which the Committee, and the Board as a whole, see as important aspects of its governance of the Company.

### Group Finance Committee

Approves borrowing, guarantees, treasury and related matters within its terms of reference delegated by the Board. Comprises any two Directors, one of whom must be the Group Finance Director.

### Steering Groups

**Group Security Committee:** chaired by the Group Finance Director and made up of senior functional and operational managers with responsibility for security and information assurance at Group and operational level. [See page 69.](#)

**Diversity Steering Group:** coordinates the implementation of our equality and diversity policy. [See page 65.](#)

**Corporate Safety Steering Group:** ensures the delivery of Group policy and initiatives relating to all matters relevant to the health and safety of the Group's employees and any other persons affected by the Group's undertakings. [See pages 66 and 67.](#)

**Energy/Environmental Working Group:** responsible for developing and sharing best practice for cost effective energy and environmental control and for developing strategy for meeting energy and environmental targets. [See page 67.](#)

### Sector Management Boards

Each of our four business sectors have their own management boards responsible for: setting sector strategy and objectives; ensuring adequate financial and human resources to achieve those objectives; reviewing sector performance; and ensuring the sector's obligations to Shareholders and other stakeholders are understood and met.

# Board Directors



**Mike Turner CBE**  
Chairman



**Archie Bethel CBE**  
Chief Executive



**Franco Martinelli**  
Group Finance Director



**John Davies**  
Chief Executive, Land



**Sir David Omand GCB**  
Senior Independent Director



**Ian Duncan**  
Independent Non-Executive Director



**Jeff Randall**  
Independent Non-Executive Director



**Myles Lee**  
Independent Non-Executive Director



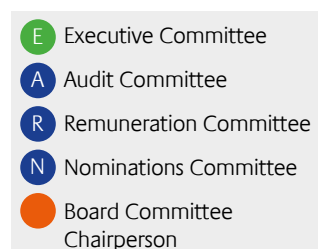
**Prof. Victoire de Margerie**  
Independent Non-Executive Director



**Lucy Dimes**  
Independent Non-Executive Director



**Kjersti Wiklund**  
Independent Non-Executive Director



- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- Board Committee Chairperson

## Mike Turner CBE

Chairman

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

**Tenure:** 10 years

**Nationality:** British

**Experience:** Mike brings extensive aerospace and defence industry experience.

**External appointments:** He was appointed as a Non-Executive Director of Barclays PLC on 1 January 2018. He is a member of the UK Government's Apprenticeship Ambassadors Network.

**Previous roles:** He was Chairman of GKN PLC until April 2018. He was formerly Chief Executive of BAE Systems PLC, Chairman of the UK Defence Industries Council (DIC) and a Non-Executive Director of Lazard Limited.

**Qualifications:** Whilst working for Hawker Siddeley Aviation, as an undergraduate Commercial Apprentice, Mike gained a BA Honours degree from Manchester Metropolitan. Mike has honorary degrees from Manchester Metropolitan, Cranfield and Loughborough universities.

## Archie Bethel CBE

Chief Executive

**Appointed:** Board Director May 2010 and Chief Executive September 2016

**Tenure:** 8 years

**Nationality:** British

**Experience:** Archie was Chief Executive, Marine and Technology division, from June 2007, having joined the Group in January 2004. He acted as Chief Operating Officer from 1 April 2016 until his appointment as Chief Executive on 1 September 2016.

He is President of the Society of Maritime Industries and is a Lay Member of the Court of the University of Strathclyde.

**Previous roles:** He held various senior roles working for Vetco Gray, Lanarkshire Development Agency and Motherwell Bridge.

**Qualifications:** Archie is a Chartered Engineer and a Fellow of the Royal Academy of Engineering.

## Franco Martinelli

Group Finance Director

**Appointed:** Board Director August 2014

**Tenure:** 4 years

**Nationality:** British

**Experience:** Franco served 12 years with the Group as Group Financial Controller, prior to his

appointment as Group Finance Director. Before joining Babcock, Franco worked across the support services and engineering sector.

**Previous roles:** He was Group Financial Controller at Powell Duffryn PLC and before that he held divisional and group roles at Courtalds, James Capel and BP.

**Qualifications:** Franco is a Chartered Accountant and has a degree in Physics from Exeter University.

## John Davies

Chief Executive, Land

**Appointed:** Board Director January 2013

**Tenure:** 5 years

**Nationality:** British

**Experience:** John joined Babcock in 2010, following the acquisition of VT Group, and was appointed Divisional Chief Executive of the then Defence and Security division. He joined the Group Board on 1 January 2013. In November 2015 he moved to lead the Support Services division.

**Previous roles:** He worked extensively across the support services and defence sectors within Bombardier, BAE Systems and VT Group.

**Qualifications:** John is a lawyer by background and a graduate of the University of Manchester and Chester Law College.

## Non-Executive Directors

### Sir David Omand GCB

Senior Independent Director

**Appointed:** April 2009 and Senior Independent Director January 2012

**Tenure:** 9 years

**Nationality:** British

**Experience:** Sir David brings extensive UK intelligence and change management experience.

**External appointments:** He is a visiting professor in the Department of War Studies, King's College London, and PSIA Sciences Po in Paris, where he teaches intelligence studies. He is a senior advisor to Paladin Capital Group LLP, investing in the cyber security sector.

**Previous roles:** He served in various senior roles in the UK Government service, 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.

**Qualifications:** Sir David holds a degree in Economics from Cambridge University, has an honorary Doctorate from Birmingham University and he recently completed a degree in Mathematics and Theoretical Physics with the Open University.

### Ian Duncan

Independent Non-Executive Director

**Appointed:** November 2010

**Tenure:** 7 Years

**Nationality:** British

**Experience:** Ian brings extensive financial and change management experience.

**External appointments:** He is currently the Senior Independent Non-Executive Director of Bodycote PLC, as well as being the Chairman of its Audit Committee. He is also a Non-Executive Director and Audit Committee Chair of SIG PLC.

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

**Qualifications:** Ian is a Chartered Accountant and holds an MA from Oxford University.

### Jeff Randall

Independent Non-Executive Director

**Appointed:** April 2014

**Tenure:** 4 years

**Nationality:** British

**Experience:** Jeff brings extensive experience of the media, particularly in politics, business and finance.

**External appointments:** He is an Independent Non Executive (INE) at BDO, the accounting and business-services firm, and a Visiting Fellow at Oxford University's Saïd Business School.

**Previous roles:** He worked at Sky News and was editor-at-large of the Daily Telegraph. He was business editor of the BBC, the launch editor of Sunday Business and, for six years, City Editor of the Sunday Times. He is a former director of Times Newspapers.

**Qualifications:** Jeff holds a degree in Economics from the University of Nottingham, where he is an Honorary Professor in the School of Economics.

### Myles Lee

Independent Non-Executive Director

**Appointed:** April 2015

**Tenure:** 3 years

**Nationality:** Irish

**Experience:** Myles brings extensive global experience in management, M&A and finance.

**External appointments:** He is a Non-Executive Director of UDG Healthcare PLC and Ingersoll Rand PLC, which is listed on the New York Stock Exchange.

**Previous roles:** He was Chief Executive Officer (from 2009 to 2013) and Finance Director (from 2003 to 2008) of CRH PLC.

**Qualifications:** Myles holds a degree in Civil Engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.

### Prof. Victoire de Margerie

Independent Non-Executive Director

**Appointed:** February 2016

**Tenure:** 2 years

**Nationality:** French

**Experience:** Victoire brings strong international strategic and commercial experience.

**External appointments:** She is the Executive Chairman of Rondol (France), a start up developing micro machinery for advanced industry applications. She is also a Non-Executive Director of Eurazeo S.A. (France) and Arkema (France).

**Previous roles:** She was a Non-Executive Director of Banque Transatlantique, Italcementi S.p.A (Italy), Morgan Advanced Materials PLC (UK), Norsk Hydro ASA (Norway) and Outokumpu Oyj (Finland). During her earlier executive career, she held senior management positions in France, Germany and the USA, with Atochem, Carnaud MetalBox and Pechiney.

**Qualifications:** She holds a PhD in Strategic Management from Université Panthéon-Assas and a Master in Business Administration from HEC Paris.

### Lucy Dimes

Independent Non-Executive Director

**Appointed:** April 2018

**Tenure:** 1 month

**Nationality:** British

**Experience:** Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and long-term global strategic partnerships.

**External appointments:** Chief Executive Officer, UBM EMEA

**Previous roles:** She was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. Previously in her executive career, she was Chief Executive Officer, UK & Ireland, of Fujitsu, the Chief Operating Officer and Executive Director of Equiniti Group, Chief Executive Officer UK & Ireland of Alcatel Lucent (now Nokia) and had a 19-year career at BT, where she held various senior roles, including Managing Director of Group and Openreach Service Operations.

**Qualifications:** She holds an MBA from London Business School and a First Class Honours Degree in Business Studies from Manchester Metropolitan University.

### Kjersti Wiklund

Independent Non-Executive Director

**Appointed:** April 2018

**Tenure:** 1 month

**Nationality:** Norwegian

**Experience:** Kjersti brings broad technology and business experience gained across Europe, Eastern Europe/Russia and Asia.

**External appointments:** She is a Non-Executive Director of Laird PLC and Spectris PLC.

**Previous roles:** She has held senior roles, including Director, Group Technology Operations of Vodafone, and Chief Operating Officer of VimpelCom Russia, Deputy Chief Executive Officer and Chief Technology Officer of Kyivstar in Ukraine, Executive Vice President and Chief Technology Officer of Digi Telecommunications in Malaysia, and Executive Vice President and Chief Information Officer at Telenor in Norway. She was also a Non-Executive Director of Cxense ASA in Norway, Fast Search & Transfer ASA in Norway and Telescience Inc in the US.

**Qualifications:** She holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.

# Executive Committee



**Archie Bethel CBE**  
Chief Executive



**Franco Martinelli**  
Group Finance Director



**John Davies**  
Chief Executive, Land



**Roger Hardy**  
Chief Executive, Aviation



**John Howie**  
Chief Executive, Marine



**Simon Bowen**  
Chief Executive, Cavendish Nuclear



**Jon Hall**  
Managing Director, Technology



**Kevin Goodman**  
Group Director of Organisation  
and Development



**Jack Borrett**  
Group Company Secretary  
and General Counsel



**Kate Hill**  
Group Director of IR  
and Communications

**B** Board

Biographies for Archie Bethel CBE, Franco Martinelli and John Davies are on page 86.

## Roger Hardy

Chief Executive, Aviation

**Appointed:** Executive Committee November 2015

**Experience:** Roger started in Devonport 30 years ago and joined Babcock in 2007 following Babcock's acquisition of Devonport, when he was appointed Managing Director of Babcock's Submarine Business. In 2010, Roger took up a new role as Managing Director for Cavendish Nuclear, Babcock's civil nuclear business, before moving in 2015 to Chief Executive of the then Defence and Security division. In April 2017 Roger was appointed to Chief Executive, Aviation, leading Babcock's military and civil aviation businesses.

## John Howie MBE

Chief Executive, Marine

**Appointed:** Executive Committee April 2016

**Experience:** Prior to succeeding Archie Bethel as Chief Executive, Marine and Technology division in April 2016, John was Managing Director of Naval Marine, with responsibility for the management of Babcock's submarine, warship and naval base operations, having joined Babcock in April 2001. John is a Visiting Professor at Strathclyde University, a Director of the Society of Maritime Industries, a member of the Glasgow Economic Leadership Board and Acting Chair of Maritime Research & Innovation UK.

## Simon Bowen

Chief Executive, Cavendish Nuclear

**Appointed:** Executive Committee April 2017

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

## Jon Hall

Managing Director, Technology

**Appointed:** Executive Committee April 2017

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

## Kevin Goodman

Group Director of Organisation and Development

**Appointed:** Executive Committee July 2010

**Experience:** Kevin joined Babcock in 2001. He was a Director of both our Defence and Security

and Marine and Technology Divisions prior to his current Group appointment. In his present role, he is responsible for remuneration, talent management, executive development and diversity. He is a trustee of the Babcock International Group pension scheme.

## Jack Borrett

Group Company Secretary and General Counsel

**Appointed:** Executive Committee April 2016

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

## Kate Hill

Group Director of IR and Communications

**Appointed:** Executive Committee April 2017

**Experience:** Kate joined Babcock following its acquisition of Avincis, and became the Group's Head of Investor Relations in 2015.

Prior to that, she was a Partner in the financial PR consultancy Kreab Gavin Anderson, which she joined from Royal Dutch Shell PLC. Originally trained as a journalist, Kate has also held a variety of roles managing communications in the rail industry.

## Board of Directors

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

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

## Board meeting attendance

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

## Attendance at Board meetings

### Chairman

Mike Turner	12 of 12
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### Executive Directors

Archie Bethel	12 of 12
Franco Martinelli	12 of 12
John Davies	12 of 12
Bill Tame	12 of 12

### Non-Executive Directors

Sir David Omand	12 of 12
Ian Duncan	12 of 12
Anna Stewart <sup>1</sup>	4 of 5
Jeff Randall	12 of 12
Myles Lee	12 of 12
Victoire de Margerie <sup>2</sup>	10 of 12

1. Anna Stewart sadly died on 5 October 2017.

2. Victoire de Margerie was unavailable to attend two meetings due to overseas business commitments.

## 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 2017 – 5 October 2017	1	4	6
5 October 2017 – 31 March 2018	1	4	5
1 April 2018 – 22 May 2018	1	3	7

During the financial year and up to the date of this report, there were the following changes to the Board: on 5 October 2017, Anna Stewart sadly died; on 31 March 2018, Bill Tame stepped down from the Board, prior to his retirement on 30 June 2018; and on 1 April 2018, Lucy Dimes and Kjersti Wiklund joined the Board.

## Board matters and delegation

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

### Summary of key Board reserved matters

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

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

In addition to the principal committees of the Board — the Remuneration Committee, the Audit and Risk Committee and the Nominations Committee — and the Finance Committee operating under its terms of reference, 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.

## Key areas of focus during the year

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

### Strategy and business development

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

### Risk

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

### Shareholder relations

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

### Governance

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

## Board evaluation

The evaluation for the financial year ending 31 March 2018 was carried out internally by the Company Secretary. He carried out confidential one on one meetings with each Director and other senior managers. The review considered the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its committees, the Chairman and individual Directors performed and how they worked together; as well as other factors relevant to effectiveness. The review found that the feedback from Board members was positive and concluded that the Board was functioning well. No significant concerns were expressed by Board or committee members as to the way in which the Board or its committees functioned, the support given to them, the matters covered at their meetings or how they were dealt with, or as to the contribution of any individual Director.

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

- A refresh of the presentation at the Board's strategy day of the Group's core strategy
- More presentations from the Group's business unit MDs.

The Board is addressing and will continue to address the above matters and will report back to Shareholders on progress in the 2019 Annual Report.

## Follow-up on the review for year ending 31 March 2017

As reported last year, the Board evaluation for the year ending 31 March 2017 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 2018 included:

## Overseeing a changing organisation

Since 1 April 2017, the Group has been realigned into four sectors: Marine, Land, Aviation and Cavendish Nuclear. The Board believes that this realignment has gone well and will facilitate the Group's future growth in the UK and internationally.

## Talent management

The Board recognises that a key factor in the continuing growth of the Group is succession planning to ensure that the senior management team has strength in depth, so that there are candidates ready to step up as and when opportunities arise. To this end, the Board has had presentations from senior managers of business units within the Group and has considered a specific report on succession planning.

## Diversity

The Board recognises the importance of diversity and is pleased that it has improved its gender balance. However, the Board continues to work with senior management in order to improve diversity throughout the Group.

## Induction and training for Directors

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

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

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

## Information and support for the Board

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

## Election of Directors

The rules relating to the appointment and replacement of Directors are contained within the Articles. The Articles provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in that way retires and is submitted for election at the first AGM following their appointment. In compliance with provision B.7.1 of the Code, all existing Directors will be seeking re-election at the 2018 AGM. The names and biographical details of each of the Directors are set out on pages 86 and 87.

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.

# Nominations Committee



Mike Turner CBE, Chairman

## Committee membership and attendance

Mike Turner (Chairman)	4 of 4
Sir David Omand	4 of 4
Ian Duncan	4 of 4
Anna Stewart*	0 of 1
Jeff Randall	4 of 4
Myles Lee	4 of 4
Victoire de Margerie	4 of 4

\* Anna Stewart sadly died on 5 October 2017.

## Membership of the Committee

The Nominations Committee is chaired by the Chairman of the Company and its other members are the Company's Non-Executive Directors (all of whom are independent). The Committee sometimes invites Executive Directors to attend meetings of the Committee, if appropriate. The current membership of the Committee, and its membership throughout the year to 31 March 2018, as well as attendance at Committee meetings during the year, is shown above.

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

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

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

## Responsibilities of the Committee

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

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

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

## Diversity

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

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

For this reason the Board has chosen not to set any specific targets but will continue to maintain its practice of embracing diversity in all its forms when compiling a shortlist of suitable candidates and recommending any future Board appointments. Further insight into the work being done to foster female participation in the industries in which we operate is provided in the Strategic report on page 65 and in the Chairman's review on page 12.

## Activities undertaken by the Committee during the year

During the year ended 31 March 2018, the Committee:

- Oversaw the appointment of Kjersti Wiklund and Lucy Dimes, effective 1 April 2018 and
- Considered the governance structure of the Group.

In the search for the Non-Executive Directors, the Committee set the candidate specification and reviewed a number of potential candidates, using the services and advice of Egon Zehnder as search consultants. Egon Zehnder does not have any connection with the Group other than as a senior recruitment consultant. The Committee will continue to focus on ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company in order to meet the Company's strategic goals.

## Mike Turner CBE

Committee Chairman

# Audit and Risk Committee



Ian Duncan, Chairman

## Committee membership and attendance

Ian Duncan (Chairman)	4 of 4
Sir David Omand	4 of 4
Anna Stewart*	2 of 2
Jeff Randall	4 of 4
Myles Lee	4 of 4
Victoire de Margerie**	3 of 4

\* Anna Stewart sadly died on 5 October 2017.

\*\* Victoire de Margerie could not attend one meeting due to overseas business commitments.

## 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 above.

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 86 and 87. The Group Company Secretary and General Counsel was Secretary to the Committee throughout the year.

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

## Role of the Committee

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

- Monitor the integrity of the full-year and half-year financial statements and any formal announcements relating to the Company's financial performance
- Make recommendations to the Board, for it to put to the Shareholders for their approval in general meeting, in relation to the appointment of the external auditor

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

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

### Who attends Committee meetings?

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chairman, the Chief Executive, the Group Finance Director and the sector Chief Executives. The Committee is satisfied that having these invited attendees present does not influence or constrain the Committee's discussions or compromise the Committee's independence. Their presence ensures that all Board Directors and the senior management of the Group are directly aware of the Committee's deliberations, how it goes about discharging its responsibilities on behalf of the full Board and any areas of concern or focus for the Committee. It also assists the Committee by allowing direct questioning of executives on matters that the Committee thinks need further challenge, clarification, explanation or justification. Should a situation arise where the presence of any such attendee would be inappropriate or might compromise discussion, the Committee would either not invite the attendee concerned or request that they not attend the relevant part of that meeting.

The Group Risk Manager attended Committee meetings for its discussion of Group risk reports and related items.

During the year to 31 March 2018, Ernst & Young LLP provided internal audit services to the Company and PricewaterhouseCoopers LLP was the Group's external auditor. Both auditors attended the Committee's meetings during the year to 31 March 2018. The Committee Chairman also met PricewaterhouseCoopers LLP (PwC) and Ernst & Young LLP in the absence of executive management. The auditors are also invited to address the Committee without executives present at least once a year.

The Committee's terms of reference were reviewed during the year to ensure that they are in line with best practice guidelines.

### Activities undertaken by the Committee during the year

During the year to 31 March 2018 the Committee met four times. The agenda for each meeting is set by the Committee Chairman in conjunction with the Company Secretary and other members of the Committee as appropriate. At these meetings, the following matters and issues were considered:

#### Financial results

- full-year and half-year financial statements and related results announcements including, following correspondence with the FRC, improving our disclosure in respect of our alternative performance measures and further clarifying the reconciliation between the Group's statutory and underlying results
- reports and reviews from the external auditors
- matters that required the exercise of a significant element of management judgement in relation to the financial statements for the year to 31 March 2018 (see page 96)
- advice to the Board on the requirement for a statement from it that the Annual Report and Accounts for the year to 31 March 2018 are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position, performance, business model and strategy during the relevant period. The Committee satisfies itself that this is so by circulating to Board members draft wording at an early stage with sufficient time and detailed content to allow for an assessment of the content against the reports and accounts provided to the Board and its discussions throughout the relevant period. In addition, the Committee asks the Group Financial Controller to prepare a formal written report for the Committee reviewing the relevant draft, its consistency with his knowledge and understanding of matters and the appropriateness of the weighting given to them, in each case to allow for their review and consideration by the Committee (with all Directors and

sector Chief Executives present) in the context of their own understanding of reports and accounts provided to the Board and its discussions throughout the year. Before drafts are submitted to the Board, the Group Director of Investor Relations and Communications reviews the content of the Strategic report to ensure consistency with other financial statements made by the Group during the year

- review of the assumption that the Company's financial statements are prepared on a going concern basis
- the Company's approach to the requirement on the Company to examine the Company's longer term solvency and viability (please see page 79 for further details).

#### Audit plans

Internal and external audit plans for the year.

#### Internal audit

At each meeting, the Committee receives internal audit reports on findings from audit visits to business units, which, as a matter of course, look at accounting, anti-bribery and corruption controls, business continuity, contract performance and contract bidding risks. These include follow-up reports on any matters identified in earlier reports as requiring attention or improvement. The reports contain tracking information to enable the Committee easily to see the control performance of business units over time and how quickly any matters are addressed.

#### Risk and internal controls

- review of internal control processes and their effectiveness
- regular detailed reports identifying areas of risk at business unit, sector and Group level, assessing and prioritising potential impact, risk mitigation steps in place and the pre- and post-mitigation risk levels
- focused reviews of selected major risk areas: insurance strategy, business critical suppliers, treasury risk, and contract performance.

## Fraud

Reports covering any suspected incidents of fraud, their investigation and any remedial or preventive action.

## Whistleblowing

The Committee is responsible for monitoring the Group whistleblowing policy and receives regular reports of calls and emails to the Group's external independent whistleblowing services and how these have been investigated and concluded. The total number of whistleblowing reports in the year to 31 March 2018 was 66 (2017: 41). For further explanation of the whistleblowing procedure please see page 70.

## Audit/non-audit fees and auditor independence

Audit and non-audit fees for the external and internal auditors were reviewed by the Committee and considered in relation to their effect on auditor independence.

## Significant issues considered by the Committee in relation to the financial statements

We are required to provide an explanation of the significant issues that the Committee considered in relation to the financial statements for the year to 31 March 2018 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 2018 and how the Committee addressed them are set out in the table below.

Significant issue	How the Committee addressed it
Contract accounting and revenue recognition	The Committee considered the material contracts, which require a significant degree of management judgement and could materially affect the appropriate accounting treatment for them; these were the subject of discussion and challenge with management to ensure that the Committee was satisfied as to the reasonableness of those judgements.
Pensions accounting — the choice of assumptions in the valuation for accounting purposes of the liabilities of the Group's defined benefit schemes	The Committee assessed the particular assumptions proposed to be used by management and their impact on scheme assets and liabilities in the context of assumptions being used in respect of the same factors by other companies and the pensions industry more widely. See note 24 on pages 186 to 190.
Business acquisitions — goodwill impairment assessment	The Committee reviewed and challenged management's assessment of the goodwill balance by considering, amongst other things, management's evaluation of cash flow forecasts, budget, and growth rates. See note 10 on page 170.

## Internal controls and risk management

The Committee believes that the identification, control, mitigation and reporting of risk is central to the delivery of the Company's strategy. The way that the Company manages risk is set out in the Strategic report on pages 68 to 70, with the principal risks facing the Group described on pages 71 to 79. The Committee has conducted a rigorous and robust review of the ongoing effectiveness of the Company's risk management processes in light of the 2016 UK Corporate Governance Code (and the Financial Reporting Council's associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting).

A statement regarding the effectiveness of the internal controls and control processes, including those over financial reporting, can be found on page 138.

## Internal audit

The Committee considers that it is still appropriate to have an internal audit service provided by an external advisor, but keeps this under review. In the year to 31 March 2018, the Committee was 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.

For the year to 31 March 2018, PwC has been the Group's external auditor, having been reappointed by Shareholders at the AGM on 13 July 2017 on the recommendation of the Board. The Chairman and the Committee regularly assess PwC's effectiveness in the provision of audit services in their meetings with PwC. After each annual audit, there is a rigorous review of PwC's audit services in that audit, examining the level and consistency of expertise and resources,

the effectiveness of the audit (including, inter alia, the understanding of our business and reporting processes for subsidiary audit teams), and PwC's independence and leadership. The review includes the provision to PwC, and discussion with it, of detailed feedback from those exposed to the audit process within the Group. The question of PwC's continuing independence in the provision of audit services is considered and discussed with PwC, including the basis upon which that assessment can reasonably be made and supported.

The Company expects to tender the external audit function in three years and PwC, having been auditor since 2002, will not be invited to participate in that tender. The Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

## Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the auditor for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. The Company's policy is to consider whether to place material non-audit services work with the external auditor on a case-by-case basis, based on an assessment of who is best placed to do the work having regard to the availability, resources, capability, experience and any conflicts of interest of potential candidate firms for the work. The Committee makes the choice based on what it considers to be in the Company's best interest overall, having regard to potential independence issues, if the work is placed with the Company's auditor. Non-audit services offered to the auditor would not include the design or operation of financial information systems, internal audit services, maintenance or preparation of accounting records or financial statements that would be subject to external audit, or work that the Committee considers as reasonably capable of compromising their independence as auditors. If use of the auditors for non-audit work would lead

to non-audit fees payable to them in the year exceeding 20% of their audit fee, the Committee Chairman's approval is required. In addition, any fee for non-audit work in excess of £100,000 must be approved by the Committee Chairman. Having considered the non-audit services provided by the auditor during the year ended 31 March 2018, 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 2018, the Committee has approved the payment to PwC of fees of £2.4 million for audit services (£0.4 million of which was for the statutory audit of the Company's consolidated financial statements) and of fees of £0.1 million for other assurance services. Non-audit related work accounted for 4% of the total audit and non-audit related fees paid to the external auditor during the year. A breakdown of fees paid to the auditor is set out in note 4 on page 166.

## Ian Duncan

Committee Chairman

# Report of the Remuneration Committee



Jeff Randall, Committee Chairman

## Committee membership and attendance

Jeff Randall (Chairman)	7 of 7
Sir David Omand	7 of 7
Ian Duncan	7 of 7
Anna Stewart*	2 of 2
Myles Lee	7 of 7
Victoire de Margerie	7 of 7

\* Anna Stewart sadly died on 5 October 2017.

## Annual Statement of the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' Remuneration report for 2017/18.

This Directors' Remuneration report has three parts: this, the Chairman's Annual Statement, a Policy Report and an Annual Report on Remuneration. Together, they present full and transparent disclosure of the Company's intentions as to Directors' remuneration and how our remuneration arrangements operate. Our current Remuneration policy was approved at the 2017 AGM and is set out on pages 101 to 110 below. We are not proposing to make any changes to the policy this year and are intending next to submit our policy with any changes to Shareholders for approval at the 2020 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 AGM on Thursday, 19 July 2018.

## Activities undertaken by the Committee during the year

Following an in-depth review of our Remuneration policy for Executive Directors, which included seeking the views of our largest Shareholders and investor bodies, the Committee was pleased to put its updated policy to Shareholders for their approval at the 2017 AGM. The Committee believes that the updated policy simplifies executive remuneration by removing the deferred bonus matching plan, whilst broadly maintaining the fair value of total remuneration and continuing the Committee's policy of setting fixed remuneration at or below median with total remuneration remaining capable of delivering upper quartile reward for upper quartile performance. The Committee was pleased that Shareholders approved the proposed policy by 96%.

In the period under review, Bill Tame announced his decision to retire from the Company on 30 June 2018, having joined the Company as Group Finance Director in January 2001. He stepped down from the Board on 31 March 2018. The Committee announced the arrangements of his retirement on 21 December 2017. Bill will continue to be remunerated up to his date of retirement, in accordance with his contractual entitlement and the Company's Remuneration policy, as approved by Shareholders at the 2017 AGM. Bill was not given a salary increase for 2018/19, nor did he receive a 2018 grant under the Company's 2009 Performance Share Plan.

He is eligible for a time pro-rated bonus for the financial year 2018/19. As regards his outstanding share awards, the Committee exercised its discretion and decided that Bill should be treated as a 'good leaver'. This means that all unvested share awards remain subject to any performance conditions attached to them and, to the extent the vesting periods have not been completed by the date of Bill's retirement, the awards will be pro-rated for time to the date of his retirement. All awards will vest on their normal vesting dates.

Finally, I am pleased to welcome two new Non-Executive Directors to the Committee and look forward to working with them.

### Remuneration outcomes for 2017/18

Against the background reported in the Chairman's statement earlier in this Annual Report:

- annual bonus payments in respect of the year to 31 March 2018 ranged from 53% to 62% of maximum (see page 115 for more detail); and
- performance over the longer-term performance period from 1 April 2015 to 31 March 2018 is expected to result in 24% vesting of the PSP awards made in 2015 and 20% vesting of the matching awards made that year under the DBMP.

### Jeff Randall

Committee Chairman

## Glossary of terms

As used in this Remuneration report

CSOP	means the 2009 Babcock Company Share Option Plan
DBP	means the 2009 Babcock Deferred Bonus Plan
DBMP	means the 2012 Babcock Deferred Bonus Matching Plan
EBIT	means Earnings Before Interest and Tax
EPS	means basic underlying Earnings Per Share
OCF	means Operating Cash Flow as determined for management purposes
PSP	means the 2009 Babcock Performance Share Plan
PBT	means underlying Profit Before Tax
PBIT	means underlying Profit Before Interest and Tax
ROCE	means Return on Capital Employed
TSR	means Total Shareholder Return

## Remuneration Committee (the Committee)

Terms of reference for the Committee are available for inspection on the Company's website and were reviewed during the year. Duties of the Committee include the review of the policy for the remuneration of the Executive Directors and the Chairman, as well as their specific remuneration packages. In determining the Remuneration policy, the Committee takes into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and that they are rewarded for their individual contributions to the success of the Company in a fair and responsible manner.

The composition of the Committee (see page 111) and its terms of reference comply with the provisions of the UK Corporate Governance Code.

## Compliance statement

This report covers the reporting period from 1 April 2017 to 31 March 2018 and provides details of the Committee's membership, its deliberations on executive remuneration during the year under review and Remuneration policy for the Company. This report has been prepared by the Committee according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and other relevant requirements of the FCA Listing Rules. In addition, the Committee has applied the principles of good corporate governance set out in the UK Corporate Governance Code 2016, and has considered guidelines issued by its leading Shareholders and bodies such as the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association. In accordance with Section 439 of the Act, an advisory resolution to approve this Annual Statement and the Annual Report on Remuneration will be proposed at the Annual General Meeting on 19 July 2018.

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

The Regulations require the Company's auditors to report that the 'Audited information' in this report has been properly prepared in accordance with the Regulations.

## Remuneration Policy Report

Our current Remuneration policy was approved at the 2017 AGM and it is intended that this policy will apply for three years from that date, although the Committee may seek approval for a new policy at an earlier point if it is considered appropriate. The Policy Report that follows is unchanged from that published in last year's annual report save for the following minor changes:

- Update to page references
- Update to pay scenario charts
- Update to reference dates, as appropriate.

### Key principles of the Remuneration policy

#### Objective

To provide fair remuneration arrangements that allow for enhanced rewards for delivery of superior performance by allowing for the possibility of upper quartile rewards for upper quartile performance, that align Directors' and Shareholders' interests and take account of risk.

Our policy for executives reflects a preference that we believe is shared by the majority of our Shareholders — to rely more heavily on the value of variable performance-related rewards, rather than on the fixed elements of pay. The rationale is to incentivise and reward success.

#### Weighting towards long-term, performance-related pay

The focus of our executive remuneration is, therefore, weighted towards performance-related pay with a significant element weighted towards long-term rather than short-term performance. We believe that, properly structured and with suitable safeguards, variable, performance-related rewards are the best way of linking pay to strategy, risk management and Shareholders' interests.

### Directors' Remuneration policy

#### Summary of the Remuneration policy for Executive Directors (Policy Table)

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<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.	In respect of existing Executive Directors, it is anticipated that decisions on any salary increases will be guided by the increases for the wider employee population over the term of this policy. In certain circumstances (including, but not limited to, a material increase in job size or complexity, market forces, promotion or recruitment) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.  Latest salaries are set out in the Annual Report on Remuneration on page 118.	Business and individual performance are considerations in setting base salary.
<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.	All the Executive Directors currently receive a cash supplement of 25% of base pay in lieu of all pension benefits.  The cash supplement payable is set having regard to market practice, and in the context of the other elements of the remuneration package, notably base salary. Other than in exceptional cases (such as to replace existing arrangements for new recruits), the Committee does not anticipate employer contributions into a defined contribution pension scheme or cash in lieu of benefit as being at a cost to the Company that would exceed 25% of base salary.	Not performance-related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<b>Fixed pay</b>			
<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.	<p>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.</p> <p>Other benefits (e.g. relocation) may be offered if considered appropriate and reasonable by the Committee.</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>	Not performance-related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<b>Variable pay</b>			
<b>Annual bonus</b>			
<p>To underpin delivery of year on year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer-term risks to the Company.</p> <p>The requirement to defer a substantial part of bonus into Company shares strengthens the link to long-term sustainable growth.</p>	<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. Mandatory deferred bonus awards are subject to potential forfeiture if the holder leaves before the awards vest. Malus and clawback apply to cash and deferred bonus awards: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or caused the Committee to exercise any discretion differently.</p>	<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 sector financial measures, e.g. EPS growth, 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 financial measures and their weightings annually, to ensure alignment with the business priorities for the year.</p> <p>Measures used for the 2017/18 annual bonus and proposed for 2018/19 are included in the Annual Report on Remuneration on pages 115 and 119.</p>

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<b>Variable pay</b>			
<b>Performance Share Plan (PSP)</b>			
<p>To incentivise delivery of top quartile Shareholder returns and earnings growth over the longer term.</p> <p>Long-term measures guard against short-term steps being taken to maximise annual rewards at the expense of future performance.</p>	<p>The Committee has the ability to grant nil-cost options or conditional share awards under the PSP.</p> <p>The award levels and performance conditions, on which vesting depends, are reviewed from time to time to ensure they remain appropriate.</p> <p>Participants will receive cash or shares equal to the value of any dividends that would have been paid over the vesting period on awards that vest.</p> <p>The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles.</p> <p>An additional two-year holding period will apply to Executive Directors' vested shares before they are released.</p> <p>Malus and clawback apply to PSP awards: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.</p>	<p>Maximum annual PSP awards of up to 200% of base pay.</p> <p>For each performance condition applying to an award, 16.7% of the maximum award will vest for threshold performance.</p>	<p>Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period.</p> <p>2018/19 PSP awards will vest based on the achievement of stretching EPS, TSR and ROCE targets.</p> <p>The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.</p> <p>Details of measures and targets used for specific PSP grants are included in the Annual Report on Remuneration on pages 120 to 122.</p>
<b>All-employee plans — Babcock Employee Share Plan</b>			
To encourage employee ownership of Company 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>	<p>Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate.</p> <p>The Company currently offers to match purchases made through the plan at the rate of one free matching share for every 10 shares purchased. The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.</p>	Not performance-related.

### Approach to recruitment remuneration — (Recruitment policy)

In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Pay element	Policy on recruitment	Maximum
Salary	Based on size and nature of responsibilities of the proposed role; the candidate's experience; implications for total remuneration positioning vs. market pay levels for comparable roles; internal relativities; and the candidate's current salary.	N/A
Pension	Membership of pension scheme or salary supplement on a similar basis to other executives, as described in the policy table.	N/A
Benefits	Provision of benefits on a similar basis to other executives, as described in the policy table.	N/A
Annual bonus	As described in the policy table, and may be pro-rated for proportion of year served.	150% of salary
Performance Share Plan	New appointees may be granted awards under the PSP on similar terms to other executives.	200% of salary
All-employee plans	New appointees may be granted awards under all-employee plans on similar terms to other executives.	As per Policy Table
Other	In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its Shareholders. The Committee may also make an award in respect of a new appointment to 'replace' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. In order to facilitate like for like compensatory awards on recruitment, the Committee may avail itself of Listing Rule 9.4.2(2), if required.	N/A

#### Other recruitment events

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

### Payments from existing awards and commitments

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

### Performance measure selection and approach to target setting

The measures used under annual bonus plans are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set taking into account a range of reference points, including the Group's strategic and operating plan.

The Committee considers at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards and the financial targets to attach to share awards to ensure they continue to be: (i) relevant to the Group's strategic objectives and aligned with Shareholders' interests, mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee believes that TSR, EPS and ROCE continue to be effective measures of long-term performance for the Company, providing a good balance between Shareholder value creation and line of sight for executives.

The TSR performance measure is tested by reference to the Company's relative long-term share price performance against suitable peers. The Committee believes that the use of relative TSR provides strong alignment with Shareholders' interests by incentivising management for the delivery of above-market returns. The TSR calculation would normally use a 12-month average for opening and closing share prices adjusted for dividends paid during the period. The Company feels that this is the most appropriate period because a 12-month average ensures both that short-term market volatility is excluded and that for each company a 12-month period will capture the impact of the announcement of results and payment of dividends. A shorter period would not capture all these events and would not necessarily put all companies on an equal footing.

The use of an EPS growth performance measure, in the opinion of the Committee, focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals. The Committee believes that ROCE reinforces the focus on returns for Shareholders and encourages capital discipline.

The Remuneration Committee has the discretion to make adjustments to the calculation of short and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include: changes in accounting standards and certain major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, acquisitions and disposals.

The Committee reviews the performance conditions for share awards prior to the start of each cycle to ensure they remain appropriate. No material reduction in long-term incentive targets for future awards would be made without prior consultation with our major Shareholders.

### Differences between Executive Director and general employee remuneration

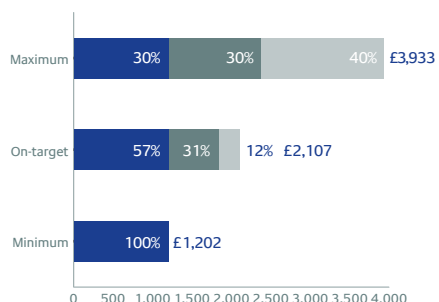
The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The Remuneration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

### Balance of remuneration for Executive Directors

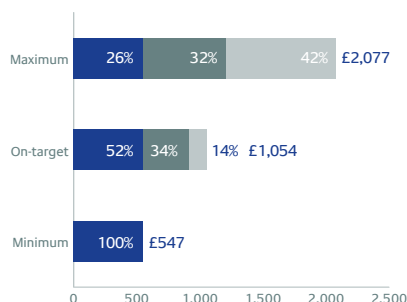
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in 2018/19, as outlined in the Chairman's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2018. Note that the projected values exclude the impact of any share price movements. For this reason, were the PSP shares to vest in full, actual total remuneration may exceed the value shown in the chart below.

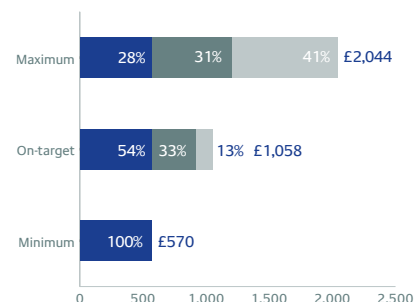
#### Chief Executive Archie Bethel (£'000)



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



#### Chief Executive, Land John Davies (£'000)



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

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

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

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

### Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO).

The guidelines also state that an Executive Director is expected to retain at least half of any shares acquired on the exercise of a share award that remain after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs) until the guideline level is achieved and thereafter maintained. The Executive Directors' compliance with these guidelines is shown in the table on page 126.

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

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

#### Executive Directors

Name	Date of service contract	Notice period
Archie Bethel (Chief Executive)	1 April 2016	12 months from Company, 12 months from Director
Franco Martinelli (Group Finance Director)	1 August 2014	12 months from Company, 12 months from Director
Bill Tame (Chief Executive, Global Growth and Operations)*	1 October 2001 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director
John Davies (Chief Executive, Land)	20 December 2012	12 months from Company, 12 months from Director

\* Bill Tame gave notice of his retirement in accordance with his service contract. He stepped down from the Board on 31 March 2018 and will retire from the Company on 30 June 2018.

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

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. In these circumstances, since 2012, new Executive Directors' contracts (those for Archie Bethel, John Davies and Franco Martinelli) allow the Company to choose to make the payment in lieu by monthly instalments and mitigation applies such that the Committee may decide to reduce or discontinue further instalments. For contracts made before 2012 (for Bill Tame only) such a payment would be by way of a lump sum payment on termination. If the Company terminates an Executive Director's service contract, it will have regard to all the circumstances (including the scope for mitigation) and the Company's interests in determining the amount of compensation, if any, payable to him in connection with that termination.

The contract for Bill Tame contains provisions which provide that, within 90 days of the occurrence of a change of control of the Company, he may terminate his employment forthwith. If he exercises this right, he is entitled, for a 12-month period, to be paid (on a monthly basis) his base salary plus 40% (compared to a maximum entitlement under the annual bonus plan of 150%) in lieu of bonus and all other contractual entitlements. From this payment there is to be deducted any amount that he receives by way of income, if it exceeds 10% of his Babcock salary, from other sources that he would not have been able to earn had he continued in employment with the Company.

The contract for Bill Tame also provides that, if the Company terminates his appointment within 12 months of a change of control, he would be entitled to a termination payment equal to 100% of annual salary (plus 40% in lieu of bonus and all other benefits), subject to any additional entitlement as outlined below.

No other Executive Director has these arrangements in their service contract.

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

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

1. Treatment of bonus on a change of control for Bill Tame is also subject of the provisions outlined on page 108 above.

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

### External appointments of Executive Directors

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

### Chairman and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment (subject to annual re-election)
Mike Turner (Chairman)	1 June 2008	22 February 2017	AGM 2020
Sir David Omand	1 April 2009	17 May 2018	AGM 2021
Ian Duncan	10 November 2010	25 January 2016	AGM 2019
Anna Stewart*	1 November 2012	26 March 2015	
Jeff Randall	1 April 2014	22 February 2017	AGM 2020
Myles Lee	1 April 2015	17 May 2018	AGM 2021
Victoire de Margerie	1 February 2016	3 December 2015	AGM 2019
Lucy Dimes	1 April 2018	5 March 2018	AGM 2021
Kjersti Wiklund	1 April 2018	5 March 2018	AGM 2021

\* Anna Stewart sadly died on 5 October 2017.

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 Committee in respect of fees payable to the Chairman), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for acting as Chairman of the Audit and Risk, and Remuneration Committees.</p> <p>Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of nominal travel and accommodation expenses).</p> <p>Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. This may result in higher fee levels for overseas Directors.</p> <p>Fees for the year ending 31 March 2018 and those for the year ending 31 March 2019 are set out in the Annual Report on Remuneration on page 124.</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 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 details of the votes received on the 2017 Directors' Remuneration policy report and the 2017 Annual Report on Remuneration are provided on page 112.

## Annual Report on Remuneration

### The Committee

The members of the Committee are appointed by the Board on the recommendation of the Nominations Committee and, in accordance with provision D.2.1 of the UK Corporate Governance Code, the Committee is made up of the independent Non-Executive Directors. The membership of the Committee currently and during the year to 31 March 2018 (with each member serving throughout the year with the exception of Anna Stewart, who sadly died on 5 October 2017) 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 2018)
Jeff Randall	7 of 7
Sir David Omand	7 of 7
Ian Duncan	7 of 7
Anna Stewart	2 of 2
Myles Lee	7 of 7
Victoire de Margerie	7 of 7

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.

### Advisors

Mercer | Kepler (which is part of the MMC group of companies) was appointed by the Committee in late 2008, following a selection process, including interviewing a number of candidate firms, to provide it with objective and independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. Mercer | Kepler reports directly to the Committee Chairman. A representative from Mercer | Kepler typically attends Committee meetings. Mercer | Kepler also provides participant communications, performance reporting, and Non-Executive Directors' fee benchmarking services to the Company. Mercer | 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). Mercer | Kepler adheres to this Code of Conduct. The fees paid to Mercer | Kepler in respect of work for the Committee carried out in the year under review totalled £75,595 on the basis of time and materials, excluding expenses and VAT.

The Committee reviews Mercer | Kepler's involvement each year and considers any other relationships that Mercer | Kepler's parent company has with the Company that may limit its independence. The Committee is satisfied that the advice provided by Mercer | Kepler is objective and independent and that any services provided by its parent to the Company do not impair its independence.

### How often it meets

In total there were seven meetings in the year to 31 March 2018. The Committee plans to meet at least six times in the year to 31 March 2019.

### Matters considered

The Committee considered a number of matters during the year to 31 March 2018, including:

- agreeing Executive Director salaries for the year under review
- consulting our largest Shareholders and investor bodies on proposed changes to Remuneration policy
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- making share awards under the Company's share plans
- reviewing the performance measures and targets to be applied under the Company's share plans
- finalising performance targets and non-financial objectives for the 2018/19 annual bonus plan
- agreeing the level of vesting of PSP and DBMP awards granted in 2014
- considering performance against the measures to be applied for the 2017/18 annual bonuses
- agreeing the level of 2017/18 annual bonuses
- reviewing share ownership guidelines for senior executives
- agreeing pay reviews for other senior executives for the year to 31 March 2019
- reviewing the Directors' Remuneration report
- approving the procedure for the authorisation of Chairman and CEO expenses
- reviewing the continued appointment of the Committee's independent advisors.

### Summary of Shareholder voting at the 2017 AGM

The following table shows the results of the binding Shareholder vote on the 2017 Remuneration policy and the advisory Shareholder vote on the 2017 Annual Report on Remuneration at the 2017 AGM:

Votes cast	2017 Remuneration policy		2017 Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	368,814,605	96.5%	379,124,151	99.5%
Against	13,528,165	3.5%	1,796,792	0.5%
Total votes cast (excluding withheld votes)	382,342,770	100.0%	380,920,943	100.0%
Votes withheld	4,341,748		5,763,575	
Total votes cast (including withheld votes)	386,684,518		386,684,518	

## 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 2018 and 31 March 2017.

	Archie Bethel <sup>a</sup> £'000		Franco Martinelli £'000		Bill Tame £'000		John Davies £'000	
	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17
<b>Fixed remuneration</b>								
1. Salary	765	667	428	420	428	420	413	405
2. Benefits in kind and cash	227	179	1	1	18	20	43	90
3. Pension	191	167	107	105	107	105	103	101
<b>Annual variable remuneration</b>								
4. Annual bonus (cash or voluntarily deferred bonus)	422	390	238	246	197	167	211	172
5. DBMP (deferred annual bonus)	281	260	159	164	131	112	141	115
<b>Long-term incentives</b>								
6. DBMP (matching awards)	63	69	27	18	44	53	52	61
7. PSP	76	97	76	91	85	112	72	93
8. Dividends	16	14	12	9	15	13	14	13
<b>Total (of which)</b>	<b>2,041</b>	<b>1,844</b>	<b>1,048</b>	<b>1,054</b>	<b>1,025</b>	<b>1,002</b>	<b>1,049</b>	<b>1,051</b>
Fixed remuneration <sup>(1,2,3)</sup>	1,183	1,013	536	526	554	545	559	596
Annual variable remuneration <sup>(4,5)</sup>	704	651	397	410	328	279	352	287
Long-term incentives <sup>(6,7,8)</sup>	154	180	115	118	143	178	138	167

(a) Archie Bethel was appointed as Chief Operating Officer on 1 April 2016 on a salary of £550,000. On 1 September 2016, he was appointed as Chief Executive on a salary of £750,000.

The figures have been calculated as follows:

- Salary: basic salary amount paid in the year.
- Benefits in kind and cash: the value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, car and fuel benefits and costs in connection with accommodation. Archie Bethel in 17/18 received £225,728 (16/17: £173,806) in connection with his accommodation costs in London, at the Company's request, to enable him to lead the business effectively. John Davies received a similar allowance in 17/18 of £20,789 (16/17: £62,200).
- Pension: for all Executive Directors the numbers above represent for each year the value of the cash supplement of 25% of salary paid to each of them.
- Annual bonus (cash or voluntarily deferred bonus): this is the part of total annual bonus earned for performance during the year (see page 115 that is not required to be mandatorily deferred into a basic award of shares under the DBMP (see page 116) and that is to be satisfied in cash.
- 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): for 17/18, represents the market value of the 2015 awards that vest on performance to 31 March 2018: based on vesting as to 20% of the total award (see page 118) and an average share price in the three months to 31 March 2018 of 679.6p. Note: the difference between the DBMP figures shown for 2016/17 in the table above and the equivalent numbers disclosed in last year's Annual Report on Remuneration reflects trueing up for the actual share price on subsequent actual vesting of 890.5p on 12 June 2017.
- PSP: for 17/18, represents the market value of the 2015 awards that vest on performance to 31 March 2018: based on vesting as to 23.9% of the total award (see page 117) and an average share price in the three months to 31 March 2018 of 679.6p. Note: the difference between the PSP figures shown for 2016/17 in the table above and the equivalent numbers disclosed in last year's Annual Report on Remuneration reflects the actual share price on subsequent actual vesting of 890.5p on 12 June 2017 for all awards except Franco Martinelli's PSP award granted on 29 January 2015 that vested on 29 January 2018 when the share price was 731.4p.
- 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) vesting on performance to 31 March 2018 (for 17/18) and 31 March 2017 (for 16/17), payable in cash on exercise of the award.

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

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2018 and the prior year:

	Base fee £000		Additional fees £000		Total £000	
	17/18	16/17	17/18	16/17	17/18	16/17
Mike Turner	330	310		0	330	310
Sir David Omand	71	69		0	71	69
Ian Duncan	60	58	15	15 <sup>1</sup>	75	73
Jeff Randall	60	58	15	15 <sup>1</sup>	75	73
Anna Stewart <sup>2</sup>	35	58		0	35	58
Myles Lee	64	62		0	64	62
Victoire de Margerie	64	62		0	64	62

1. Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).

2. Anna Stewart sadly died on 5 October 2017.

### Pensions

None of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2018. They instead received a cash supplement equal to 25% of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

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

### Babcock International Group Pension Scheme (the Scheme) (audited)

Bill Tame was an active member of the senior executive tier of the Scheme until 30 September 2011. Archie Bethel was an active member of the executive tier of the Scheme until 31 March 2012. Franco Martinelli was an active member of the executive tier of the Scheme until 31 March 2015. Whilst still members of the Scheme, Bill Tame accrued benefits at the rate of one-thirtieth, and for Archie Bethel and Franco Martinelli the rate of accrual was one-forty-fifth, of pensionable salary for each year of service, with a cash supplement on earnings over the applicable scheme earnings cap. Archie Bethel transferred his benefits out of the Scheme during the year on the standard terms offered under the Scheme. Until 31 March 2016, John Davies was a member of the VT Upper Section Ex-Short Brothers section of the Scheme and accrued benefits on earnings up to the scheme earnings cap at the rate of one-sixtieth of pensionable salary for each year of service.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2018 are set out in the following table:

Director <sup>1</sup>	Accrued pension at 31 March 2018	Normal retirement date <sup>2</sup>
	£ pa	
Bill Tame	54,768	60
John Davies	59,594	65
Franco Martinelli	62,573	65

1. None of the Executive Directors were active members of the scheme during the year.

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

Note: The figures in the above table make no allowance for the cost of death in service benefits under the Scheme, or for any benefits in respect of earnings in excess of the earnings cap. In calculating the above figures no account has been taken of any retained benefits that the Director may have from previous employments.

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

Director	2017/18	2016/17
	£'000	£'000
Archie Bethel	5	5
Bill Tame	3	3
John Davies	3	3
Franco Martinelli	3	3

## Annual bonus

### 2017/18 Annual bonus (audited)

For our Executive Directors' annual bonus plans in 2017/18, 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 2017/18 bonus were set by the Committee at the beginning of the year.

The table below sets out the annual bonus plan in place for the Executive Directors and the outturn under them in 2017/18. The figures in the table below for actual outturn exclude the effect of changes in exchange rates.

Bonus element	Threshold	Target	Maximum	Actual outturn		Archie Bethel	Franco Martinelli	Bill Tame	John Davies
EPS <sup>1</sup> performance	81.0p	83.1p	85.6p	82.8p	Maximum potential (% of salary)	60%	60%	60%	60%
Stretching targets, with a sliding scale between threshold and maximum					Outturn (% of salary)	26.3%	26.3%	26.3%	26.3%
Achieving budgeted Group cash flow	95% of budget	Budget (£213.7m)	105% of budget		Maximum potential (% of salary)	30%	30%		15%
					Outturn (% of salary)	30%	30%		15%
Achieving budgeted Group PBT <sup>2</sup>	97% of budget	Budget (£516.5m)	103% of budget		Maximum potential (% of salary)	30%	30%	15%	15%
					Outturn (% of salary)	11.1%	11.1%	5.6%	5.6%
Achieving budgeted sector cash flow	95% of budget	Budget <sup>3</sup>	105% of budget		Maximum potential (% of salary)			15%	15%
					Outturn (% of salary)			15%	15%
Achieving budgeted sector PBIT <sup>2</sup>	97% of budget	Budget <sup>3</sup>	103% of budget		Maximum potential (% of salary)			15%	15%
					Outturn (% of salary)			0%	0%
Non-financial objectives <sup>4</sup>					Maximum potential (% of salary)	30%	30%	30%	30%
					Outturn (% of salary)	24.5%	25.2%	19%	23.4%
Global Growth & Operations <sup>5</sup>					Maximum potential (% of salary)			15%	
					Outturn (% of salary)			10.7%	
Total					Maximum potential (% of salary)	150%	150%	150%	150%
					Outturn (% of salary)	92.0%	92.7%	76.6%	85.3%

1. Threshold vesting is 10% of maximum for each financial bonus element except for EPS performance, where 8% of maximum vests at threshold. In line with our policy, overall vesting at threshold is no more than 15% when all measures are taken into account.

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

3. The Committee considers that the sector budgets remain commercially sensitive given the strategic nature of some of our customers or their activities, and they would also be of assistance to competitors, and will not be published.

4. Non-financial objectives were set around the strategic and risk management 'Themes', which for the year were Growth, Technology, Resources, Reputation and Processes. At the end of the bonus year, the Committee reviewed progress against the Themes overall having regard to all relevant circumstances and made an assessment as to performance on non-financial measures and what the appropriate bonus payment was for that. In making its assessment in respect of the award under the non-financial measures, the Committee considered the following issues in respect of each Theme:
- **Growth:** As described in the Strategic report, the Group continued to grow profit, earnings per share and dividend payments at an acceptable return on capital. Each of the sectors have won important new contracts during the period, both in the UK and internationally. In addition, the opportunities for further growth are evidenced by the increase in value of the bid pipeline.
  - **Technology:** In the year, a position of Group MD, Technology, has been created. The Group MD, Technology, sits on the Group Executive Committee and is responsible for developing the Group's technology strategy. As a first step, the Group MD, Technology, has established a cross sector Technology capability in order to develop and support each sector's increased application of technology. The Group believes that the innovative application of technology is a differentiator for its business. For example, Aviation further developed the mission and communications capability on UK National Police Air Service aircraft. These improvements created a "best in class" and helped the sector to win contracts with the Dutch Police and Western Power Generation.
  - **Resources:** From 1 April 2017, the Group was realigned into its current four sectors. This realignment has allowed each sector to focus better on the possible opportunities, as evidenced by the increase in value of the pipeline, while realising operational efficiencies. At the same time, each sector has continued to look to improve the diversity of its workforce. Marine has established Diversity & Inclusion Leadership Groups at all its main sites. Aviation has increased the number of female candidates in its talent programme from 14% to 21% since last year.
  - **Reputation:** Each sector has delivered a good year of operational performance to customers. The Group has leveraged its reputation in order to expand its offering internationally, for example, the new contract to deliver training to the French Air Force.
  - **Processes:** During the year, the Group has improved its IT infrastructure with the further introduction of IT platforms for employee management and procurement across most of its UK businesses. In addition, the Group has also continued with the roll out of the Group Enterprise Resource Planning platform, which is now operational in its UK defence and nuclear businesses. This platform will allow for the adoption of a common systems approach and will increase the effectiveness of the Group's operations.
5. For Bill Tame (in his role as Chief Executive, Global Growth & Operations), the Committee determined that a proportion of his annual bonus should be based on growth in the International order book and International revenue.

### Annual bonus deferral into shares (audited)

To ensure that a substantial part of the Directors' annual bonus is exposed to the longer-term impact of decision-making and further to align their interests with Shareholders, 40% of any annual bonus earned by Executive Directors (and other senior executives) must be deferred into Company shares (by means of an award of nil-cost options).

Mandatorily deferred annual bonus awards (Basic Awards) are subject to potential forfeiture if the holder leaves before the awards vest (other than by reason of death, disability, redundancy, retirement or the company or business in which they are employed ceasing to be part of the Group).

### Long-term incentive schemes (PSP)

#### PSP awards made in 2017/18\* (audited)

Director	Basis	Number of shares	Face value (£) <sup>1</sup>	Face value (% of salary) <sup>2</sup>	% receivable for threshold performance	End of performance period
Archie Bethel	As per the policy.	171,588	£1,530,000	200%	16.7%	31 March 2020
Franco Martinelli	Performance	96,112	£857,000	200%	16.7%	31 March 2020
Bill Tame	measures and	96,112	£857,000	200%	16.7%	31 March 2020
John Davies	targets are set out below.	92,635	£826,000	200%	16.7%	31 March 2020

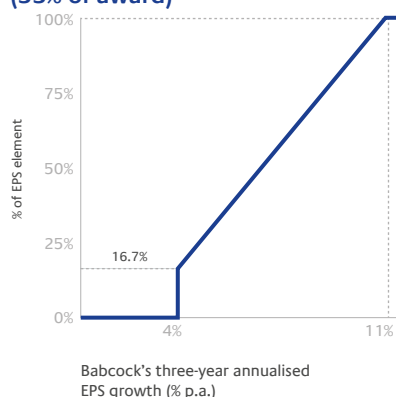
1. Based for Directors on three-day average share price (of 891.67p) at time of grant.

2. Expressed as a percentage of salary at the date of the award (14 June 2017).

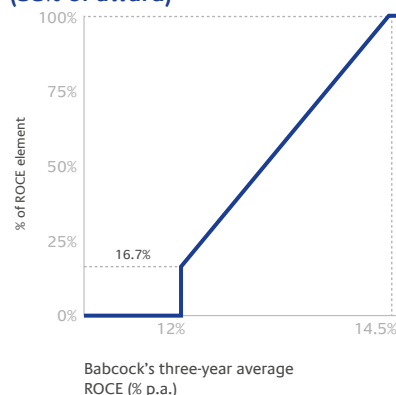
\* In the form of nil-cost options.

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

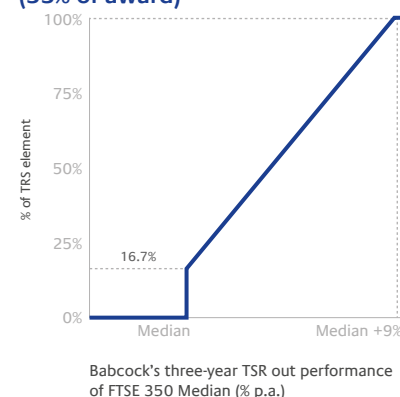
### EPS element (33% of award)



### ROCE element (33% of award)



### TSR element (33% of award)



Note: TSR comparators are the companies that comprise the FTSE 350 (excluding investment trusts and financial services companies). Threshold vesting (16.7% of this element) for the EPS element was set at growth of 4% per annum and maximum vesting at growth of 11% per annum. We believe that growth of 11% would represent exceptional performance. For the comparative TSR element, threshold vesting (16.7% of this element) would be for performance in line with the median of the FTSE 350 (excluding investment trusts and financial services companies) and maximum vesting would be for 9% pa outperformance of the median, representing upper quartile performance. For the ROCE element, the target for maximum vesting of these awards was set at 14.5% and for threshold vesting at 12%.

### Deferred Bonus Plan awards made in 2017/18\* (audited)

Director	Basis	Number of shares	Face value (£) <sup>1</sup>	Face value (% of salary) <sup>2</sup>	% receivable for threshold performance	End of performance period
Archie Bethel	As per the policy.	29,185	£260,233	34%	n/a	n/a
Franco Martinelli	No additional performance conditions required	18,387	£163,951	38%	n/a	n/a
Bill Tame	for vesting.	12,519	£111,628	26%	n/a	n/a
John Davies		12,890	£114,936	28%	n/a	n/a

1. Based for Directors on three-day average share price of 891.67p at time of grant.

2. Expressed as a percentage of salary at the date of award (14 June 2017).

\* In the form of nil-cost options.

### 2015 PSP awards vesting (audited)

Awards granted in 2015 under the PSP were subject to three-year TSR and EPS targets outlined on page 120. Performance against these measures, and resulting vesting, is as follows:

		% weighting on each element	% of each element vesting
Outcome of three-year TSR to 31 March 2018	14% pa below median TSR for the FTSE 350 (excluding investment trusts and financial services)	50%	0%
Outcome of three-year adjusted basic underlying EPS growth to 31 March 2018	6.6% pa (historical EPS numbers were restated to ensure they were on the same accounting basis)	50%	47.8%
2015 PSP awards expected to vest to Executive Directors in June 2018:			23.9%

Director	Award	Number expected to vest
Archie Bethel	PSP 2015	11,118
Franco Martinelli	PSP 2015	11,118
Bill Tame	PSP 2015	12,474
John Davies	PSP 2015	10,622

### 2015 DBMP awards vesting (audited)

Awards granted in 2015 under the DBMP were subject to the three-year TSR, EPS and average ROCE targets outlined on page 120. 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 three-year TSR to 31 March 2018	14% pa below median TSR for the FTSE 350 (excluding investment trusts and financial services)	33%	0x
Outcome of three-year adjusted basic underlying EPS growth to 31 March 2018	6.6% pa (historical EPS numbers were restated to ensure they were on the same accounting basis)	33%	0.90x
Outcome of three-year average ROCE	12.1%	33%	0.31x
Match expected on 2015 DBMP awards for Executive Directors on vesting in June 2018:			0.40x

Director	Award	Number expected to vest
Archie Bethel	DBMP 2015	9,256
Franco Martinelli	DBMP 2015	4,016
Bill Tame	DBMP 2015	6,428
John Davies	DBMP 2015	7,660

### Sourcing of shares

Shares needed to satisfy share awards for Directors are either fresh issue shares issued to the Group's employee share trusts to meet share awards or shares purchased in the market by the trusts using funds advanced by the Company. The source selection is finalised on or before vesting, the choice being based on what the Board considers is in the best interests of the Company at the time, and what is permissible within available headroom and dilution limits.

### Executive Directors' remuneration for 2018/19

The Committee has set the remuneration for Executive Directors for 2018/19 in line with the Group's policy, as approved by Shareholders at the 2017 AGM.

#### Base salary

Executive Directors' base salaries are reviewed each year with any changes usually taking effect from 1 April. The Remuneration policy is pitched to deliver fixed remuneration at or below median and total remuneration capable of delivering upper quartile performance. The increase in Executive Directors' salaries for 2018/19 was in line with increases for the wider UK workforce (see below).

	Salary 2018/19 £	Salary 2017/18 £
Archie Bethel	780,300	765,000
Franco Martinelli	437,070	428,500
Bill Tame	428,500	428,500
John Davies <sup>1</sup>	421,260	413,000

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

### Internal relativity

As noted in our Remuneration policy, when reviewing Executive Directors' remuneration, the Committee takes note of proposals for pay in the wider Group. Each business within the Group determines its own pay structures and remuneration in light of its own position and the employment market in which it operates.

The overall average salary increase for employees in the UK generally for the year to 31 March 2019 is expected to be 2% (although, in certain specific cases, individuals may receive above this amount) dependent on business and personal performance and local market conditions. The salary increase for the Executive Directors has been set at 2%.

## 2018/19 Annual bonus

Executive Directors' annual bonus plans for 2018/19 are unchanged from the structure adopted in 2017/18 as set out on page 115. Measures are based 40% on EPS, 20% on PBT, 20% on OCF and 20% on non-financial objectives. For John Davies, a portion of the PBT and OCF element will be based on performance of his area of the business. The Committee intends to disclose the Group financial performance targets for 2018/19 and non-financial objectives retrospectively in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive. As disclosed last year, non-financial objectives will fall under the categories of:

- Growth: continue delivery of value-creating growth
- Technology: improve our technical offering, build barriers to entry and drive cross-sector synergies
- Resources: develop robust resourcing plans to meet the future growth plans of the business
- Reputation: deliver value to our customers, enhance our reputation and sustain operational performance
- Processes: continually improve our systems, technologies and processes to maximise business opportunities.

The weighting of the elements of bonus is kept under review.

For all Executive Directors, 40% of any earned bonus will continue to be deferred into shares for three years.

## PSP awards for 2018/19

The Committee intends to grant awards in 2018/19 under the PSP of 200% of salary for all Executive Directors, with the performance measures and targets as follows: EPS growth targets for 2018 awards in nominal terms of 4% pa to 11% pa over three years; TSR targets between median and median+9% relative to the peer group; ROCE targets (based on the average return over the performance period) will vest from 12% to 14%.

## 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 2019 and for the year to 31 March 2018 are summarised in the table below.

Director	2018/19			2017/18		
	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)
Archie Bethel	780,300	150%	200%	765,000	150%	200%
Franco Martinelli	437,070	150%	200%	428,500	150%	200%
Bill Tame <sup>1</sup>	n/a	n/a	n/a	428,500	150%	200%
John Davies	421,260	150%	200%	413,000	150%	200%

1. Bill Tame stepped down from the Board on 31 March 2018

### Bill Tame

As announced on 21 December 2017, Bill Tame will retire from Babcock on 30 June 2018. Bill will continue to be remunerated up to his date of leaving, in accordance with his contractual entitlements and the Company's Directors' Remuneration policy, as approved by Shareholders on 13 July 2017. Bill will not be eligible for a salary increase for 2018/19, nor will he receive a 2018 grant under the Company's PSP, although he will be eligible for a time pro-rated bonus for the financial year 2018/19. Details of the remuneration payable to Bill in respect of the year ending 31 March 2018 will be disclosed in next year's Directors' Remuneration report.

The Committee has exercised its discretion and determined that Bill will be treated as a 'good leaver'. Outstanding share awards that he currently holds will, accordingly, be treated consistently with the terms of the Company's Directors' Remuneration policy, as follows:

- The 2015 PSP grant (over 52,193 shares) will vest on the normal vesting date in accordance with the PSP rules, subject to the achievement of the performance conditions attached to them. A cash sum equivalent to the dividends that accrue on the shares that vest will also be paid.
- The 2015 Deferred Bonus Matching Plan (DBMP) basic grant (over 16,070 shares) and basic matching grant (over 32,140 shares) will vest on the normal vesting date, in accordance with the DBMP rules. The extent to which the basic matching grant shall vest will be determined by the extent to which the performance conditions attached to the grant have been met over the performance period. A cash sum equivalent to the dividends that accrue on the shares that vest will also be paid.

The vesting periods for the above awards will have been completed by Bill's date of retirement and, therefore, the performance-based awards will not be pro-rated for time.

- Outstanding Deferred Bonus Plan (DBP) grants made in 2016 (over 12,498 shares) and 2017 (over 12,519 shares) shall vest on their normal vesting dates, in accordance with the DBP rules. A cash sum equivalent to the dividends that accrue on the shares that vest will also be paid. To the extent that Bill receives a bonus for the financial year 2017/18 and for 2018/19, 40% of any such bonus will be deferred into the DBP.
- Bill will also retain an interest in the PSP grants made in 2016 (over 84,238 shares) and 2017 (over 96,112 shares). These interests will be pro-rated for time to the date of leaving, and will vest (to the extent the performance conditions attaching to the awards are met) on their normal vesting date, in accordance with the PSP rules. A cash sum equivalent to the dividends that accrue on any shares that vest will also be paid. The two-year post-vesting holding period will apply to any shares that vest under the 2017 PSP grant. As stated above, Bill will not receive a 2018 PSP grant.

No payments fall to be made to Bill by way of compensation for loss of office.

### Outstanding share awards summaries: grants made up to and during 2017

The following tables on pages 120 to 122 summarise the performance targets (if applicable) and other information about the plans relevant to currently outstanding share awards held by Executive Directors (i.e. those awards yet to vest) and those that vested during the year to 31 March 2018 (the awards made in 2014 under the PSP, the CSOP and the DBMP).

Scheme	Performance Share Plan (nil price options) and Company Share Option Plan (market price options) 2014-2017			
Performance period	For the 2014 awards: 1 April 2014 to 31 March 2017 (vested in June 2017 as to 26.5%) For the 2015 awards: 1 April 2015 to 31 March 2018 (expected to vest in June 2018 as to 23.9%) For the 2016 awards: 1 April 2016 to 31 March 2019 For the 2017 awards: 1 April 2017 to 31 March 2020			
General performance target	EPS growth test	Comparative TSR test	ROCE test	Proportion of total award that can vest under each measure
Maximum	Compound annual growth: 2014 awards: 11% or more in excess of RPI 2015, 2016 and 2017 awards: 11% or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	2016 awards: ROCE of more than 15%, 2017 awards: ROCE of more than 14.5%	50% on EPS and TSR for 2014 and 2015 awards 33% on EPS, TSR and ROCE for 2016 and 2017 awards
Threshold	Compound annual growth in: 2014 awards: 4% or more in excess of RPI 2015, 2016 and 2017 awards: 4% or more	TSR performance equivalent to the median for the peer group as a whole	2016 and 2017 awards: ROCE of 12%	8.3% on EPS and TSR for 2014 and 2015 awards 5.6% on EPS, TSR and ROCE for 2016 and 2017 awards
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight-line basis between 8.3% and 50% on EPS and TSR for 2014 and 2015 awards; and between 5.6% and 33% on EPS, TSR and ROCE for 2016 and 2017 awards
	Compound annual growth below threshold	Performance less than equivalent to median for the whole peer group	ROCE of less than threshold	0%
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.			

## Performance Share Plan (nil price options) and Company Share Option Plan (market price options) 2014-2017 continued

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.</p> <p>ROCE is underlying EBIT after amortisation of acquired intangibles but before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Average Capital Employed over the Performance Period where Capital Employed is calculated as Total Shareholders' Equity plus Net Debt (or minus Net Funds), as stated in the Company's consolidated audited accounts for the relevant Financial Year; and Average Capital Employed will be calculated as the average of the opening and closing value of Capital Employed for each year of the applicable Performance Period. ROCE targets set at the start of each cycle represent challenging returns in relation to the capital structure at that time, including the impact of any acquisitions or disposals made in the period prior to grant. The Committee has discretion to adjust the ROCE outcome for significant changes to the capital structure made during the performance period (e.g. acquisitions and disposals) to ensure a fair outcome for participants and Shareholders.</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 Matching Plan (nil price options) 2014-f 2016 matching awards			
Performance period	<p>For the 2014 awards: 1 April 2014 to 31 March 2017 (vested in June 2017 as to 17.0%)</p> <p>For the 2015 awards: 1 April 2015 to 31 March 2018 (expected to vest in June 2018 as to 20.0%)</p> <p>For the 2016 awards: 1 April 2016 to 31 March 2019</p>			
General performance target	EPS growth test	Comparative TSR test	ROCE test	Match that can vest under each measure
Maximum	Compound annual growth: 2014 awards: 11% or more in excess of RPI 2015 and 2016 awards: 11% or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	ROCE of more than 17% (2014); 15% (2015 and 2016)	0.33x maximum
Threshold	Compound annual growth: 2014 awards: 4% or more in excess of RPI 2015 and 2016 awards: 4% or more	TSR performance equivalent to the median for the peer group as a whole	ROCE of 15% (2014); 12% (2015 and 2016)	0.042x maximum
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight-line basis between 0.042x and 0.33x maximum
	Compound annual growth below threshold	Performance less than equivalent to median for the whole peer group	ROCE of less than threshold	0x

## Deferred Bonus Matching Plan (nil price options) 2014-2016 matching awards continued

TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that the Company's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.
Other information	<p>No further DBMP awards will be made following approval last year of our new 2017 Remuneration policy. Outstanding matching awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period.</p> <p>EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is after exceptional items. For the 2015 and 2016 awards, ROCE is underlying EBIT after amortisation of acquired intangibles but before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Average Capital Employed over the Performance Period where Capital Employed is calculated as Total Shareholders' Equity plus Net Debt (or minus Net Funds), as stated in the Company's consolidated audited accounts for the relevant Financial Year; and Average Capital Employed will be calculated as the average of the opening and closing value of Capital Employed for each year of the applicable Performance Period. For 2014 awards, the test is based on Average Capital Employed in the 2016/17 Financial Year, with EBIT for the Babcock businesses excluding Avincis (now called Mission Critical Services) being calculated after amortisation of acquired intangibles and EBIT for the Avincis business being calculated before amortisation of acquired intangibles in each case before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Capital Employed calculated as the average of the opening and closing value of Capital Employed for that year. In addition, for the 2014 awards, the Committee has to be satisfied that ROCE for 2014/15 and 2015/16 was satisfactory, and that the recorded ROCE performance is a genuine reflection of the underlying performance of the Company. ROCE targets set at the start of each cycle represent challenging returns in relation to the capital structure at that time, including the impact of any acquisitions or disposals made in the period prior to grant. The Committee has discretion to adjust the ROCE outcome for significant changes to the capital structure made during the performance period (e.g. acquisitions and disposals) to ensure a fair outcome for participants and Shareholders.</p> <p>The awards carry the right to receive on vesting a payment equal to the value of any dividends in the period between grant and vesting but this right applies only to the shares that actually vest under the award.</p> <p>Exercise periods commence not less than three years from actual or nominal award grant date.</p>

## Linkage of remuneration to strategic objectives, risk management and alignment with Shareholder interests

The Committee links the remuneration of executives to the long-term interests of Shareholders and key strategic and risk management objectives by the performance criteria it uses in the annual bonus and long-term incentive plans. Examples include the following:

Strategic objective (SO)/Risk (R)	Annual bonus scheme metric	Long-term incentive metric
SO/R: Delivering superior and sustainable value for our Shareholders, whilst balancing risk and reward.	Financial measures focused on annual delivery of sustainable earnings and/or profits with stretch targets, whilst maintaining strict control of cash.	Incentivising delivery of top quartile Shareholder returns and earnings growth over the longer term.  Long-term measures and deferral of significant part of annual bonus to guard against short-term steps being taken to maximise annual rewards at the expense of future performance.
SO: Growth.	Setting challenging budgets and stretch targets, as well as non-financial measures specifically aimed at: <ul style="list-style-type: none"> <li>laying the foundations for sustainable growth in specific existing and new geographical business markets</li> <li>winning key bids and rebids</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 plans.
SO/R: Maintenance of an excellent health, safety and environmental record.	Overriding health, safety and environmental performance criterion in annual bonus plans.	

## Exit payments made in year (audited)

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

## Payments to past Directors (audited)

Details of the treatment of awards for Peter Rogers (retired 31 August 2016) and Kevin Thomas (retired 31 March 2016) were included in last year's Annual Report on Remuneration.

Peter Rogers retired from the Company on 31 August 2016. During the year under review, 26.5% and 17.0% of his retained interest in the 2014 PSP and 2014 DBMP matching awards, totalling 42,684 shares, vested at the normal time and in line with other participants on 12 June 2017. In addition to the vesting of these shares, Mr Rogers was paid a cash sum of £30,861, representing the total value of dividends accruing on his 2014 PSP and DBMP matching awards.

Kevin Thomas retired from the Company on 31 March 2016, having previously served as an Executive Director until stepping down on 31 December 2015. During the year under review, 26.5% and 17.0% of his retained interest in the 2014 PSP and 2014 DBMP matching awards, totalling 19,072 shares, vested at the normal time and in line with other participants on 12 June 2017. Mr Thomas was also paid a cash sum of £13,789, representing the total value of dividends accruing on his 2014 PSP and DBMP matching awards. In addition, Kevin Thomas acted as Chairman on two joint ventures for Cavendish Nuclear and was paid £120,000 in the year. Kevin Thomas stepped down from both joint ventures on 31 March 2018.

## Non-Executive Directors' fees (including the Chairman)

The Chairman and Non-Executive Directors receive fixed fees. These fees are reviewed against market practice. From this year the review will take place annually (by the Chairman and the Executive Directors in the case of the Non-Executive Director fees and by the Committee in respect of the fees payable to the Chairman). The Chairman and Non-Executive Director fees were reviewed and set as of 1 April 2017. Prior to this, they were last increased in April 2015.

Annual rate of fees	Year to 31 March 2019 £	Year to 31 March 2018 £	% change since last review (% p.a.)
Chairman	330,000	330,000	0%
Senior Independent Director (inclusive of basic fee)	71,000	71,000	0%
Basic Non-Executive Director's fee (UK based Directors) <sup>1</sup>	60,000	60,000	0%
Chairmanship of Audit and Risk Committee <sup>2</sup>	15,000	15,000	0%
Chairmanship of Remuneration Committee <sup>2</sup>	15,000	15,000	0%

1. Fees for non-UK based Directors will be set having regard to the extra time commitment involved in attending meetings. For Myles Lee, appointed 1 April 2015 and based in Ireland, and for Victoire de Margerie, appointed 1 February 2016 and based in France, the fee has been set at £64,200 for the year to 31 March 2019 (unchanged from that for the year to 31 March 2018).

2. Committee chairmanship fees are paid in addition to the basic applicable Non-Executive Directors' fee. No additional fees are paid for membership of Committees.

## Percentage change in Chief Executive remuneration

The table below shows the percentage change in the Chief Executive's remuneration (as disclosed in the single total figure of remuneration table on page 113) from the prior year compared to the average percentage change in remuneration for other employees.

The analysis is based on UK employees as they are operating in the same geography and macro-economic background as the Chief Executive.

	% change 2016/17 to 2017/18	
	Chief Executive <sup>1</sup>	Other employees
Base salary	7% <sup>2</sup>	2.2%
Taxable benefits	92% <sup>3</sup>	0.8%
Single-year variable	(6)%	(35)%

1. The percentage change for the Chief Executive has been determined with reference to the aggregate 2016/17 remuneration for Archie Bethel and Peter Rogers for the period they were undertaking the role of Chief Executive.

2. Increase reflects the restructuring of remuneration for 2016/17. As disclosed in last year's report, following the removal of the DBMP, Archie Bethel was appointed as Chief Executive on a salary of £750,000 pa which was higher than his predecessor's salary.

3. Increase reflects additional costs (£279,473) in 2017/18 in connection with Archie Bethel's accommodation in London, at the Company's request, to enable him to lead the business effectively. Note that Peter Rogers did not receive this benefit.

## Relative importance of spend on pay

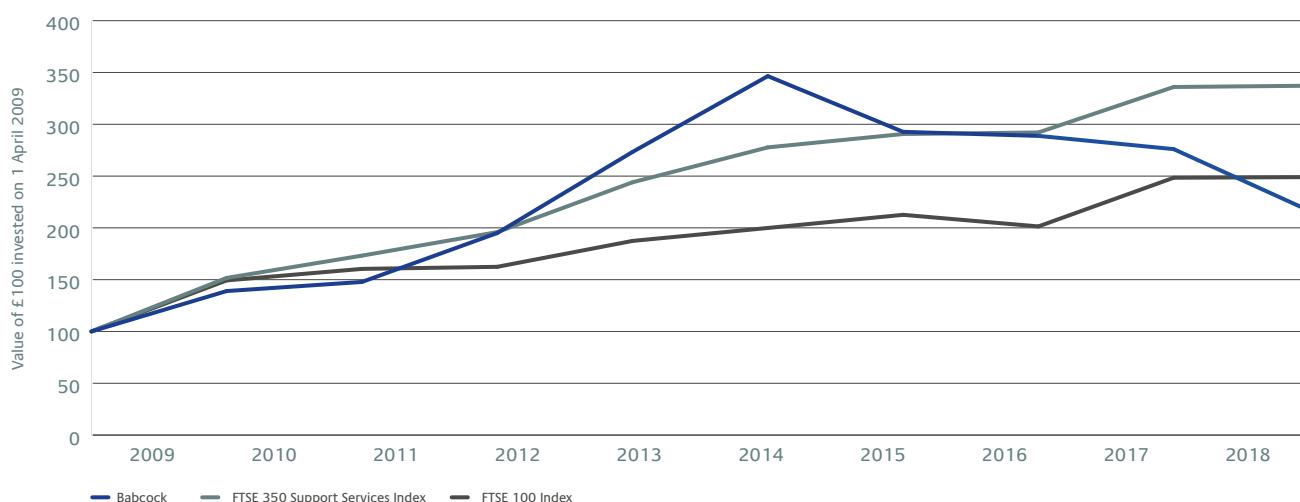
	2017/18	2016/17	% change
Distribution to Shareholders	£144m	£133m	8.3%
Employee remuneration	£1,588m	£1,547m	2.7%

## Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 100 Index and FTSE 350 Support Services Index, assuming £100 was invested on 1 April 2009 (investment in the Company was worth £217 on 31 March 2018). 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 350 Support Services Index and FTSE 100 Index



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

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Peter Rogers<sup>1</sup></b>									
Single figure (£'000)	1,706	1,792	2,185	2,731	3,809	4,448	2,491	1,091	
Bonus vesting (% max)	97%	98%	99%	99%	93%	78%	60%	66%	
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	n/a	88.4%	57.8%	17.0%	
PSP/CSOP vesting (% max)	100%	82.9%	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%	
<b>Archie Bethel<sup>2</sup></b>									
Single figure (£'000)								1,844	2,041
Bonus vesting (% max)								66%	61%
DBMP matching shares vesting (% max)								17.0%	20.0%
PSP/CSOP vesting (% max)								26.5%	23.9%

1. Until retirement on 31 August 2016.

2. Includes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.

## Directors' share ownership

### Directors' interests in shares (audited)

The interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2018 and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

Director	At 31 March 2017	At 31 March 2018							
	Shares held	Shares held				Options held			
	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>
Archie Bethel	351,333	388,191	10,955	0	374,703	54,534	300%	370	Yes
Franco Martinelli	292,210	300,219	0	3,761	246,953	41,272	200%	506	Yes
Bill Tame	551,891	571,020	0	0	264,683	41,087	200%	925	Yes
John Davies	157,359	177,246	7,366	0	256,614	38,246	200%	326	Yes
Mike Turner	75,384	84,884							
Jeff Randall	4,375	5,520							
Sir David Omand	0	0							
Ian Duncan	0	0							
Myles Lee	5,000	10,000							
Victoire de Margerie	1,000	3,000							

1. Beneficially held shares (of Director and/or spouse).

2. Current shareholdings for comparison with the shareholding requirements for Executive Directors is calculated based on salary as at 31 March 2018 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 2018 (at the closing price on that date of 668.8p) and calculated post-tax.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2018 and 22 May 2018.

### Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 29 March 2018 was 668.8p. The highest and lowest mid-market share prices in the year ended 31 March 2018 were 969.5p and 626.2p, respectively.

Director	Plan <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2017	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2018	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	PSP 2014	41,286		10,940 <sup>a</sup>	30,346	0		1,223.67	Jun 2017	Jun 2018
Bethel	DBMP 2014 (basic award)	12,705		12,705 <sup>a</sup>		0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	25,410		4,294 <sup>a</sup>	21,116	0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral award)	10,215		10,215 <sup>a</sup>		0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral matching award)	20,430		3,452 <sup>a</sup>	16,978	0		1,223.67	Jun 2017	Jun 2018
	PSP 2015	46,519				46,519		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	12,187				12,187		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	24,374				24,374		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	10,955				10,955		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	21,910				21,910		1,141.00	Jun 2018	Jun 2019
	PSP 2016	110,312				110,312		997.17	Jun 2019	Jun 2020
	DBP 2016	13,162				13,162		997.17	Jun 2019	Jun 2020
	PSP 2017		171,588			171,588		891.67	Jun 2020	Jun 2021
	DBP 2017		29,185			29,185		891.67	Jun 2020	Jun 2021

(a) Market value of each share at date of exercise (15 Jun 2017) = 886.88p.

For other notes to the table see page 129.

Director	Plan <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2017	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2018	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	PSP 2014 <sup>5</sup>	27,090		7,178 <sup>a</sup>	19,912	0		1,223.67	Jun 2017	Jun 2018
Martinelli	PSP 2014	14,196			10,435	3,761		1,015.00	Jan 2018	Jan 2019
	DBMP 2014 (basic award) <sup>5</sup>	5,966		5,966 <sup>a</sup>		0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award) <sup>5</sup>	11,932		2,016 <sup>a</sup>	9,916	0		1,223.67	Jun 2017	Jun 2018
	PSP 2015	46,519				46,519		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	10,042				10,042		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	20,084				20,084		1,141.00	Jun 2018	Jun 2019
	PSP 2016	84,238				84,238		997.17	Jun 2019	Jun 2020
	DBP 2016	12,843				12,843		997.17	Jun 2019	Jun 2020
	PSP 2017		96,112			96,112		891.67	Jun 2020	Jun 2021
	DBP 2017		18,387			18,387		891.67	Jun 2020	Jun 2021

(a) Market value of each share at date of exercise (15 Jun 2017) = 886.88p.

For other notes to the table see page 129.

Director	Plan <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2017	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2018	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	PSP 2014	39,448		10,453 <sup>a</sup>	28,995	0		1,223.67	Jun 2017	Jun 2018
Davies	DBMP 2014 (basic award)	12,139		12,139 <sup>a</sup>		0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	24,279		4,102 <sup>a</sup>	20,177	0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral award)	8,172		8,172 <sup>a</sup>		0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (voluntary deferral matching award)	16,344		2,762 <sup>a</sup>	13,582	0		1,223.67	Jun 2017	Jun 2018
	PSP 2015	44,447				44,447		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	11,785				11,785		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	23,570				23,570		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	7,366				7,366		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	14,732				14,732		1,141.00	Jun 2018	Jun 2019
	PSP 2016	81,230				81,230		997.17	Jun 2019	Jun 2020
	DBP 2016	13,571				13,571		997.17	Jun 2019	Jun 2020
	PSP 2017		92,365			92,365		891.67	Jun 2020	Jun 2021
	DBP 2017		12,890			12,890		891.67	Jun 2020	Jun 2021

(a) Market value of each share at date of exercise (15 Jun 2017) = 886.88p.

For other notes to the table see page 129.

Director	Plan <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2017	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2018	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 2014	47,479		12,581	34,898	0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic award)	17,649		17,649		0		1,223.67	Jun 2017	Jun 2018
	DBMP 2014 (basic matching award)	35,299		5,965	29,334	0		1,223.67	Jun 2017	Jun 2018
	PSP 2015	52,193				52,193		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	16,070				16,070		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	32,140				32,140		1,141.00	Jun 2018	Jun 2019
	PSP 2016	84,238				84,238		997.17	Jun 2019	Jun 2020
	DBP 2016	12,498				12,498		997.17	Jun 2019	Jun 2020
	PSP 2017		96,112			96,112		891.67	Jun 2020	Jun 2021
	DBP 2017		12,519			12,519		891.67	Jun 2020	Jun 2021

(a) Market value of each share at date of exercise (15 Jun 2017) = 886.88p.

Notes applicable to all tables on pages 127 to 129.

1. PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBMP = 2012 Deferred Bonus Matching Plan; DBP = 2012 Deferred Bonus Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 120 to 122.
2. The PSP and DBMP awards are structured as nil priced options. DBMP basic awards represent the amount of the annual bonus mandatorily deferred and DBMP voluntary deferral awards represent the amount voluntarily deferred by the Director, in each case converted into shares at their value at the award date.
3. Subject to the rules of the plan concerned, including as to meeting performance targets for PSP, CSOP and DBMP matching awards.
4. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
5. Awards shown in the table for Franco Martinelli for June 2014 were made prior to his appointment as a Director, which took effect on 1 August 2014.

#### General notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 72.30p per vested share had accrued on the PSP 2014 awards and on the DBMP 2014 awards (78.9p for Franco Martinelli's PSP award made in January 2015), 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 882.5p (9 June 2017) for PSP 2014 and DBMP 2014 awards.

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

During the year to 31 March 2018 the following awards vested:

Director	Award	Number vesting	Vesting date	Market value of vested shares on award £	Market value of vested shares on vesting date £	Exercise price payable for vested shares (if any) £
Archie Bethel	PSP 2014	10,940	12 Jun 2017	133,869	97,421	
	DBMP 2014 (basic award)	12,705	12 Jun 2017	155,467	113,138	
	DBMP 2014 (basic matching award)	4,294	12 Jun 2017	52,544	38,238	
	DBMP 2014 (voluntary deferral award)	10,215	12 Jun 2017	124,998	90,965	
	DBMP 2014 (voluntary deferral matching award)	3,452	12 Jun 2017	42,241	30,740	
Franco Martinelli	PSP 2014	7,178	12 Jun 2017	87,835	63,920	
	PSP 2014	3,761	29 Jan 2018	38,174	27,508	
	DBMP 2014 (basic award)	5,966	12 Jun 2017	73,004	53,127	
	DBMP 2014 (basic matching award)	2,016	12 Jun 2017	24,669	17,952	
John Davies	PSP 2014	10,453	12 Jun 2017	127,910	93,084	
	DBMP 2014 (basic award)	12,139	12 Jun 2017	148,541	108,098	
	DBMP 2014 (basic matching award)	4,102	12 Jun 2017	50,195	36,528	
	DBMP 2014 (voluntary deferral award)	8,172	12 Jun 2017	99,998	72,772	
	DBMP 2014 (voluntary deferral matching award)	2,762	12 Jun 2017	33,798	24,596	
Bill Tame	PSP 2014	12,581	12 Jun 2017	153,950	112,034	
	DBMP 2014 (basic award)	17,649	12 Jun 2017	215,966	157,164	
	DBMP 2014 (basic matching award)	5,965	12 Jun 2017	72,992	53,118	

### 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 2017/18

The table below details the fee received by Bill Tame during the year, in respect of his other directorship, which is retained by him.

Name of Director	Company	Fees received £000
Bill Tame	Southern Water	250

This Remuneration report was approved by the Board on 22 May 2018 and signed on its behalf by:

### Jeff Randall

Chairman of the Remuneration Committee

## Dialogue with Shareholders

The Board believes it is important to maintain open and constructive relationships with all of its Shareholders — large and small, institutional and private. The Chief Executive, the Group Finance Director and the Group Director of Investor Relations and Communications undertake a programme of meetings, conference calls and presentations to discuss the Group's strategy and financial performance with investors, brokers'

sales teams and analysts. The Company offers meetings with the Chief Executive and Group Finance Director to its top 20 Shareholders at least twice a year and, additionally, during the year the Chairman wrote to our largest Shareholders inviting them to meet with him to discuss strategy, performance and corporate governance matters. The Chairman of the Remuneration Committee was also in contact with leading Shareholders as further

explained in his annual statement on pages 98 and 99. Both the Chairman and Sir David Omand, the Senior Independent Director, are available to Shareholders should they have any concerns where contact through the normal channels is deemed inappropriate or where Shareholders believe a matter has not been adequately resolved.

## How we communicate

Results and trading updates (available as audiocasts at <a href="http://www.babcockinternational.com/investors">www.babcockinternational.com/investors</a> )	When
Full-year and half-year results: announcement and presentation	May and November 2017
Interim management statements and conference call with Group Finance Director	July 2017 and February 2018
Other presentations	When
By Group Finance Director at broker organised conferences and events	June, July and September 2017 and March 2018
Dealings with Shareholders, investors and analysts	When
Resolutions of AGM available at <a href="http://www.babcockinternational.com/investors">www.babcockinternational.com/investors</a>	
Meetings with Shareholders and potential investors	Throughout
Meetings with sell-side analysts and brokers' sales teams	Throughout
Letter from the Group Chairman to our Shareholders	December 2017
Annual General Meeting	July 2017
Roadshow in London and Edinburgh	May and November 2017

Over 94% of Babcock shares are held by institutional Shareholders. Whilst it is normal practice for institutional funds to have a greater degree of contact with the Company, all Shareholders are welcome to raise questions with the Board at the Annual General Meeting.

In addition, on a day to day basis, our investor relations team engages with Shareholders on a wide range of issues on a variety of platforms. To assist our private and international Shareholders, the investor relations team makes sure that all price-sensitive information is released in accordance with the applicable legal and regulatory requirements. All announcements and major presentations given to institutional Shareholders, along with annual reports, shareholder circulars, shareholder services information, other stock exchange releases and share price information, are made available to all Shareholders through the Babcock website ([www.babcockinternational.com/investors](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. During 2017/18, the Company once again commissioned Clare Williams Associates to undertake a market perception review to provide an independent evaluation of investor attitudes towards the Group, (which this year involved 28 buy-side institutional investors (seven US institutions, 15 UK institutions and six European institutions). The results were formally presented to the Board in September 2017.

### **Annual General Meeting**

The 2018 AGM will be held at 11:00 am on Thursday 19 July 2018 at the Grosvenor House Hotel, Park Lane, London W1K 7TN. The Company will send notice of the AGM and any related papers at least 20 working days prior to the date of the meeting in accordance with best practice standards.

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

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

## Directors' report and other disclosures

The Directors' report comprises this section, as well as the rest of the Governance section and those sections incorporated by reference below.

Disclosures required by LR 9.8.4 R and which form part of the Directors' report can be found at the locations provided in the table below:

Listing Rule	Topic	Location
9.8.4 (1)	Interest capitalised by the Group during the year	Financial statements, notes 11 and 12 on pages 171 and 172
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 22 on page 184

Other disclosure requirements set out in LR 9.8.4 R are not applicable to the Company.

Other information that is also relevant and which is incorporated by reference can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 2, pages 160 to 163
Greenhouse gas emissions	Page 67
Post balance sheet events	Note 35, page 194
Likely future developments in the business of the Group	Strategic report
Details of important events affecting the Group	Strategic report

For the purposes of DTR 4.1.5 R (2) and DTR 4.1.8 R the required content of the Management report can be found in the Strategic report and the Directors' report including the sections of the Annual Report and Accounts incorporated by reference.

## 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.

## Results and dividends

The profit attributable to the owners of the Company for the financial year was £336.3 million (2017: £311.8 million). An interim dividend of 6.85 pence per 60 pence ordinary share was declared in the year (2017: 6.50 pence). The Directors are recommending that Shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 22.65 pence (2017: 21.65 pence) on each of the ordinary shares of 60 pence to be paid on 10 August 2018 to those Shareholders on the register at the close of business on 29 June 2018.

## Major shareholdings

As at 31 March 2018, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Invesco Ltd	51,258,266	10.13%
The Capital Group Companies Inc.	50,380,653	9.96%
Standard Life Aberdeen PLC	29,409,369	5.81%
Woodford Investment Management LLP	25,474,689	5.04%

Since 31 March 2018 the Company has been notified by Deutsche Bank AG that it has an interest in 25,594,321 shares representing 5.07% in the share capital of the Company and by Standard Life Aberdeen PLC that it has an interest in 25,088,864 shares representing 4.96% in the share capital of the Company. There have been no further notifications between then and the date of this report.

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

## Employee involvement

Engagement with our employees is important to Babcock.

The Company operates a UK-approved share plan, the Babcock Employee Share Plan, which is open to all employees of participating UK Group companies. The Plan allows the Company to award free and/or matching shares to participants. The shares bought on behalf of the employee are held in a tax-approved employee trust.

The trustees of the Plan exercise voting rights attached to those shares in accordance with directions from the employees on whose behalf they are held.

The Company has also established for certain non-UK employees an International Plan which reflects the structure of the UK Plan.

Senior employees of the Group are given awards under the Company's long-term incentive plans as detailed in the Remuneration report on pages 98 to 130. Shares intended to be used for satisfying existing share awards and options are held by the trustees of the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The trustees of these Schemes have no present intention of exercising the voting rights attached to the shares held by them.

Twice a year representatives from across the UK and the other European countries in which we operate attend the Babcock International Group Employee Forum, which informs employee representatives about developments in the management of the Group. As outlined in the Report of the Remuneration Committee on page 110, the Employee Forum considers and is given the opportunity to provide feedback on a summary of the Company's Remuneration policy for Executive Directors.

Further information regarding our employees and their involvement within the business, including the Company's policy on discrimination and diversity, can be found within the Sustainability report on pages 64 and 65 and the Governance statement on page 93.

## Employment of disabled persons/ equal opportunities

Babcock is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock.

## Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

## Political donations

No donations were made during the year for political purposes.

## Authority to purchase own shares

At the Annual General Meeting in July 2017, members authorised the Company to make market purchases of up to 50,559,659 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting in July 2018 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 13 July 2017 (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 2018 by the Babcock Employee Share Trust and the Peterhouse Employee

Share Trust in connection with the Company's executive share plans are to be found in note 22 on pages 182 to 184 and details of purchases of the Company's shares by Link Market Services Trustee Limited in connection with matching share awards under the Babcock Employee Share Plan can be found in note 23 on page 185.

## Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purpose of the Companies Act 2006 in respect of their Directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

There are also qualifying third-party indemnity provisions entered into between the Company and Archie Bethel and Kevin Thomas in their capacity as Directors of International Nuclear Solutions PLC (a former subsidiary of the Company) which were in force at the date of approval of this report.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

## Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which can often be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be significant.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

### Group Borrowing facilities

The Company extended the maturity date of its five-year £750,000,000 Revolving Credit Facility by a further year, from December 2019 to December 2020.

The facility provides funds for general corporate and working capital purposes. In the event of a change of control of the Company, the facility agreement provides that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the credit facility.

In February 2018, the Company entered into a two and half year £100,000,000 credit facility with Lloyds Bank PLC. The Company may use the facility for general corporate and working capital purposes. On a change of control of the Company, Lloyds Bank PLC may, within a certain period, call for payment of any outstanding amount and cancel the facility.

### Multi-Currency Loan Note facility

The Company has in issue £40 million 5.405% Series B Shelf Notes due 21 January 2020 (the Notes), a facility which is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. Unless previously redeemed or purchased and cancelled, the Company will redeem the Notes on 21 January 2020 at their principal amount. In the event of a change of control of the Company before then, the Company must offer to repay the Notes together with a make-whole premium.

### US Dollar Loan Notes

The Company has in issue US\$500 million aggregate principal amount of 5.64% Series B Senior Notes due 17 March 2021. The notes are unsecured and unsubordinated and rank pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. In the event of a change of control of the Company before then, the Company must offer to purchase the Notes.

### £1,800,000,000 Euro Medium-Term Note Programme

The Company has in place a Euro Medium-Term Note Programme under which the Company could issue notes up to £1,800,000,000. Under the Note Programme, the Company has in issue €550,000,000 1.75% Notes due in 2022 as well as £300,000,000 1.875% Notes due in 2026.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment-grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

### Share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

### Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 108 and 109.

### Marine

#### Articles of Association of Devonport Royal Dockyard Limited and Rosyth Royal Dockyard Limited

The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so. Any level of ownership by particular foreign or domestic persons may, on the facts of the case, be so treated.

Under its Articles of Association RRDL is not entitled to redeem the special share.

#### Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Babcock Marine (Rosyth) Limited

The ToBA confirms Babcock as a key support partner of MOD in the maritime sector and covers the 15-year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a change in control of the Company in circumstances where, acting on the grounds of

national security, the MOD considers that it is inappropriate for the new owners of the Company to become involved, or interested, in the Marine division. 'Change in control' occurs where a person or group of persons that controls the Company ceases to do so or if another person or group of persons acquires control of the Company.

#### Maritime Support Delivery Framework Agreement dated 1 October 2014 between (1) The Secretary of State for Defence (2) Devonport Royal Dockyard Limited (3) Babcock Marine (Clyde) Limited and (4) Babcock Marine (Rosyth) Limited

In October 2014, Babcock signed the Maritime Support Delivery Framework (MSDF) with MOD. Working within the ToBA, which runs through to 2025, MSDF confirms the continuation of Babcock's contract to deliver services at HMNB Clyde and HMNB Devonport to March 2020, replacing Babcock's Warship Support Modernisation Initiative (WSMI) contracts. The MSDF agreement also covers a number of surface ship projects which will be delivered through the Surface Ship Support Alliance. MOD can terminate the MSDF in the event of a change in control of the Company. The provisions follow those in ToBA in this respect.

### Cavendish Nuclear

#### Parent Body Agreement between Cavendish Fluor Partnership (CFP) and the Nuclear Decommissioning Authority (NDA) dated 27 August 2014

CFP, a joint venture between Cavendish Nuclear, part of Babcock International, and US-based Fluor Corporation, with ownership split 65:35 to Cavendish and Fluor respectively, is the parent body organisation (PBO) for the site licence company Magnox Limited.

Magnox Limited is responsible for 10 Magnox nuclear power plants, as well as the Harwell and Winfrith research centres. The sites are all owned by the Nuclear Decommissioning Authority (NDA). The NDA has appointed CFP as the PBO in respect of the management of the 12 UK nuclear sites and their respective decommissioning programmes. Under the terms of appointment the

NDA may terminate CFP's appointment if there is a change of control to which it has not consented.

## Aviation

### MCS Operator's Licences

Certain of the operating subsidiaries of Babcock Mission Critical Services Limited engaged in the provision of the air services described on pages 48 to 53 of this report are required to hold operating licences in order to operate their principal business. Under Regulation (EC) No. 1008/2008 (the Regulation), a holder of an operating licence is required to be majority-owned and majority-controlled by European Economic Area (EEA) nationals, which includes for these purposes nationals of member states of the European Union, Norway and Switzerland. If the relevant operators cease to be owned and effectively controlled by EEA nationals, this could lead to aviation regulators refusing, withholding, suspending or revoking the relevant operating licence which in turn could have a material adverse effect on the business, financial condition and/or operations of the Group. The Board believes that these companies currently satisfy the relevant nationality requirements of the Regulation. However, as compliance with the Regulation is an ongoing requirement, the risk of this ceasing to be so cannot be ruled out.

See also Nationality-related restrictions on share ownership below.

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

### General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from Shareholders at each year's Annual General Meeting to allot shares

(including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider

trading laws) or by the nationality-related restrictions, more particularly described later on this page.

The Company is not aware of any agreements between Shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange.

### Nationality-related restrictions on share ownership

As noted above under MCS Operator's Licences certain Group companies must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other things, requires those companies to be majority-owned and majority-controlled by EEA nationals.

At the Company's Annual General Meeting in July 2014, Shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at [www.babcockinternational.com](http://www.babcockinternational.com). In the event of any conflict between the Articles and this summary, the Articles shall prevail.

### Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

### Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove, from the separate register, particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

### Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a Shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such Shareholder to attend or speak (whether by proxy or in 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 in person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings and the rights attaching to such shares will vest in the Chairman of the relevant meeting (who may exercise, or refrain from exercising, such rights at his sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held on trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

### Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then to treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

### Right to refuse registration

The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that currently the nationality requirements, set out in the Regulation, are met and, based on the Company's understanding of the application of the Regulation and of its Shareholder base, more than 70% of the share capital of those companies which are required to be majority-EEA-owned and controlled is owned by EEA nationals or funds managed in the EEA. There can

however, be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above.

## Directors' duty to avoid conflicts of interest

The Company has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' conflicts of interest and potential conflicts of interest in accordance with the provisions of the Companies Act 2006.

The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any actual or potential conflict of interest with their duties to the Company or of any material change in existing actual or potential conflicts that may have been authorised by the Board. Notified actual or potential conflicts will be reviewed by the Board as soon as possible. The Board will consider whether a conflict or potential conflict does, in fact, exist and, if so, whether it is in the interest of the Company that it be authorised and, if so, on what terms. In making their judgement on this, the other Directors must have regard to their general duties to the Company. A register is maintained for the Board of all such disclosures and the terms of any such authorisation.

Authorisations may be revoked, or the terms on which they were given varied, at any time. Cleared conflicts will in any event be reviewed annually by the Board. In the event of any actual conflict arising in respect of any matter, mitigating action would also be considered (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him or her of relevant papers).

## Internal controls and risk management

There has been a process for identifying, evaluating and managing principal risks throughout the year to 31 March 2018 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review, and data for consolidation into the Group's financial statements is reviewed by management to ensure that it reflects a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Group Financial Controller is asked to report on the effectiveness of the Group's internal controls and the Audit and Risk Committee reviews this report in light of all the other information supplied to it during the course of the year including internal audit reports, risk reports and monthly financial and operational reports. The Board considers the system to be effective and in accordance with Guidance for Risk Management, Internal Control, and Related Financial and Business reporting. Further information on the principal internal controls in use in the Company is to be found on pages 68 to 70.

## Going concern statement

The going concern assessment considers whether it is appropriate to prepare the financial statements on a going concern basis.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. The Directors have reasonable expectations that the Company and the Group are well placed to manage business

risks and to continue in operational existence for the foreseeable future (which accounting standards require to be at least a year from the date of this report) and have not identified any material uncertainties to the Company's and the Group's ability to do so.

For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

## Auditor and disclosure of relevant audit information

So far as the Directors who are in office at the time of the approval of this report are aware, there is no relevant audit information (namely, information needed by the Company's auditor in connection with the preparation of its auditor's report) of which the auditor is unaware. Each such Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

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.

## Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Company financial statements in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable

law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Group's financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' report, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Each of the Directors listed below (being the Board of Directors at the date of this Annual Report and these financial statements) confirms that to the best of his or her knowledge:

- the Group financial statements (set out on pages 150 to 199) which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and the Strategic report and Directors' report contained on pages 1 to 139 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In addition, each of the Directors listed below considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Mike Turner	Chairman
Archie Bethel	Chief Executive
Franco Martinelli	Group Finance Director
John Davies	Chief Executive, Land
Sir David Omand	Non-Executive Director
Ian Duncan	Non-Executive Director
Jeff Randall	Non-Executive Director
Myles Lee	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
Lucy Dimes	Non-Executive Director

## Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 1 to 139) for the year ending 31 March 2018 have been approved by the Board and signed on its behalf by:

### Mike Turner CBE

Chairman

22 May 2018

## Financials: Overview

### Group financial statements

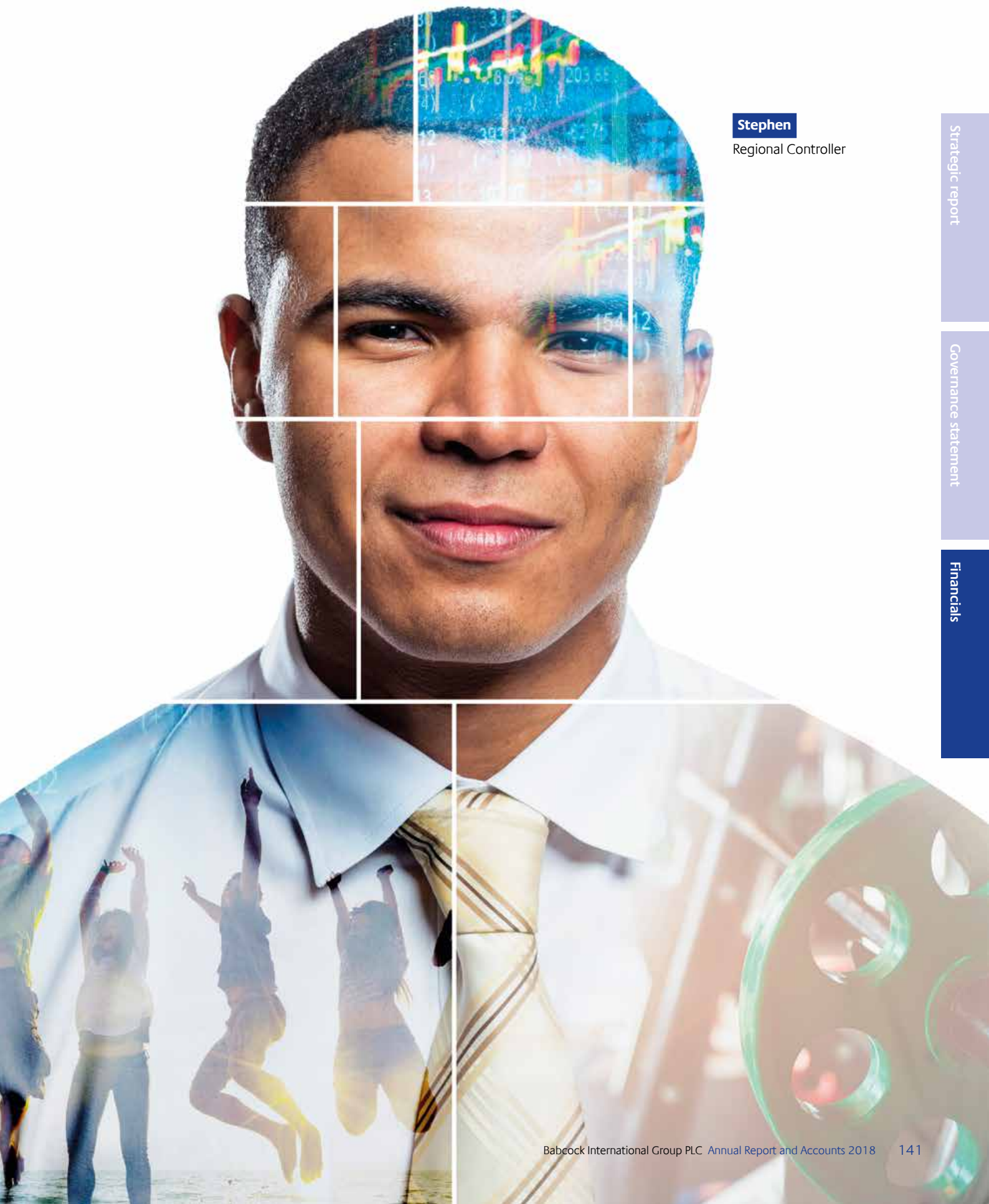
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“One moment I could be working on a rail contract, the next an aircraft or a tank. Applying the correct accounting to the company’s complex operations is truly fascinating.”





**Stephen**

Regional Controller

## Report on the audit of the financial statements

### Opinion

In our opinion:

- Babcock International Group PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2018 and of the Group's profit and cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company statements of financial position as at 31 March 2018; the Group income statement and statement of comprehensive income, the Group statement of cash flows, and the Group and Company statements of changes in equity for the year then ended; and the notes to the Group and Company financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 4 of the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 April 2017 to 31 March 2018.

### Our audit approach

#### Overview

#### Materiality

- Overall Group materiality: £26 million (2017: £24 million), based on 5% of profit before tax adjusted for amortisation of acquired intangible assets.
- Overall Company materiality: £20 million (2017: £20 million), based on 1% of total assets.

#### Audit scope

- We conducted our audit work over the complete financial information for 23 reporting components, located in five countries, including one financially significant component, Devonport.
- In addition, we performed the audit of specific balances and transactions at one further reporting component and for the Group's share of the results of six joint ventures, selected based on their relative contribution to Group results.
- Where the reporting components were located outside the UK, we worked together with our network firms located in the relevant territory to make sure we had sufficient evidence upon which to base our audit opinion.
- Taken together, the reporting components and functions where we performed our audit work accounted for 79% of Group revenue, 69% of the Group's share of results of joint ventures and associates, and 81% of Group profit before tax adjusted for amortisation of acquired intangibles.

#### Key audit matters

- Contract accounting and revenue/profit recognition (Group).
- Valuation of defined benefit pension liabilities (Group).
- Goodwill impairment (Group).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed 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 our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at the Group and component level to respond to these risks, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to industry regulations, anti-bribery laws and financial reporting regulations. Our procedures included, but were not limited to: Understanding management's approach to ensuring compliance with laws and regulations; enquiries with local, sector and Group management teams; meetings with Group and local legal counsel to discuss legal matters; and focussing our testing of balances and transactions (in addition to those listed as key audit matters below) that are subject to estimation and judgement. There are inherent limitations in the audit procedures described above, and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

## Key audit matter

### Contract accounting and revenue/profit recognition (Group)

Refer to note 1 to the Group financial statements, and to the Report of the Audit and Risk Committee on page 94.

The Group's business involves entering into contractual relationships with customers to provide a range of services with a significant proportion of the Group's revenues and profits derived from long term contracts.

Due to the contracting nature of the business, revenue recognition involves a significant degree of judgement and estimates including to:

- Estimate total contract costs;
- Estimate the stage of completion of the contract;
- Forecast the profit margin, after consideration of additional revenue relating to cost and time completion incentive targets; and
- Appropriately provide for loss making contracts.

*There is a broad range of acceptable outcomes resulting from these estimates and judgements that could lead to different revenue and profit being reported in the financial statements.*

## How our audit addressed the key audit matter

We read the relevant clauses within new and amended key contracts and discussed each with management to obtain a full understanding of the specific terms and risks, which informed our consideration as to whether revenue and profit for these contracts was appropriately recognised.

We evaluated the design, implementation and operation of controls designed to address the accuracy and timing of revenue recognised in the financial statements, including:

- Contract reviews, which are performed by management, reviewed and signed off at both a Group and sector level, and include the estimation of total costs, stage of completion, profit margin and evaluating profitability; and
- Transactional controls that underpin the production of underlying contract related cost balances, including the purchase to pay and payroll cycles.

We found the controls to be satisfactory for the purposes of our audit.

For a sample of contracts, based on quantitative and qualitative factors including size and risk, we:

- Attended management's contract review meetings and, through discussions with the contract project teams, we obtained an understanding of the performance and status of the contracts;
- Evaluated management's positions through the examination of externally generated evidence, such as customer correspondence (including the validation of any incentives), acceptance certificates and/or milestone agreements;
- Performed work on management's models, testing the mathematical accuracy and agreeing amounts recognised in the financial statements, including the consideration of the valuation and recoverability of balances;
- 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;
- Evaluated any correspondence in respect of customer disputes, including discussion with legal counsel; and
- Compared management's position on the recognition of any cost and time completion incentive target amounts to the actual costs incurred and current progress of the contract.

Our testing did not identify any factors that management had not taken into account in their estimates of the total contract costs, stage of completion and expected profit margin of each contract (including the expected losses on loss making contracts). We consider the contract positions taken by management to be reasonable.

## Key audit matter

### Goodwill impairment

Refer to note 10 to the Group financial statements and to the Report of the Audit and Risk Committee on page 94.

The Group has goodwill of £2,601m (2017: £2,608m), principally related to the acquisitions of the VT Group in 2010 and Avincis in 2015, which is subject to an annual impairment review. No impairment charge has been recorded against these balances in the current financial year.

The impairment assessments used to support the carrying value of goodwill cash generating units ('CGUs') involves the application of subjective judgement about future business performance. We considered certain assumptions made by management in the value in use calculations supporting the impairment assessments to be key areas of judgement, including the forecast cash flows, the short and longer term growth rates and the discount rates applied.

*Changes to the key assumptions used by management could result in the calculated value in use being lower than the carrying value of the CGU.*

## How our audit addressed the area of focus

We evaluated management's cash flow forecasts, and the process by which they were determined and approved. This included confirming that the forecasts were consistent with the latest Board approved budgets and the mathematical accuracy of the underlying calculations, with no exceptions identified.

We also considered the accuracy of previous forecasts made by management. We evaluated the inputs included in the value in use calculations, and challenged the key assumptions, by obtaining evidence including in respect to:

- The growth rates used in the cash flow forecasts, by comparing them to historical results and economic forecasts; and
- The key market-related assumptions, including discount rates and long term growth rates, by benchmarking these against external data, using our valuation expertise.

We performed sensitivity analyses on the key driver of the cash flow forecasts, being the operating profit, and market-related assumptions.

Our work found that management's assessment that there were no material impairments, to be reasonable.

We assessed the related disclosures in note 10 of the Group financial statements, and consider them to be appropriate.

## Key audit matter

### Valuation of defined benefit pension liabilities (Group)

Refer to note 24 to the Group financial statements, and to the Report of the Audit and Risk Committee on page 94.

The Group operates a number of defined benefit pension plans, giving rise to net and gross pension liabilities of £5m (2017: £105m) and £4,740m (2017: £4,781m) respectively, which are significant in the context of the overall balance sheet of the Group.

The valuation of pension liabilities requires judgement and technical expertise in choosing appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels. Management engaged external actuarial specialists to assist them in selecting appropriate assumptions and to calculate the liabilities.

*Inappropriate selection of assumptions or methodologies for calculating the pension liabilities could result in a material difference in the value of the liabilities.*

## How our audit addressed the area of focus

We used our actuarial specialists to assess whether the assumptions used in calculating the pension liabilities were reasonable, by performing the following:

- Assessing whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with relevant national and industry benchmarks;
- Verifying that the discount and inflation rate assumptions were consistent with our internally developed benchmarks, based on national data and other companies' recent external reporting; and
- Reviewing the calculations prepared by external actuaries to assess the consistency of the assumptions used.

Based on our procedures, we noted no exceptions and considered management's key assumptions to be within acceptable ranges.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

## 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 structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is primarily structured and managed across four sectors: Marine, Land, Aviation and Cavendish Nuclear. The Group financial statements are a consolidation of multiple reporting components, including both operating businesses and central functions.

The Group's reporting components vary significantly in size and we identified 23 components that, in our view, required an audit of their complete financial information due to their size and/or risk. This included one component, Devonport, whose results were individually financially significant to the Group. Specific risk-based audit procedures were performed at one further reporting component and over the Group's share of the results of six joint ventures. In scope reporting components, including joint ventures, were based in five countries: the UK, Spain, Italy, Canada and South Africa.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle.

The Group engagement leader and senior members of the Group team undertook visits to four components in the UK, Italy and Spain during the audit, including the Group's only financially significant component, Devonport. Senior team members also attended the Devonport and the four sector clearance meetings in person. During both the site visits and the clearance meetings, the findings reported by all component teams were discussed. The Group team also evaluated the sufficiency of the audit evidence obtained through discussions with, and review of the work performed by, component teams.

This, together with additional procedures performed at the Group level (including audit procedures over material head office entities, pensions, impairment assessments, financial statement disclosures, tax, treasury, share based payments and consolidation adjustments), gave us the evidence we needed for our opinion on the financial statements as a whole. Taken together, the reporting components and functions where we performed our audit work accounted for 79% of Group revenue, 69% of the Group's share of results of joint ventures and associates, and 81% of Group profit before tax adjusted for amortisation of acquired intangibles.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statement	Company financial statements
<b>Overall Group materiality</b>	£26 million (2017: £24 million).	£20 million (2017: £20 million)
<b>How we determined it</b>	5% of profit before tax, adjusted for amortisation of acquired intangibles assets.	1% of total assets
<b>Rationale for benchmark applied</b>	Given the contractual nature of the business, and consistent with last year, we adjusted for amortisation of acquired intangibles assets as this better reflects the underlying performance and nature of the Group's operations.	We consider a total asset measure to reflect the nature of the Company, which primarily acts as a holding company for the Group's investments.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.6m to £20m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (Group audit) (2017: £1.2 million) and £1.0 million (Company audit) (2017: £1.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Going Concern

In accordance with ISAs (UK) we report as follows:

### Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

### Outcome

We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

We have nothing to report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 79 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 79 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

## Reporting on other information (continued)

### Other Code provisions

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We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 139, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 94 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' remuneration

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In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 138, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

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.

## Other required reporting

### Companies Act 2006 exception reporting

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
- Certain disclosures of Directors' remuneration specified by law are not made; or
- The Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were originally appointed by the members to audit the financial statements for the year ended 31 March 2003 and subsequent financial periods. Following an audit tender, we were reappointed by the members on 25 May 2016 for the year ended 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement is 16 years, covering the years ended 31 March 2003 to 31 March 2018.

### Nicholas Campbell-Lambert (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

22 May 2018

## Group income statement

	Note	2018		2017	
		£m	Total £m	£m	Total £m
For the year ended 31 March 2018					
<b>Revenue<sup>1</sup></b>	3		4,659.6		4,547.1
Cost of revenue			(3,971.7)		(3,883.0)
<b>Gross profit</b>			687.9		664.1
Distribution expenses			(12.8)		(13.0)
Administration expenses			(304.5)		(291.5)
<b>Operating profit before share of results of joint ventures and associates</b>	3, 4		370.6		359.6
Share of results of joint ventures and associates	3		68.5		56.7
<b>Group and joint ventures and associates</b>					
Operating profit before amortisation of acquired intangibles		554.6		545.1	
Investment income		30.0		29.7	
Underlying operating profit <sup>2</sup>		584.6		574.8	
Amortisation of acquired intangibles		(103.9)		(118.5)	
Group investment income		(1.9)		(1.2)	
Joint ventures and associates finance costs		(22.2)		(24.6)	
Joint ventures and associates income tax expense		(17.5)		(14.2)	
<b>Operating profit</b>			439.1		416.3
<b>Finance costs</b>					
Investment income	3	1.9		1.2	
Retirement benefit interest	24	(2.3)		(6.4)	
Finance costs	5	(61.9)		(60.4)	
Finance income	5	14.3		11.4	
			(48.0)		(54.2)
<b>Profit before tax</b>			391.1		362.1
Income tax expense	7		(53.4)		(46.5)
<b>Profit for the year</b>			337.7		315.6
<b>Attributable to:</b>					
Owners of the parent			336.3		311.8
Non-controlling interest			1.4		3.8
			337.7		315.6
<b>Earnings per share</b>	9				
Basic			66.6p		61.8p
Diluted			66.5p		61.7p

1 Revenue does not include the Group's share of revenue from joint ventures and associates of £703.2 million (2017: £669.5 million).

2 Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

## Group statement of comprehensive income

For the year ended 31 March 2018	Note	2018 £m	2017 £m
Profit for the year		337.7	315.6
<b>Other comprehensive income</b>			
<b>Items that may be subsequently reclassified to income statement</b>			
Currency translation differences		(25.9)	88.8
Fair value adjustment of interest rate and foreign exchange hedges		(6.1)	4.3
Tax on fair value adjustment of interest rate and foreign exchange hedges		1.2	(0.9)
Fair value adjustment of joint ventures and associates derivatives	13	24.3	2.6
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	13	(7.4)	(0.5)
<b>Items that will not be reclassified to income statement</b>			
Remeasurement of retirement benefit obligations	24	49.7	66.8
Tax on remeasurement of retirement benefit obligations		(10.3)	(13.3)
Impact of change in UK tax rates		1.9	1.1
<b>Other comprehensive income, net of tax</b>		27.4	148.9
<b>Total comprehensive income</b>		365.1	464.5
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		363.6	458.0
Non-controlling interest		1.5	6.5
<b>Total comprehensive income</b>		365.1	464.5

## Group statement of changes in equity

For the year ended 31 March 2018	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
<b>At 31 March 2016</b>	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3
Total comprehensive income	–	–	–	–	366.3	5.5	86.2	458.0	6.5	464.5
Shares issued in the year	0.9	–	–	–	–	–	–	0.9	–	0.9
Dividends	–	–	–	–	(132.5)	–	–	(132.5)	(1.3)	(133.8)
Share-based payments	–	–	–	–	15.0	–	–	15.0	–	15.0
Tax on share-based payments	–	–	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Transactions with non-controlling interests	–	–	–	–	(1.5)	–	–	(1.5)	(0.6)	(2.1)
Own shares and other	–	–	–	–	(7.8)	–	–	(7.8)	–	(7.8)
Net movement in equity	0.9	–	–	–	238.7	5.5	86.2	331.3	4.6	335.9
<b>At 31 March 2017</b>	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
<b>At 1 April 2017</b>										
Total comprehensive income	–	–	–	–	377.5	12.0	(25.9)	363.6	1.5	365.1
Dividends	–	–	–	–	(143.9)	–	–	(143.9)	(3.8)	(147.7)
Share-based payments	–	–	–	–	6.4	–	–	6.4	–	6.4
Tax on share-based payments	–	–	–	–	1.9	–	–	1.9	–	1.9
Transactions with non-controlling interests	–	–	–	–	(0.7)	–	–	(0.7)	(2.0)	(2.7)
Own shares and other	–	–	–	–	(4.2)	–	–	(4.2)	–	(4.2)
Net movement in equity	–	–	–	–	237.0	12.0	(25.9)	223.1	(4.3)	218.8
<b>At 31 March 2018</b>	303.4	873.0	768.8	30.6	994.9	(74.5)	(3.3)	2,892.9	18.1	2,911.0

## Group balance sheet

As at 31 March 2018	Note	2018 £m	2017 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	10	2,600.9	2,608.8
Other intangible assets	11	529.3	608.0
Property, plant and equipment	12	1,028.4	1,036.9
Investment in joint ventures and associates	13	119.3	71.9
Loan to joint ventures and associates	13	27.8	32.3
Retirement benefits	24	240.1	193.5
Trade and other receivables	16	6.7	29.4
IFRIC 12 financial assets		17.8	20.0
Other financial assets	20	76.0	152.6
Deferred tax asset	14	104.0	113.1
		4,750.3	4,866.5
<b>Current assets</b>			
Inventories	15	181.4	159.2
Trade and other receivables	16	1,060.1	885.4
Income tax recoverable		15.4	16.5
Other financial assets	20	27.5	11.9
Cash and cash equivalents	17	286.3	191.4
		1,570.7	1,264.4
<b>Total assets</b>		<b>6,321.0</b>	<b>6,130.9</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	22	303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		721.6	735.5
Retained earnings		994.9	757.9
		2,892.9	2,669.8
Non-controlling interest		18.1	22.4
<b>Total equity</b>		<b>2,911.0</b>	<b>2,692.2</b>
<b>Non-current liabilities</b>			
Bank and other borrowings	19	1,485.2	1,398.1
Trade and other payables	18	2.3	3.7
Deferred tax liabilities	14	112.8	134.6
Other financial liabilities	20	5.0	9.7
Retirement liabilities	24	245.1	298.0
Provisions for other liabilities	21	61.1	90.3
		1,911.5	1,934.4
<b>Current liabilities</b>			
Bank and other borrowings	19	38.1	154.3
Trade and other payables	18	1,392.1	1,297.6
Income tax payable		21.7	11.1
Other financial liabilities	20	11.9	4.3
Provisions for other liabilities	21	34.7	37.0
		1,498.5	1,504.3
<b>Total liabilities</b>		<b>3,410.0</b>	<b>3,438.7</b>
<b>Total equity and liabilities</b>		<b>6,321.0</b>	<b>6,130.9</b>

The notes on pages 154 to 199 are an integral part of the consolidated financial statements. The Group financial statements on pages 150 to 199 were approved by the Board of Directors on 22 May 2018 and are signed on its behalf by:

**A Bethel**  
Director

**F Martinelli**  
Director

## Group cash flow statement

For the year ended 31 March 2018	Note	2018 £m	2017 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	447.9	504.0
Income tax paid		(74.3)	(61.5)
Interest paid		(67.9)	(63.0)
Interest received		14.3	11.4
<b>Net cash flows from operating activities</b>		<b>320.0</b>	<b>390.9</b>
<b>Cash flows from investing activities</b>			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	29	(0.2)	(0.6)
Dividends received from joint ventures and associates		42.9	26.7
Proceeds on disposal of property, plant and equipment		70.0	71.9
Purchases of property, plant and equipment		(150.4)	(175.9)
Purchases of intangible assets		(32.3)	(30.9)
Investment in, loan movements and interest received from joint ventures and associates		(1.5)	2.4
Acquisition of subsidiaries net of cash acquired	28	–	(24.7)
<b>Net cash flows from investing activities</b>		<b>(71.5)</b>	<b>(131.1)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	8	(143.9)	(132.5)
Finance lease principal payments		(27.5)	(26.4)
Finance lease assets repaid		9.6	5.2
Bank loans repaid		(88.4)	(334.7)
Loans raised		121.9	250.0
Dividends paid to non-controlling interest		(3.8)	(1.3)
Net proceeds on issue of shares		–	0.9
Transactions with non-controlling interest		(5.3)	(2.1)
Movement on own shares		(4.2)	(7.8)
<b>Net cash flows from financing activities</b>		<b>(141.6)</b>	<b>(248.7)</b>
<b>Net increase in cash, cash equivalents and bank overdrafts</b>		<b>106.9</b>	<b>11.1</b>
<b>Cash, cash equivalents and bank overdrafts at beginning of year</b>		<b>185.6</b>	<b>168.8</b>
Effects of exchange rate fluctuations		(6.2)	5.7
<b>Cash, cash equivalents and bank overdrafts at end of year</b>	27	<b>286.3</b>	<b>185.6</b>

## 1. Basis of preparation and significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee 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 the 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 ventures and associates are eliminated to the extent of the Group's interest in the joint venture and associate. The Group's share of joint venture revenue is disclosed after elimination of sales to that joint venture. Loans to joint ventures are valued at amortised cost.

### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### (a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable. As can be seen from note 3, this represents approximately 10% of the business.

#### (b) Provision of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually, the revenue and costs are similarly recognised over the course of the year.

#### (c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs, labour hours incurred or earned value of work performed.

## 1. Basis of preparation and significant accounting policies (continued)

### Revenue (continued)

#### (c) Long-term service contracts (continued)

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Certain contracts will have pain/gain share arrangements whereby target cost under/over spends are shared with the customer. These sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

### Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the consolidated income statement. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties and businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

### Transactions with non-controlling interest

The Group policy is to treat transactions with non-controlling interest as transactions with owners of the parent which are therefore reflected in movements in reserves.

### Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision is made where operating leases are deemed to be onerous.

A provision for deferred consideration on acquisitions is recognised at the fair value at acquisition. Fair value is based on an assessment of the likelihood of payment.

A provision for employee benefits is recognised when there is a probable outflow of economic benefits that can be reliably estimated.

### Goodwill and intangible assets

#### (a) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

Goodwill relating to acquisitions prior to 1 April 2004 is maintained at its net book value on the date of transition to IFRS. From that date goodwill is not amortised but is reviewed at least annually for impairment.

Annual impairment reviews are performed as outlined in note 10.

#### (b) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

## 1. Basis of preparation and significant accounting policies (continued)

### Goodwill and intangible assets (continued)

#### (b) Acquired intangibles (continued)

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years.

Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis up to five years.

#### (c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

#### d) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful life of between three and five years.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective phase.

### Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%
Aircraft components	14% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

### Net debt

Net debt consists of the total of loans, bank overdrafts, cash and cash equivalents, joint venture and associate loans and finance leases granted or received plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency and interest rate basis of the company carrying the debt and fair value hedges.

### Leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

As a lessor, the Group recognises assets held under a finance lease in the balance sheet as a financial asset. The lease payment receivable is treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

## 1. Basis of preparation and significant accounting policies (continued)

### Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

### Contract accounting balances

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

### Taxation

#### (a) Current income tax

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

### Foreign currencies

#### (a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of the net investment of a foreign operation.

Exchange differences arising from the translation of the balance sheets and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign subsidiary undertakings are translated using the average exchange rate for the month of the applicable results. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

## 1. Basis of preparation and significant accounting policies (continued)

### Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

### Employee benefits

#### (a) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Group's pension schemes are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the Group's balance sheet reflects the IAS 19 measurement of the schemes' surpluses or deficits at the balance sheet date.

#### (b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's ESOP trusts are recognised as a deduction to equity.

#### (c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

### Discontinued and held for sale

A significant business stream sold in a prior year or during the year or being actively marketed with an expectation of being sold within a year will be treated as discontinued within the income statement. The prior year comparatives will be restated. If such a business has not been sold at year end the relevant assets and liabilities will be shown as held for sale within the balance sheet.

In addition businesses bought as part of a larger acquisition but identified for sale on purchase will be treated as discontinued.

### Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (eg where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Group designates certain derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

## 1. Basis of preparation and significant accounting policies (continued)

### Derivative financial instruments (continued)

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

### Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

### Critical accounting estimates and judgements

Estimates 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 for the Group are contract accounting and revenue recognition (see above), the accounting for defined benefit pension schemes (see note 24) and impairment of goodwill (see note 10).

Fair value adjustments on acquisitions are by nature subject to critical estimates.

Profit and revenue recognition on contracts is a key estimate on a contract-by-contract basis. In order to make an estimate of contract outturn judgement is exercised by management for all significant contracts. Contract accounting and revenue recognition also includes key judgements made by management. Local management, sector level management and Group review and challenge estimates and judgements made.

### Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods but which the Group has not early adopted.

#### (a) Standards, amendments and interpretations that are not yet effective and the impact on the Group's operations is currently being assessed but is not expected to be significant:

- IFRS 2, 'Share based payments', effective 1 January 2018;
- IFRS 9, 'Financial Instruments', effective from 1 January 2018 and endorsed by the EU. The Group has reviewed the differences between IFRS 9 and the current accounting policies under IAS 39. IFRS 9 introduces new classification and measurement models for financial assets and methodology for impairment of financial assets, but this will not have a material effect on the measurement basis of the Group's financial assets. The Group will amend its methodology for impairment of trade receivables and contract assets; however the net impact of applying these changes to the impairment model will be immaterial particularly given the high proportion of government customers.
- IFRS 15, 'Revenue from contracts with customers', effective from 1 January 2018 and endorsed by the EU, identifies performance obligations in contracts with customers, allocates the transaction price to the performance obligations and recognises revenue as the performance obligations are satisfied. We have completed a detailed review of all significant contracts and the results of our review indicate that IFRS 15 is not expected to result in any change to the timing of revenue or profit recognition on service provision contracts or long-term service contracts. This assessment reflects, amongst other matters, that the Group's contracting arrangements meet the requirements set out in IFRS 15 to satisfy performance obligations and recognise revenue over time. The review also indicated that the new standard will not introduce any change to the Group's revenue recognition policy in relation to revenue from the sale of goods not under service provision contracts or long-term service contracts. The standard does however increase disclosure requirements for both the annual report and interim financial statements.
- 2016 Annual improvements, effective 1 January 2018.

#### (b) Standards, amendments and interpretations that are not yet effective and the impact on the Group's operations is currently being assessed:

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Currently, operating leases are not recognised on the balance sheet and the impact of this standard will be to recognise a lease liability and right of use asset on the Group's balance sheet in relation to most leases currently classified as operating leases. The change will result in an improvement in operating profit, with the depreciation of the right of use asset being less than the current operating lease charge. This will however be offset by an increase in interest charge with the net position dependent on the average lease maturity on adoption. The Group is still assessing the exemptions to be applied, including transition options, and the impact on systems and processes.
- 2017 Annual improvements, effective 1 January 2019.

## 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.

<b>Objective on available financial capital</b>	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.			
<b>Policy</b>	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 circa two times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above two times, as illustrated by previous acquisitions, but only to the extent that the Group can see a clear path to reducing net debt to EBITDA back to circa two times or below within a reasonable time frame.			
<b>Performance</b>	The Group's gearing and debt cover ratios, used by the Group to evaluate capital, saw an improvement to 1.6 times net debt to EBITDA in 2018 (2017: 1.8 times), demonstrating further progress in reducing gearing, both through the pay down of debt and increasing profits attributable to shareholders.			
		Covenant	2018	2017
Debt service cover	EBITDA/net interest	>4	13.0	12.0
Debt cover	Net debt/EBITDA	<3.5	1.6x	1.8x
Gearing	Net debt/shareholders' funds	n/a	38%	42%
Debt ratios are below covenanted levels and gearing has continued to reduce, leaving sufficient headroom for bolt-on acquisitions and funding of organic growth. The Group believes that capital markets remain accessible, if or when required.				

### Financial risk management

Financial instruments, in particular forward currency contracts and interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities.

The Group looks in the first instance to prime rated counterparties with which to carry out treasury transactions, including investments of cash and cash equivalents.

The Group's customers are mainly from government, government backed institutions or blue chip corporations and as such credit risk is considered small.

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

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

## 2. Financial risk management (continued)

### Management of capital

The Group's capital structure is derived from equity and net debt and is overseen by the Board through the Group Finance Committee.

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

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt divided by earnings before interest, tax, depreciation, amortisation and exceptionals), Gearing ratio (defined as net debt, excluding retirement benefit deficits or surpluses, divided by shareholders' funds), ROIC (defined as net income divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt)) and EBITDA interest cover (defined as earnings before interest, tax, depreciation, amortisation and exceptionals divided by net interest payable). These ratios are discussed under the Financial 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 retaining 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 Sterling. The Group has exposure primarily to EUR, USD, ZAR and increasingly AUD, CAD, NOK, OMR and SEK. The USD exposure arises firstly through the US\$500 million US Private Placements which are swapped into Sterling and secondly, through a number of activities in the Babcock Mission Critical Services business, where it has some revenue and costs denominated in USD. The EUR exposure is largely due to the activities of the Babcock Mission Critical Services business in Europe, where both translational and transactional exposure exists. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposure exist. The increasing AUD, CAD, NOK, OMR and SEK exposure arises from the activities of Babcock's subsidiaries in those countries where both transactional and translational exposure exists.

<b>Objective</b>	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar and South African Rand.
<b>Policy – Transactional risk</b>	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IAS 39 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
<b>Policy – Translational risk</b>	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statements or balance sheets of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the aforementioned assets with foreign currency denominated debt.
<b>Performance</b>	There have been no material unhedged foreign exchange losses in the year.

A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The largest foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies results from exposure of Euro to US Dollars, exposure being £25.7 million (2017: Euro to US Dollars £17.4 million).

The pre-tax effect on profit and equity, increase or decrease, if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant, would in total be £0.2 million (2017: £0.8 million). The reasonable shifts in exchange rates are based on historical volatility and range from 10% for Sterling and US Dollars; 15% for Euro and Omani Rial; and 25% for Canadian and Australian Dollars and South African Rand.

## 2. Financial risk management (continued)

### Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of  $\pm 50\text{bp}$  (2017:  $\pm 50\text{bp}$ ), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt. All other variables are held constant. The Group believes  $\pm 50\text{bp}$  is an appropriate measure of volatility at this time.

	2018		2017	
	£m +50bp	£m -50bp	£m +50bp	£m -50bp
Net results for the year	(2.3)	2.3	(2.2)	2.2
Equity	2.1	(2.1)	3.7	(3.7)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

<b>Objective</b>	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
<b>Policy</b>	Interest hedging and the monitoring of the mix between fixed and floating rates are the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
<b>Performance</b>	As at 31 March 2018, the Group had 69% fixed rate debt (2017: 74%) and 31% floating rate debt (2017: 26%) based on gross debt including derivatives of £1,475.6 million (2017: £1,424.8 million). For further information see note 19 to the Group financial statements.

### Liquidity risk

The key objectives are to ensure that the Group has an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines (see note 19).

The Group's committed Revolving Credit Facility (RCF) of £750 million has an expiry date of December 2021, and is available to meet general corporate funding requirements. At 31 March 2018, £100.8 million (2017: £120.7 million) was drawn on this facility.

The Group has a Term Debt Facility of £100 million with an expiry date of August 2020.

The Group has US Private Placements with a value of US\$500 million, with notes maturing in March 2021.

The Group has a Sterling loan note with a value of £40 million, with the note maturing in January 2020.

The Group has a Eurobond with a value of EUR 550 million, with notes maturing in October 2022.

The Group has a Sterling bond with a value of £300 million, with the notes maturing in October 2026.

Each of the sectors in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a KPI.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with strong financial institutions for short periods, with bank counterparty credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating.

## 2. Financial risk management (continued)

### Liquidity risk (continued)

<b>Objective</b>	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
<b>Policy</b>	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
<b>Performance</b>	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the course of the financial year, US private placement loan notes of US\$150 million were repaid at maturity, the Group issued a £50 million note in a tap of the ten year October 2026 Sterling bond, increasing the total in issue to £300 million, and entered into a £100 million Term Debt Facility maturing in August 2020. In addition to the aforementioned Term Debt Facility and Sterling bond, the Group's other main debt facilities include: a £750 million Revolving Credit Facility maturing in December 2021, a £40 million loan note maturing in January 2020, US\$500 million US private placement notes maturing in March 2021, a EUR 550 million Eurobond maturing in October 2022. These debt facilities provide the Group with total available committed banking facilities and loan notes of £1.98 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 19 to the Group financial statements.

The table below analyses the Group's liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 March 2018</b>				
Bank and other borrowings	47.0	81.9	1,095.8	322.5
Derivative financial instruments	(7.5)	(1.5)	50.3	(1.2)
Trade and other payables*	1,374.8	0.6	0.4	0.9
<b>At 31 March 2017</b>				
Bank and other borrowings	153.1	39.9	628.4	753.4
Derivative financial instruments	24.0	0.5	105.6	(2.0)
Trade and other payables*	1,278.6	2.1	0.5	0.8

\* 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 2018</b>				
Forward derivative contracts – hedges:				
– outflow	461.3	141.5	360.1	17.5
– inflow	443.5	140.0	409.8	16.9
Forward derivative contracts – held for trading:				
– outflow	1.2	–	–	–
– inflow	1.3	–	–	–
<b>At 31 March 2017</b>				
Forward derivative contracts – hedges:				
– outflow	199.8	26.4	373.3	17.8
– inflow	223.9	27.0	472.7	16.5
Forward derivative contracts – held for trading:				
– outflow	0.5	3.6	–	–
– inflow	0.5	3.6	–	–

### 3. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM). The 2017 comparatives are being presented for the first time in the new reporting sector structure.

2018	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,788.9	1,849.1	1,022.1	702.7	–	5,362.8
Less: joint ventures and associates revenue	22.4	88.7	101.0	491.1	–	703.2
<b>Revenue</b>	<b>1,766.5</b>	<b>1,760.4</b>	<b>921.1</b>	<b>211.6</b>	<b>–</b>	<b>4,659.6</b>
Operating profit before share of results of joint ventures and associates	225.6	59.7	58.9	30.1	(3.7)	370.6
Acquired intangible amortisation	5.3	47.5	44.2	1.1	–	98.1
Operating profit*	230.9	107.2	103.1	31.2	(3.7)	468.7
IFRIC 12 investment income – Group	0.4	1.5	–	–	–	1.9
Share of operating profit – joint ventures and associates	3.8	29.9	14.6	37.6	–	85.9
Share of IFRIC 12 investment income – joint ventures and associates	–	1.5	26.6	–	–	28.1
<b>Underlying operating profit</b>	<b>235.1</b>	<b>140.1</b>	<b>144.3</b>	<b>68.8</b>	<b>(3.7)</b>	<b>584.6</b>
Share of finance costs – joint ventures and associates	–	(0.9)	(21.3)	–	–	(22.2)
Share of tax – joint ventures and associates	(1.3)	(5.4)	(3.7)	(7.1)	–	(17.5)
Acquired intangible amortisation – Group	(5.3)	(47.5)	(44.2)	(1.1)	–	(98.1)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(49.9)	(49.9)
<b>Group profit before tax</b>	<b>228.5</b>	<b>84.3</b>	<b>71.3</b>	<b>60.6</b>	<b>(53.6)</b>	<b>391.1</b>

\* Before amortisation of acquired intangibles and exceptional items.

2017	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,901.6	1,811.7	874.0	629.3	–	5,216.6
Less: joint ventures and associates revenue	27.8	126.3	80.9	434.5	–	669.5
<b>Revenue</b>	<b>1,873.8</b>	<b>1,685.4</b>	<b>793.1</b>	<b>194.8</b>	<b>–</b>	<b>4,547.1</b>
Operating profit before share of results of joint ventures and associates	216.4	66.2	51.8	30.9	(5.7)	359.6
Acquired intangible amortisation	9.9	46.3	55.1	1.4	–	112.7
Operating profit*	226.3	112.5	106.9	32.3	(5.7)	472.3
IFRIC 12 investment income – Group	0.7	0.5	–	–	–	1.2
Share of operating profit – joint ventures and associates	6.9	25.2	11.6	29.1	–	72.8
Share of IFRIC 12 investment income – joint ventures and associates	–	1.5	27.0	–	–	28.5
<b>Underlying operating profit</b>	<b>233.9</b>	<b>139.7</b>	<b>145.5</b>	<b>61.4</b>	<b>(5.7)</b>	<b>574.8</b>
Share of finance costs – joint ventures and associates	–	(1.4)	(23.2)	–	–	(24.6)
Share of tax – joint ventures and associates	(2.1)	(3.9)	(2.3)	(5.9)	–	(14.2)
Acquired intangible amortisation – Group	(9.9)	(46.3)	(55.1)	(1.4)	–	(112.7)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(55.4)	(55.4)
<b>Group profit before tax</b>	<b>221.9</b>	<b>86.1</b>	<b>61.1</b>	<b>54.1</b>	<b>(61.1)</b>	<b>362.1</b>

\* Before amortisation of acquired intangibles and exceptional items.

### 3. Segmental information (continued)

Inter divisional revenue is immaterial.

Revenues of £2.4 billion (2017: £2.5 billion) are derived from a single external customer. These revenues are attributable across all sectors.

The segment assets and liabilities at 31 March 2018 and 31 March 2017 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Marine	1,062.8	1,001.6	589.6	649.4	44.8	46.5
Land	1,744.0	1,751.8	529.9	545.0	22.8	14.0
Aviation	2,561.7	2,484.9	367.1	295.4	80.2	121.7
Nuclear	163.4	141.9	36.3	37.4	0.1	1.0
Unallocated	789.1	750.7	1,887.1	1,911.5	34.8	23.6
<b>Group total</b>	<b>6,321.0</b>	<b>6,130.9</b>	<b>3,410.0</b>	<b>3,438.7</b>	<b>182.7</b>	<b>206.8</b>

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £70.0 million (2017: £71.9 million). Proceeds are in the main within the Aviation section. See note 18 relating to the treatment of amounts payable in respect of capital expenditure.

All assets and liabilities are allocated to their appropriate segments except for cash, cash equivalents, borrowings, income and deferred tax and discontinued operations which are included in the unallocated segment.

The segmental analysis of joint ventures and associates is detailed in note 13.

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2018 and 31 March 2017 are as follows:

	Depreciation		Amortisation of intangible assets	
	2018 £m	2017 £m	2018 £m	2017 £m
Marine	30.3	27.2	11.2	11.9
Land	17.7	12.7	49.4	50.2
Aviation	36.0	35.7	45.1	47.6
Nuclear	1.3	1.4	1.2	7.0
Unallocated	6.0	5.4	4.2	3.6
<b>Group total</b>	<b>91.3</b>	<b>82.4</b>	<b>111.1</b>	<b>120.3</b>

The geographic analysis by origin for the years ended 31 March 2018 and 31 March 2017 is as follows:

	Revenue		Assets		Capital expenditure	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Geographic analysis						
United Kingdom	3,159.0	3,423.5	3,912.7	3,947.9	102.5	95.1
Rest of Europe	586.1	428.8	1,627.1	1,433.2	70.4	99.0
Africa	413.5	322.0	333.2	268.8	3.7	3.4
North America	205.8	150.9	110.3	100.6	1.0	0.4
Australasia	162.8	143.2	269.3	303.4	4.6	8.3
Rest of World	132.4	78.7	68.4	77.0	0.5	0.6
<b>Group total</b>	<b>4,659.6</b>	<b>4,547.1</b>	<b>6,321.0</b>	<b>6,130.9</b>	<b>182.7</b>	<b>206.8</b>

The analysis of revenue for the years ended 31 March 2018 and 31 March 2017 is as follows:

	Total	
	2018 £m	2017 £m
Sales of goods	641.2	611.7
Provision of services	4,010.3	3,931.6
Rental income	8.1	3.8
	<b>4,659.6</b>	<b>4,547.1</b>

## 4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	2018 £m	2017 £m
Employee costs (note 6)	1,588.3	1,546.9
Inventories		
– cost of inventories recognised as an expense	444.0	373.3
– increase/(decrease) in inventory provisions	1.8	(1.9)
Depreciation of Property, plant and equipment (PPE)		
– owned assets	81.7	69.7
– under finance leases	9.6	12.7
	91.3	82.4
Amortisation of intangible assets		
– acquired intangibles	98.1	112.7
– other	13.0	7.6
	111.1	120.3
Impairment of goodwill	–	2.3
Profit on disposal of PPE	(4.1)	(2.8)
Operating lease rentals payable		
– property	30.0	27.6
– vehicles, plant and equipment	87.2	81.1
Research and development	1.0	1.6
Trade receivables charged	1.3	2.4
Net foreign exchange loss	16.1	9.3

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

In addition to the vehicle operating lease rentals above is £53.6 million (2017: £37.2 million) for the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

There were no exceptional costs in the current year nor the previous year.

### Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

	2018 £m	2017 £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	0.4	0.4
<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	1.8	1.7
Audit related services	0.2	–
Taxation advisory services	–	0.1
Other non-audit services	0.1	–
<b>Total fees paid to the Group's auditor and network firms</b>	<b>2.5</b>	<b>2.2</b>

## 5. Net finance costs

	2018 £m	2017 £m
<b>Finance costs</b>		
Loans, overdrafts and associated interest rate hedges	42.7	43.6
Finance leases	5.4	7.1
Amortisation of issue costs of bank loan	1.7	1.4
Other	12.1	8.3
<b>Total finance costs</b>	<b>61.9</b>	<b>60.4</b>
<b>Finance income</b>		
Bank deposits, loans and finance leases	14.3	11.4
<b>Total finance income</b>	<b>14.3</b>	<b>11.4</b>
<b>Net finance costs</b>	<b>47.6</b>	<b>49.0</b>

## 6. Employee costs

	2018 £m	2017 £m
Wages and salaries	1,306.6	1,281.6
Social security costs	162.4	148.9
Share-based payments (note 23)	6.4	15.0
Pension costs – defined contribution plans (note 24)	65.6	62.6
Pension charges – defined benefit plans (note 24)	47.3	38.8
	<b>1,588.3</b>	<b>1,546.9</b>

The average number of people employed by the Group during the year was:

	2018 Number	2017 Number
Operations	30,950	31,220
Administration and management	4,477	4,530
	<b>35,427</b>	<b>35,750</b>

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

### Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the key cash-generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2018 £m	2017 £m
Salaries	10.8	9.3
Post-employment benefits	–	0.2
Share-based payments	1.4	3.5
	<b>12.2</b>	<b>13.0</b>

## 7. Income tax expense

	Total	
	2018 £m	2017 £m
<b>Analysis of tax charge in the year</b>		
Current tax		
– UK current year charge	67.3	72.5
– Overseas current year charge	26.0	14.2
	93.3	86.7
Deferred tax		
– UK current year credit	(22.3)	(26.7)
– Overseas current year credit	(18.4)	(7.1)
– Overseas prior year credit	–	(6.9)
– Impact of change in UK tax rate	1.3	0.5
– Impact of change in French (2017: French) tax rate	(0.5)	–
	(39.9)	(40.2)
<b>Total income tax expense</b>	<b>53.4</b>	<b>46.5</b>

The tax for the year is lower (2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
<b>Profit before tax</b>	<b>391.1</b>	<b>362.1</b>
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2017: 20%)	74.3	72.4
Effects of:		
Expenses not deductible for tax purposes	0.5	0.4
Re-measurement of deferred tax re change in UK tax rate	1.3	0.5
Re-measurement of deferred tax re change in French (2017: French) tax rate	(0.5)	–
Difference in respect of joint venture results	(13.0)	(11.3)
Differences in respect of foreign rates and UK consortium relief rates	(5.1)	(1.1)
Adjustments in respect of earlier years	–	(6.9)
Other	(4.1)	(7.5)
<b>Total income tax expense</b>	<b>53.4</b>	<b>46.5</b>

In the UK 2015 Budget it was announced that the UK corporation tax rate would reduce to 19% from April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in the 2017 budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal. As a result a charge of £1.3 million has been taken to the Income statement in respect of the remeasurement of year end UK deferred tax balances to 17%. In addition a £0.5 million credit has been taken to the Income statement in respect of the change in the French tax rate. A further £1.9 million has been credited to reserves in respect of the remeasurement of year end UK deferred tax balances to 17%.

## 8. Dividends

	2018 £m	2017 £m
Final dividend for the year ended 31 March 2017 of 21.65p (2016: 19.75p) per 60p share	109.2	99.7
Interim dividend for the year ended 31 March 2018 of 6.85p (2017: 6.50p) per 60p share	34.7	32.8
	143.9	132.5

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2018 of 22.65p (2017: 21.65p) per share which will absorb an estimated £114.3 million (2017: £109.2 million) of shareholders' equity. It will be paid on 10 August 2018 to shareholders who are on the register of members on 29 June 2018. These financial statements do not reflect this dividend payable which is subject to approval at the Annual General Meeting on 19 July 2018.

## 9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust and the Peterhouse Employee Share Trust.

The calculation of the basic and diluted EPS is based on the following data:

### Number of shares

	2018 Number	2017 Number
Weighted average number of ordinary shares for the purpose of basic EPS	504,881,495	504,571,769
Effect of dilutive potential ordinary shares: share options	858,150	737,251
Weighted average number of ordinary shares for the purpose of diluted EPS	505,739,645	505,309,020

### Earnings

	2018 Earnings £m	2018 Basic per share Pence	2018 Diluted per share Pence	2017 Earnings £m	2017 Basic per share Pence	2017 Diluted per share Pence
Earnings from continuing operations	336.3	66.6	66.5	311.8	61.8	61.7
Add back:						
Amortisation of acquired intangible assets, net of tax	81.7	16.2	16.2	92.1	18.2	18.2
Impact of change in statutory tax rates	0.8	0.2	0.2	0.5	0.1	0.1
<b>Earnings before amortisation, exceptional items and other</b>	<b>418.8</b>	<b>83.0</b>	<b>82.9</b>	<b>404.4</b>	<b>80.1</b>	<b>80.0</b>

## 10. Goodwill

	2018 £m	2017 £m
<b>Cost</b>		
At 1 April	2,615.9	2,555.4
On acquisition of subsidiaries (note 28)	–	1.7
Exchange adjustments	(7.9)	58.8
At 31 March	2,608.0	2,615.9
<b>Accumulated impairment</b>		
At 1 April	7.1	4.8
Impairment	–	2.3
At 31 March	7.1	7.1
Net book value at 31 March	2,600.9	2,608.8

During the year, the goodwill was tested for impairment in accordance with IAS 36. The recoverable amount for all the cash-generating units (CGUs) has been measured based on a value-in-use calculation derived from Board approved three year budgeted cash flows and extrapolated cash flows thereafter based on an estimated growth rate of 3%. A pre-tax discount rate in the range 8.5% to 9.8% was used in the value-in-use calculation for the CGUs within each segment. The Group's weighted average cost of capital post-tax is approximately 7.0% to 8.0% (2017: 7.0% to 8.0%).

Goodwill is allocated to the Group's CGUs based on value in use, identified according to the business sector. The 2017 comparatives are being presented for the first time in the new reporting sector structure. A sector level summary of goodwill allocation is presented below:

	2018 £m	2017 £m
Marine	522.4	525.4
Land	900.0	903.4
Aviation	1,108.5	1,110.0
Nuclear	70.0	70.0
	2,600.9	2,608.8

## 11. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	IFRIC 12 intangibles £m	Software development costs and licences £m	Development costs and other £m	Total £m
<b>Cost</b>							
At 1 April 2017	1,175.3	23.9	1,199.2	–	123.4	6.2	1,328.8
Additions	–	–	–	–	30.1	1.7	31.8
Disposals at cost	–	–	–	–	(0.3)	–	(0.3)
Exchange adjustments	(0.9)	–	(0.9)	–	(0.2)	0.1	(1.0)
At 31 March 2018	1,174.4	23.9	1,198.3	–	153.0	8.0	1,359.3
<b>Accumulated amortisation and impairment</b>							
At 1 April 2017	655.3	19.2	674.5	–	45.8	0.5	720.8
Amortisation charge	97.5	0.6	98.1	–	12.7	0.3	111.1
Amortisation on disposals	–	–	–	–	(0.3)	–	(0.3)
Exchange adjustments	(1.3)	(0.1)	(1.4)	–	(0.3)	0.1	(1.6)
At 31 March 2018	751.5	19.7	771.2	–	57.9	0.9	830.0
Net book value at 31 March 2018	422.9	4.2	427.1	–	95.1	7.1	529.3
<b>Cost</b>							
At 1 April 2016	1,147.4	22.9	1,170.3	5.9	93.8	3.9	1,273.9
Acquisition of subsidiaries	5.0	–	5.0	–	–	–	5.0
Additions	–	–	–	–	30.5	2.0	32.5
Disposals at cost	–	–	–	–	(0.8)	–	(0.8)
Reclassification	–	–	–	(5.9)	–	–	(5.9)
Capitalised interest	–	–	–	–	0.1	–	0.1
Exchange adjustments	22.9	1.0	23.9	–	(0.2)	0.3	24.0
At 31 March 2017	1,175.3	23.9	1,199.2	–	123.4	6.2	1,328.8
<b>Accumulated amortisation and impairment</b>							
At 1 April 2016	542.6	12.5	555.1	3.2	39.2	0.2	597.7
Amortisation charge	106.7	6.0	112.7	–	7.3	0.3	120.3
Amortisation on disposals	–	–	–	–	(0.5)	–	(0.5)
Reclassification	–	–	–	(3.2)	–	–	(3.2)
Exchange adjustments	6.0	0.7	6.7	–	(0.2)	–	6.5
At 31 March 2017	655.3	19.2	674.5	–	45.8	0.5	720.8
Net book value at 31 March 2017	520.0	4.7	524.7	–	77.6	5.7	608.0

All amortisation charges for the year have been charged through cost of revenue.

Acquired intangibles are in part the estimated fair value of customer relationships which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range of one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years. Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range of one year to fifteen years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis up to five years.

The reclassification of IFRIC 12 assets to financial assets follows a review of those contracts and the certainty of revenue regulations.

## 12. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
<b>Cost</b>						
At 1 April 2017	117.4	32.4	568.3	598.1	112.8	1,429.0
Additions	8.0	4.6	61.5	44.7	23.7	142.5
Disposals	(0.7)	(1.9)	(16.3)	(27.8)	(38.6)	(85.3)
Reclassification	–	–	0.2	9.3	(9.5)	–
Capitalised borrowing costs	–	0.2	1.6	–	–	1.8
Exchange adjustments	0.2	0.1	(1.3)	1.1	1.6	1.7
At 31 March 2018	124.9	35.4	614.0	625.4	90.0	1,489.7
<b>Accumulated depreciation</b>						
At 1 April 2017	50.1	7.2	282.1	52.7	–	392.1
Charge for the year	6.5	2.2	58.8	23.8	–	91.3
Disposals	–	(0.3)	(12.6)	(6.6)	–	(19.5)
Exchange adjustments	0.2	–	(0.8)	(2.0)	–	(2.6)
At 31 March 2018	56.8	9.1	327.5	67.9	–	461.3
Net book value at 31 March 2018	68.1	26.3	286.5	557.5	90.0	1,028.4
<b>Cost</b>						
At 1 April 2016	112.2	14.9	501.6	547.6	97.0	1,273.3
On acquisition of subsidiaries (note 28)	–	3.5	0.3	3.2	–	7.0
Additions	2.9	13.3	59.8	62.0	37.7	175.7
Disposals	(0.7)	(0.4)	(16.4)	(58.3)	(18.3)	(94.1)
Reclassification	1.4	–	1.9	8.8	(12.1)	–
Capitalised borrowing costs	–	0.3	1.0	–	–	1.3
Exchange adjustments	1.6	0.8	20.1	34.8	8.5	65.8
At 31 March 2017	117.4	32.4	568.3	598.1	112.8	1,429.0
<b>Accumulated depreciation</b>						
At 1 April 2016	45.2	5.4	234.5	37.4	–	322.5
Charge for the year	4.4	1.7	51.6	24.7	–	82.4
Disposals	(0.6)	(0.1)	(12.1)	(12.3)	–	(25.1)
Exchange adjustments	1.1	0.2	8.1	2.9	–	12.3
At 31 March 2017	50.1	7.2	282.1	52.7	–	392.1
Net book value at 31 March 2017	67.3	25.2	286.2	545.4	112.8	1,036.9

A capitalisation rate of 3% (2017: 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:

	2018 £m	2017 £m
Cost	206.5	227.5
Aggregate depreciation	(43.0)	(33.6)
Net book value	163.5	193.9

### 13. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
<b>At 1 April</b>	<b>71.9</b>	<b>39.9</b>	<b>32.3</b>	<b>32.6</b>	<b>104.2</b>	<b>72.5</b>
Disposal of joint ventures and associates (note 29)	(1.8)	–	–	–	(1.8)	–
Loans repaid by joint ventures and associates	–	–	(4.5)	–	(4.5)	–
Investment in joint ventures and associates	6.9	(1.0)	–	–	6.9	(1.0)
Share of profits	68.5	56.7	–	–	68.5	56.7
Interest accrued	–	–	0.9	1.1	0.9	1.1
Interest received	–	–	(0.9)	(1.4)	(0.9)	(1.4)
Dividends received	(42.9)	(26.7)	–	–	(42.9)	(26.7)
Fair value adjustment of derivatives	24.3	2.6	–	–	24.3	2.6
Tax on fair value adjustment of derivatives	(7.4)	(0.5)	–	–	(7.4)	(0.5)
Foreign exchange	(0.2)	0.9	–	–	(0.2)	0.9
<b>At 31 March</b>	<b>119.3</b>	<b>71.9</b>	<b>27.8</b>	<b>32.3</b>	<b>147.1</b>	<b>104.2</b>

Included within investment in joint ventures and associates is goodwill of £1.2 million (2017: £1.2 million).

The total investment in joint ventures is attributable to the following segments:

	2018 £m	2017 £m
Marine	7.0	1.2
Land	49.1	38.3
Aviation	65.6	42.1
Nuclear	25.4	22.6
Net book value	147.1	104.2

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
<b>2018</b>							
Holdfast Training Services Limited	United Kingdom	40.1	(14.0)	77.4	18.4	14.8	74%
ALC (Superholdco) Limited	United Kingdom	18.6	–	20.1	10.9	7.4	50%
AirTanker Limited	United Kingdom	421.0	(410.2)	29.9	4.0	2.6	13%
AirTanker Services Limited	United Kingdom	29.8	–	41.3	4.4	2.7	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	116.5	(104.7)	48.0	3.1	5.2	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.0	(4.3)	26.5	4.3	3.0	50%
Helidax S.A.S.	France	30.2	(24.7)	8.6	3.2	1.3	50%
Cavendish Dounreay Partnership Limited	United Kingdom	38.2	(24.8)	118.5	5.8	4.7	50%
Cavendish Fluor Partnership Limited	United Kingdom	100.1	(88.2)	395.6	31.8	25.8	65%
ABC Electrification Limited	United Kingdom	2.9	–	69.4	0.2	0.2	33%
Other		20.2	(4.6)	64.3	(0.2)	0.8	
		822.6	(675.5)	899.6	85.9	68.5	

## 13. Investment in and loans to joint ventures and associates (continued)

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
<b>2017</b>							
Holdfast Training Services Limited	United Kingdom	44.9	(29.9)	65.2	12.6	9.9	74%
ALC (Superholdco) Limited	United Kingdom	17.3	–	18.5	9.3	6.0	50%
AirTanker Limited	United Kingdom	334.6	(341.1)	30.4	1.5	1.9	13%
AirTanker Services Limited	United Kingdom	27.1	–	46.7	4.3	2.5	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	86.2	(77.5)	37.7	2.5	1.7	50%
Naval Ship Management (Australia) Pty Limited	Australia	9.3	(8.0)	31.3	6.9	4.8	50%
Helidax S.A.S.	France	29.7	(25.6)	8.7	3.3	1.5	50%
Cavendish Dounreay Partnership Limited	United Kingdom	31.2	(18.9)	107.8	7.6	6.1	50%
Cavendish Fluor Partnership Limited	United Kingdom	95.4	(85.1)	336.7	21.7	17.4	65%
ABC Electrification Limited	United Kingdom	2.7	–	94.0	2.2	2.2	33%
Other		16.2	(4.3)	53.1	0.9	2.7	
		694.6	(590.4)	830.1	72.8	56.7	

Joint ventures and associates revenue excluding Group sub-contract revenue is £703.2 million (2017: £669.5 million).

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed.

Holdfast Training Services Limited and Cavendish Fluor Partnership Limited are shown as joint ventures as the Group does not have management control. AirTanker Limited is shown as an associate due to the level of management input and the relative share ownership.

The Cavendish Fluor Partnership Limited is deemed material to the Group. All the assets and liabilities are current. Of the assets shown above £6.2 million (2017: £8.2 million) was cash and cash equivalents. During the year dividends of £24.2 million (2017: £8.7 million) were received. The retained profit is after income tax expense of £6.0 million (2017: £4.3 million).

## 14. Deferred tax

	2018 £m	2017 £m
Deferred tax asset	104.0	113.1
Deferred tax liability	(112.8)	(134.6)
	(8.8)	(21.5)

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
<b>At 1 April 2017</b>	(8.0)	17.8	37.7	(69.0)	(21.5)
Income statement credit	–	9.4	3.7	27.7	40.8
Tax credit to equity	–	(10.3)	–	3.1	(7.2)
Transfer to corporation tax	–	(18.1)	–	(2.6)	(20.7)
Effect of change in UK tax rate					
– income statement	–	–	–	(1.3)	(1.3)
– equity	–	2.0	–	(0.1)	1.9
Effect of change in Italian tax rate					
– income statement	–	–	–	0.5	0.5
Exchange differences	–	–	–	(1.3)	(1.3)
<b>At 31 March 2018</b>	(8.0)	0.8	41.4	(43.0)	(8.8)
<b>At 1 April 2016</b>	(8.5)	36.7	24.8	(79.4)	(26.4)
Income statement credit	–	9.0	12.9	18.5	40.4
Tax credit to equity	–	(13.4)	–	(1.7)	(15.1)
Transfer to corporation tax	–	(15.4)	–	(1.9)	(17.3)
Acquisition of subsidiaries	–	–	–	(1.5)	(1.5)
Effect of change in UK tax rate					
– income statement	0.5	–	–	(1.0)	(0.5)
– equity	–	0.9	–	0.2	1.1
Exchange differences	–	–	–	(2.2)	(2.2)
<b>At 31 March 2017</b>	(8.0)	17.8	37.7	(69.0)	(21.5)

The net deferred tax liability of £8.8 million includes a deferred tax asset of £62.6 million and a deferred tax liability of £65.8 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:

	2018 £m	2017 £m
Deferred tax asset	99.6	112.6
Deferred tax liability	(110.0)	(134.4)
	(10.4)	(21.8)

Deferred tax expected to be recovered within 12 months:

	2018 £m	2017 £m
Deferred tax liability	(19.6)	(21.2)
	(19.6)	(21.2)

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses) of £68.0 million (2017: £70.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £41.4 million (2017: £37.7 million) of such losses, which may be carried forward.

## 15. Inventories

	2018 £m	2017 £m
Raw materials and spares	65.6	67.4
Work-in-progress and long-term contracts	5.7	15.1
Finished goods and goods for resale	110.1	76.7
<b>Total</b>	<b>181.4</b>	<b>159.2</b>

## 16. Trade and other receivables

	2018 £m	2017 £m
<b>Current assets</b>		
Trade receivables	283.1	356.0
Less: provision for impairment of receivables	(4.9)	(6.1)
Trade receivables – net	278.2	349.9
Amounts due from customers for contract work	462.8	222.4
Retentions	9.4	8.9
Amounts due from related parties (note 34)	13.3	17.2
Other debtors	115.1	85.9
Prepayments	62.8	76.7
Accrued income	118.5	124.4
	<b>1,060.1</b>	<b>885.4</b>
<b>Non-current assets</b>		
Other debtors	6.7	29.4

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

As of 31 March 2018, trade receivables with gross value of £6.1 million (2017: £6.7 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £4.9 million (2017: £6.1 million). The individually impaired receivables mainly relate to receivables in the Aviation sector and in Africa. It was assessed that a portion of these receivables is expected to be recovered.

The aging of the net impaired receivables is as follows:

	2018 £m	2017 £m
Less than three months	–	–
Three to six months	–	–
Over six months	1.2	0.6
	<b>1.2</b>	<b>0.6</b>

## 16. Trade and other receivables (continued)

As of 31 March 2018, trade receivables of £37.2 million (2017: £38.6 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and no indication that the receivable may be impaired. The ageing analysis of these trade receivables is as follows:

	2018 £m	2017 £m
Less than three months	20.5	20.3
Three to six months	6.9	2.3
Over six months	9.8	16.0
	37.2	38.6

Movements on the provision for impairment of trade receivables are as follows:

	2018 £m	2017 £m
Balance at 1 April	(6.1)	(3.9)
Provision for receivables impairment	(1.3)	(2.4)
Receivables written off during the year as uncollectable	0.2	0.1
Unused amounts reversed	2.3	1.4
Exchange differences	–	(1.3)
Balance at 31 March	(4.9)	(6.1)

The creation and release of provisions for impairment of receivables have been included in cost of revenue in the income statement. Amounts charged to the impairment provision are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business (note 20).

## 17. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	277.3	182.8
Short-term bank deposits (overnight)	9.0	8.6
	286.3	191.4

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

Currency	2018		2017	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	62.2	62.2	31.4	31.4
Euro	83.6	83.6	28.2	28.2
US Dollar	13.4	13.4	26.7	26.7
South African Rand	65.7	65.7	48.0	48.0
Canadian Dollar	32.9	32.9	23.9	23.9
Omani Rial	6.5	6.5	7.2	7.2
Australian Dollar	3.3	3.3	9.7	9.7
Swedish Krone	2.9	2.9	2.0	2.0
New Zealand Dollar	6.8	6.8	4.2	4.2
Brazilian Real	4.4	4.4	3.4	3.4
Other currencies	4.6	4.6	6.7	6.7
	286.3	286.3	191.4	191.4

The above balances are typically invested at short-term, floating rates linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

## 18. Trade and other payables

	2018 £m	2017 £m
<b>Current liabilities</b>		
Contract cost accruals	179.9	186.0
Amounts due to customers for contract work	173.4	180.4
Trade creditors	545.3	433.1
Amounts due to related parties (note 34)	0.8	1.6
Other creditors	84.6	60.6
Other taxes and social security	119.6	128.0
Accruals	228.5	241.0
Deferred income	60.0	66.9
	1,392.1	1,297.6
<b>Non-current liabilities</b>		
Other creditors	2.3	3.7

Included in trade creditors is £10.8 million (2017: £17.3 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

## 19. Bank and other borrowings

	2018 £m	2017 £m
<b>Current liabilities</b>		
<b>Bank loans and overdrafts due within one year or on demand</b>		
Secured	2.0	2.0
Unsecured	20.3	125.7
	22.3	127.7
Finance lease obligations*	15.8	26.6
	38.1	154.3
<b>Non-current liabilities</b>		
<b>Bank and other borrowings</b>		
Secured	38.9	27.2
Unsecured	1,371.0	1,279.3
	1,409.9	1,306.5
Finance lease obligations*	75.3	91.6
	1,485.2	1,398.1

\* Finance leases are secured against the assets to which they relate.

The Group has entered into interest rate and currency swaps, details of which are included in note 20.

## 19. Bank and other borrowings (continued)

The carrying amount of the Group's borrowings are denominated in the following currencies:

Currency	2018		
	Total £m	Floating rate £m	Fixed rate £m
Sterling	576.3	200.8	375.5
Euro	558.3	36.1	522.2
US Dollar*	354.9	212.9	142.0
South African Rand	33.8	33.8	–
	1,523.3	483.6	1,039.7

Currency	2017		
	Total £m	Floating rate £m	Fixed rate £m
Sterling	458.0	126.4	331.6
Euro	544.3	49.3	495.0
US Dollar*	526.7	243.1	283.6
South African Rand	23.4	23.4	–
	1,552.4	442.2	1,110.2

\* US\$500 million have been swapped into Sterling, with US\$300 million equivalent into floating rates and US\$200 million equivalent into fixed rates.

The weighted average interest rates of Sterling fixed rate borrowings are 2.3%. The weighted average period for which these interest rates are fixed is four years.

The floating rate for borrowings is linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The exposure of the Group to interest rate changes when borrowings re-price is as follows:

Total borrowings	1 year £m	1–5 years £m	>5 years £m	Total £m
<b>As at 31 March 2018</b>	<b>415.4</b>	<b>317.9</b>	<b>790.0</b>	<b>1,523.3</b>
As at 31 March 2017	578.2	242.1	732.1	1,552.4

The effective interest rates at the balance sheet dates were as follows:

	2018 %	2017 %
UK bank overdraft	1.3	1.3
UK bank borrowings	1.6	1.8
US private placement – fixed	6.0	5.7
US private placement – floating	2.9	2.6
Eurobond	1.8	1.8
£300 million bond	1.9	1.9
Other borrowings	4.8 – 5.5	4.8 – 5.5
Finance leases	0.7 – 9.0	0.8 – 10.5

### Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2018		2017	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	22.3	15.8	127.7	26.6
Between one and two years	40.0	17.5	–	15.8
Between two and five years	1,067.6	43.8	584.8	50.9
Greater than five years	302.3	14.0	721.7	24.9
	1,432.2	91.1	1,434.2	118.2

## 19. Bank and other borrowings (continued)

### Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2018 £m	2017 £m
Expiring in less than one year	64.0	75.0
Expiring in more than one year but not more than five years	722.3	683.7
	786.3	758.7

The minimum lease payments under finance leases fall due as follows:

	2018 £m	2017 £m
Not later than one year	20.3	32.1
Later than one year but not more than five years	68.4	78.0
More than five years	14.5	26.2
	103.2	136.3
Future finance charges on finance leases	(12.1)	(18.1)
Present value of finance lease liabilities	91.1	118.2

## 20. Other financial assets and liabilities

### Financial instruments and finance leases granted

	Fair value			
	Assets		Liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
<b>Non-current</b>				
US private placement – currency and interest rate swaps	47.7	127.6	–	–
Interest rate hedges	1.5	6.5	0.9	1.2
Other currency hedges	3.5	1.7	4.1	3.3
Non-controlling interest put option	–	–	–	5.2
Financial instruments	52.7	135.8	5.0	9.7
Finance leases granted	23.3	16.8	–	–
<b>Total non-current other financial assets and liabilities</b>	<b>76.0</b>	<b>152.6</b>	<b>5.0</b>	<b>9.7</b>
<b>Current</b>				
Interest rate hedges	–	–	0.2	0.2
Other currency hedges	4.3	1.1	11.7	4.1
Financial instruments	4.3	1.1	11.9	4.3
Finance leases granted	23.2	10.8	–	–
<b>Total current other financial assets and liabilities</b>	<b>27.5</b>	<b>11.9</b>	<b>11.9</b>	<b>4.3</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 are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

## 20. Other financial assets and liabilities (continued)

### Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2018 included £6.3 million of UK interest rate swaps and interest rate swaps in relation to the US\$500 million US\$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2018:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
<b>Hedged</b>				
Interest rate swap	1.6	5.45	Six month LIBOR	31/3/2019
Interest rate swap	4.7	4.745	Six month LIBOR	31/3/2029
Total interest rate swaps	6.3			

	Amount US\$m	Amount at swapped rates £m	Swap %	Maturity
<b>Hedged</b>				
Cross currency and interest rate swap	200.0	122.9	Fixed 5.64% US\$ to fixed 5.95% GBP	17/3/2021
Cross currency and interest rate swap	300.0	184.3	Fixed 5.64% US\$ to floating three-month LIBOR + margin GBP	17/3/2021
Total cross currency and interest rate swap	500.0	307.2		

### 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 £37.2 million (2017: £27.6 million), these were split as £13.9 million (2017: £10.8 million) due within one year and £23.3 million (2017: £16.8 million) between one and five years. In addition there is £9.3 million due within one year in respect of our FOMEDEC contract.

### Fair values of non-current borrowings and loans

The fair values of non-current borrowings and loans at the balance sheet date were:

	2018		2017	
	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	(1,485.2)	(1,531.8)	(1,398.1)	(1,455.0)
Loan to joint venture	27.8	27.8	32.3	32.3
	(1,457.4)	(1,504.0)	(1,365.8)	(1,422.7)

\* Does not include other taxes and social security.

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4% to 5% (2017: 4% to 5%).

## 21. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Total provisions £m
At 1 April 2017	1.0	34.8	35.4	56.1	127.3
(Released)/charged to income statement	–	(4.0)	29.8	(17.1)	8.7
Utilised in year	–	(18.0)	(19.6)	(1.6)	(39.2)
Foreign exchange	–	–	0.1	(1.1)	(1.0)
At 31 March 2018	1.0	12.8	45.7	36.3	95.8

Provisions have been analysed between current and non-current as follows:

	2018 £m	2017 £m
Current	34.7	37.0
Non-current	61.1	90.3
	95.8	127.3

(a) The insurance provisions arise in the Group's captive insurance companies, Chepstow Insurance Limited, Peterhouse Insurance Limited and VT Insurance Services Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

(b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.

(c) The employee benefits and reorganisation costs arise mainly in relation to acquired businesses personnel related costs and payroll taxes.

(d) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure.

Included within provisions is £20 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

## 22. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2017	505,596,597	303.4
Shares issued	–	–
At 31 March 2018	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2016	504,196,597	302.5
Shares issued	1,400,000	0.9
At 31 March 2017	505,596,597	303.4

## 22. Share capital (continued)

### Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2018 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied either by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 8,023,002 shares (2017: 7,366,007 shares) – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of 4,085 shares (2017: 58,658 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	2018 Number	2017 Number
13 June 2013	PSP <sup>1</sup> – vested in year	–	13/06/2016 – 13/06/2017	–	87,562
13 June 2013	CSOP <sup>2</sup> – vested in year	–	13/06/2016 – 13/06/2017	–	29,192
13 June 2013	DBMP <sup>3</sup> – vested in year	–	13/06/2016 – 13/06/2017	–	70,907
14 June 2014	PSP <sup>1</sup>	–	12/06/2017 – 12/06/2018	55,731	1,318,972
29 January 2015	PSP <sup>1</sup>	–	29/01/2018 – 29/01/2019	3,761	14,196
14 June 2014	DBMP <sup>3</sup>	–	12/06/2017 – 12/06/2018	34,162	841,071
11 June 2015	PSP <sup>1</sup>	–	11/06/2018 – 11/06/2019	1,512,199	1,539,462
2 November 2015	PSP <sup>1</sup>	–	11/06/2018 – 11/06/2019	27,388	27,388
11 June 2015	DBMP <sup>3</sup>	–	11/06/2018 – 11/06/2019	900,438	903,310
11 June 2015	DBMP <sup>4</sup>	–	11/06/2018 – 11/06/2019	–	3,863
15 June 2016	DBMP <sup>5</sup>	–	15/06/2019 – 15/06/2020	62,845	62,845
15 June 2016	DBMP <sup>4</sup>	–	15/06/2019 – 15/06/2020	14,714	14,714
15 June 2016	PSP <sup>1</sup>	–	15/06/2019 – 15/06/2020	1,951,615	2,008,906
12 October 2016	PSP <sup>1</sup>	–	15/06/2019 – 15/06/2020	27,578	27,578
15 June 2016	DBMP <sup>3</sup>	–	15/06/2019 – 15/06/2020	474,699	474,699
14 June 2017	DBMP <sup>4</sup>	–	14/06/2019 – 14/06/2020	103,246	–
14 June 2017	DBMP <sup>5</sup>	–	14/06/2020 – 14/06/2021	186,949	–
14 June 2017	PSP <sup>1</sup>	–	14/06/2020 – 14/06/2021	1,769,338	–
14 June 2017	PSP <sup>1</sup>	–	14/06/2022 – 14/06/2023	902,424	–
				8,027,087	7,424,665

Options granted to Directors are summarised in the Remuneration report on pages 98 to 130 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan.
2. 2009 Company Share Option Plan.
3. 2012 Deferred Bonus Matching Plan.
4. Award issued without matching shares, has two year vesting period.
5. Award issued without matching shares, has three year vesting period.

## 22. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these awards.

	2018		2017	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	1,051,973	442,491	791,114
PEST	2,748	15,000	20,842	15,000
<b>Total</b>	<b>2,748</b>	<b>1,066,973</b>	<b>463,333</b>	<b>806,114</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 PSP, CSOP and DBMP movements is shown below:

	2018	2017
	Number '000	Number '000
<b>Outstanding at 1 April</b>	<b>7,425</b>	<b>7,414</b>
Granted	3,016	2,670
Exercised	(800)	(1,224)
Forfeited/lapsed	(1,614)	(1,435)
<b>Outstanding at 31 March</b>	<b>8,027</b>	<b>7,425</b>
<b>Exercisable at 31 March</b>	<b>94</b>	<b>188</b>

The weighted average share price for awards exercised during the year was 856.3p per share (2017: 934.8p per share).

During the year 600,000 ordinary shares (2017: 2,206,114 shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts'). The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2018, 799,726 shares (2017: 1,217,957 shares) were disposed of by the Trusts resulting from options exercised. At 31 March 2018, the Trusts held between them a total of 1,069,721 ordinary shares (2017: 1,269,447 ordinary shares) at a total market value of £7,154,294 (2017: £11,196,523) representing 0.21% (2017: 0.25%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year, though full dividends were paid in respect of shares held by the Peterhouse Employee Share Trust. The Company meets the operating expenses of the Trusts.

The Trusts enable shares in the Company to be held or purchased and made available to employees through the exercise of rights or pursuant to awards made under the Company's employee share schemes. The Trusts are discretionary settlements for the benefit of employees within the Group. The Company is excluded from benefiting under them. They are controlled and managed outside the UK and each has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company, but the trustee of the Peterhouse Employee Share Trust does not have the power to waive dividends due on Babcock ordinary shares and therefore receives the full amount of any dividends declared.

## 23. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £6.4 million (2017: £15.0 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £5.2 million (2017: £12.0 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

### DBMP, PSPs and DBP<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
2017 PSP	902,424	905.5	15.0%	6.0	30%	131.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	30%	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17
2016 DBMP Matching	479,065	974.5	14.0%	4.0	17%	379.1	974.5	46%	15/06/16
2016 PSP	2,085,427	974.5	14.0%	4.0	17%	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	17%	396.4	991.0	46%	12/10/16
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	17%	364.0	1,121.0	46%	11/06/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	22%	374.0	1,121.0	46%	11/06/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	–	1,121.0	46%	11/06/15

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years, but for the DBP it is two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching and PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE, except that in 2015 the PSP 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 79,475 matching shares (2017: 61,292 matching shares) at a cost of £0.6 million (2017: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year the Group bought no matching shares (2017: 1,000 matching shares) to be used when vesting is due to begin in 2019.

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

## 24. Retirement benefits and liabilities

### Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2018 £m	2017 £m
Defined contribution schemes	65.6	62.6

### Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2018 £m	2017 £m
Retirement benefits – funds in surplus	240.1	193.5
Retirement benefits – funds in deficit	(245.1)	(298.0)
	(5.0)	(104.5)

The Group provides a number of pension schemes for its employees. The principal defined benefit pension schemes for employees in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes). The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees who are advised by an independent, qualified actuary.

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses at the time, through a common investment strategy which has significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes in 2014 and 2015 impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of members' contributions.

The Group also participates in the Babcock Rail Shared Cost Section of the Railways Pension Scheme (the Railways scheme). This scheme is a multi-employer shared cost scheme with the contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments agreed with the trustees who are advised by an independent, qualified actuary. The costs are, in the first instance, shared such that the active employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. However the assumption is that as the active membership reduces, the liability will ultimately revert to the Group. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in this scheme.

The schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The detail of the latest formal actuarial valuation of the scheme is as follows. The valuations of the Railways scheme and the Devonport Royal Dockyard Pension Scheme are currently being finalised.

The valuations of the Rosyth Royal Dockyard scheme is 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	31/03/2014	31/03/2016	31/03/2015	31/12/2013
Number of active members at above date	2,955	1,103	829	426
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£1,218.0m	£1,230.0m	£714.0m	£213.7m
Level of funding	85%	91%	74%	95%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme for which the MOD fully reimburses the contributions payable.

## 24. Retirement benefits and liabilities (continued)

The Group's cash contribution rates payable to the schemes are as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	20.0%	30.5%	21.5%	12.48%	–	–
Future service cash contributions	£14.2m	£9.0m	£4.7m	£0.9m	£1.3m	£30.1m
Deficit contributions	£18.6m	£8.5m	£17.5m	£1.6m	£1.2m	£47.4m
Longevity swap payments	£2.7m	£3.6m	£4.4m	–	–	£10.7m
<b>Expected employer cash costs for 2018/19</b>	<b>£35.5m</b>	<b>£21.1m</b>	<b>£26.6m</b>	<b>£2.5m</b>	<b>£2.5m</b>	<b>£88.2m</b>
Expected salary sacrifice contributions	£4.2m	£1.8m	£1.9m	£1.5m	£0.2m	£9.6m
<b>Expected total employer contributions</b>	<b>£39.7m</b>	<b>£22.9m</b>	<b>£28.5m</b>	<b>£4.0m</b>	<b>£2.7m</b>	<b>£97.8m</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.

The expected payments from the schemes are primarily pension payments, most of which increase at a fixed rate or in line with RPI or CPI inflation when in payment and lump sums. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of the schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Group also considers that the trustees do not have the power to unilaterally wind up the schemes or vary benefits.

The latest full actuarial valuation of the Group's defined benefit pension schemes have been updated to 31 March 2018 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, 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 2018				
Rate of increase in pensionable salaries	2.2%	2.2%	2.2%	2.2%
Rate of increase in pensions (past service)	2.2%	2.9%	3.2%	2.2%
Discount rate	2.6%	2.6%	2.6%	2.6%
Inflation rate (RPI)	3.1%	3.1%	3.1%	3.1%
Inflation rate (CPI)	2.0%	2.0%	2.0%	2.0%
Weighted average duration of cashflows (years)	17	15	17	18
Total life expectancy for current pensioners aged 65 (years)	86.1	87.2	85.2	86.1
Total life expectancy for future pensioners currently aged 45 (years)	87.2	88.2	86.3	87.4

## 24. Retirement benefits and liabilities (continued)

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2018				2017			
	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	892.2	15.7	64.8	972.7	1,044.9	20.8	60.5	1,126.2
Property	305.5	7.8	7.9	321.2	252.2	11.6	7.4	271.2
Absolute return and multi-strategy funds	78.5	158.6	16.1	253.2	16.0	128.0	20.2	164.2
Low risk assets								
Bonds	1,165.3	57.7	95.1	1,318.1	1,012.8	80.9	82.5	1,176.2
Matching assets*	1,869.7	–	168.0	2,037.7	1,916.9	0.1	175.3	2,092.3
Active position on longevity swaps	(168.0)	–	–	(168.0)	(153.9)	–	–	(153.9)
<b>Fair value of assets</b>	<b>4,143.2</b>	<b>239.8</b>	<b>351.9</b>	<b>4,734.9</b>	<b>4,088.9</b>	<b>241.4</b>	<b>345.9</b>	<b>4,676.2</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	1,257.1	91.1	201.2	1,549.4	1,325.0	93.3	191.0	1,609.3
Deferred pensioners	929.0	83.8	88.3	1,101.1	932.9	87.0	87.0	1,106.9
Pensioners	1,879.7	123.9	85.6	2,089.2	1,855.2	122.7	86.4	2,064.3
<b>Total liabilities</b>	<b>4,065.8</b>	<b>298.8</b>	<b>375.1</b>	<b>4,739.7</b>	<b>4,113.1</b>	<b>303.0</b>	<b>364.4</b>	<b>4,780.5</b>
<b>Deficit/(surplus)</b>	<b>(77.4)</b>	<b>59.0</b>	<b>23.2</b>	<b>4.8</b>	<b>24.2</b>	<b>61.6</b>	<b>18.5</b>	<b>104.3</b>
Present value of unfunded obligations	–	–	0.2	0.2	–	–	0.2	0.2
<b>Net liabilities/(assets) recognised in the balance sheet</b>	<b>(77.4)</b>	<b>59.0</b>	<b>23.4</b>	<b>5.0</b>	<b>24.2</b>	<b>61.6</b>	<b>18.7</b>	<b>104.5</b>

\* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £1,977 million (2017: £2,091 million).

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13, the valuation of which is equal to the amount of collateral posted by the schemes as at balance sheet date. This is a level 3 derivative and the key inputs to the valuation are the discount rate and mortality assumptions.

The amounts recognised in the Group income statement are as follows:

	2018				2017			
	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	37.7	3.2	2.4	43.3	31.1	1.6	2.2	34.9
Incurred expenses	3.7	0.2	0.1	4.0	3.6	0.2	0.1	3.9
<b>Total included within operating profit</b>	<b>41.4</b>	<b>3.4</b>	<b>2.5</b>	<b>47.3</b>	<b>34.7</b>	<b>1.8</b>	<b>2.3</b>	<b>38.8</b>
Net interest cost	0.3	1.6	0.4	2.3	5.1	1.2	0.1	6.4
<b>Total included within profit</b>	<b>41.7</b>	<b>5.0</b>	<b>2.9</b>	<b>49.6</b>	<b>39.8</b>	<b>3.0</b>	<b>2.4</b>	<b>45.2</b>

## 24. Retirement benefits and liabilities (continued)

### Amounts recorded in the Group statement of comprehensive income

	2018				2017			
	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	53.5	(1.5)	8.8	60.8	757.6	16.9	47.2	821.7
Experience losses arising on scheme liabilities	(35.8)	–	6.2	(29.6)	12.7	(0.5)	1.0	13.2
Changes in assumptions on scheme liabilities	33.2	4.9	(19.6)	18.5	(662.1)	(43.8)	(62.2)	(768.1)
<b>At 31 March</b>	<b>50.9</b>	<b>3.4</b>	<b>(4.6)</b>	<b>49.7</b>	<b>108.2</b>	<b>(27.4)</b>	<b>(14.0)</b>	<b>66.8</b>

### Analysis of movement in the Group balance sheet

	2018				2017			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
<b>Fair value of plan assets (including reimbursement rights)</b>								
<b>At 1 April</b>	<b>4,088.9</b>	<b>241.4</b>	<b>345.9</b>	<b>4,676.2</b>	<b>3,306.1</b>	<b>222.2</b>	<b>296.5</b>	<b>3,824.8</b>
Interest on assets	105.3	6.2	4.3	115.8	114.5	7.7	4.9	127.1
Actuarial gain/(loss) on assets	53.5	(1.5)	8.8	60.8	757.6	16.9	47.2	821.7
Employer contributions	92.4	4.2	2.8	99.4	70.9	2.1	4.0	77.0
Employee contributions	0.5	–	0.2	0.7	0.4	1.1	0.3	1.8
Benefits paid	(197.4)	(10.5)	(10.1)	(218.0)	(160.6)	(8.6)	(7.0)	(176.2)
<b>At 31 March</b>	<b>4,130.2</b>	<b>239.8</b>	<b>351.9</b>	<b>4,734.9</b>	<b>4,088.9</b>	<b>241.4</b>	<b>345.9</b>	<b>4,676.2</b>
<b>Present value of benefit obligations</b>								
<b>At 1 April</b>	<b>4,113.1</b>	<b>303.0</b>	<b>364.4</b>	<b>4,780.5</b>	<b>3,469.6</b>	<b>255.5</b>	<b>302.6</b>	<b>4,027.7</b>
Service cost	37.7	3.2	2.4	43.3	31.1	1.6	2.2	34.9
Incurred expenses	3.7	0.2	0.1	4.0	3.6	0.2	0.1	3.9
Interest cost	105.6	7.8	4.7	118.1	119.6	8.9	5.0	133.5
Employee contributions	0.5	–	0.2	0.7	0.4	1.1	0.3	1.8
Experience losses/(gain)	35.8	–	(6.2)	29.6	(12.7)	0.5	(1.0)	(13.2)
Actuarial loss/(gain) – demographics	(0.8)	(1.2)	2.1	0.1	(10.2)	(12.7)	(6.7)	(29.6)
Actuarial (gain)/loss – financial	(32.4)	(3.7)	17.5	(18.6)	672.3	56.5	68.9	797.7
Benefits paid	(197.4)	(10.5)	(10.1)	(218.0)	(160.6)	(8.6)	(7.0)	(176.2)
<b>At 31 March</b>	<b>4,065.8</b>	<b>298.8</b>	<b>375.1</b>	<b>4,739.7</b>	<b>4,113.1</b>	<b>303.0</b>	<b>364.4</b>	<b>4,780.5</b>
Present value of unfunded obligations	–	–	0.2	0.2	–	–	0.2	0.2
<b>Net deficit/(surplus) at 31 March</b>	<b>(77.4)</b>	<b>59.0</b>	<b>23.4</b>	<b>5.0</b>	<b>24.2</b>	<b>61.6</b>	<b>18.7</b>	<b>104.5</b>

The movement in net deficits for the year ending 31 March 2018 is as a result of the movement in assets and liabilities shown above.

## 24. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2018 and the charges to the Group income statement for the year to March 2018, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2018 £m	Income statement 2019 £m
Initial assumptions	4,739.7	43.7
Discount rate assumptions increased by 0.5%	(364.5)	(15.8)
Discount rate assumptions decreased by 0.5%	364.5	12.0
Inflation rate assumptions increased by 0.5%	287.6	10.2
Inflation rate assumptions decreased by 0.5%	(264.6)	(9.4)
Total life expectancy increased by half a year	86.4	2.8
Total life expectancy decreased by half a year	(86.4)	(2.7)
Salary increase assumptions increased by 0.5%	54.3	2.7
Salary increase assumptions decreased by 0.5%	(53.9)	(2.6)

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets (including reimbursement rights) are assumed not to be affected by any sensitivity changes shown and so the balance sheet values would increase or decrease by the same amount as the change in the defined benefit obligations.

## 25. Reconciliation of operating profit to cash generated from operations

	2018 £m	2017 £m
<b>Cash flows from operating activities</b>		
Operating profit before amortisation of acquired intangible and exceptional items	468.7	472.3
Amortisation of acquired intangible and exceptional items	(98.1)	(112.7)
<b>Operating profit before share of results of joint ventures and associates</b>	<b>370.6</b>	<b>359.6</b>
Depreciation of property, plant and equipment	91.3	82.4
Amortisation and impairment of intangible assets	111.1	122.6
Investment income	1.9	1.2
Equity share-based payments	6.4	15.0
Profit on disposal of property, plant and equipment	(4.1)	(2.8)
Loss on disposal of intangible assets	–	0.3
<b>Operating cash flows before movement in working capital</b>	<b>577.2</b>	<b>578.3</b>
Increase in inventories	(19.5)	(0.4)
Increase in receivables	(137.4)	(78.3)
Increase in payables	102.6	71.0
Decrease in provisions	(27.7)	(28.4)
Retirement benefit contributions in excess of income statement	(47.3)	(38.2)
<b>Cash generated from operations</b>	<b>447.9</b>	<b>504.0</b>

## 26. Movement in net debt

	2018 £m	2017 £m
Increase in cash in the year	106.9	11.1
Cash flow from the (increase)/decrease in debt and lease financing	(43.7)	91.0
Change in net funds resulting from cash flows	63.2	102.1
Loans and finance leases acquired with subsidiaries	–	(5.2)
New finance leases – received	–	–
New finance leases – granted	28.1	14.8
Movement in joint venture and associate loans	(4.5)	(0.3)
Foreign currency translation differences and other	(28.3)	(56.4)
Movement in net debt in the year	58.5	55.0
Net debt at the beginning of the year	(1,173.5)	(1,228.5)
Net debt at the end of the year	(1,115.0)	(1,173.5)

## 27. Changes in net debt

	31 March 2017 £m	Cash flow £m	New finance leases £m	Exchange / other movement £m	31 March 2018 £m
Cash and bank balances	191.4	101.1	–	(6.2)	286.3
Bank overdrafts	(5.8)	5.8	–	–	–
<b>Cash, cash equivalents and bank overdrafts</b>	<b>185.6</b>	<b>106.9</b>	<b>–</b>	<b>(6.2)</b>	<b>286.3</b>
Debt	(1,428.4)	(46.8)	–	43.0	(1,432.2)
Finance leases – received	(118.2)	27.5	–	(0.4)	(91.1)
Finance leases – granted	27.6	(9.6)	28.1	0.4	46.5
	(1,519.0)	(28.9)	28.1	43.0	(1,476.8)
Net debt before derivatives and joint ventures and associates loans	(1,333.4)	78.0	28.1	36.8	(1,190.5)
Net debt derivative	127.6	(14.8)	–	(65.1)	47.7
Joint ventures and associates loans	32.3	(4.5)	–	–	27.8
<b>Net debt</b>	<b>(1,173.5)</b>	<b>58.7</b>	<b>28.1</b>	<b>(28.3)</b>	<b>(1,115.0)</b>

## 28. Acquisitions

There were no acquisitions in the year.

During the previous year, in April 2016 the Group acquired 100% of Heli Aviation GmbH for £5.7 million plus acquired loans of £5.2 million giving a total cost of £10.9 million.

Deferred consideration of £19.0 million was paid in the previous year in respect of the DSG, Scandinavian AirAmbulance AB, Context Information Services Limited and Skills2Learn Limited

## 29. Disposals

During the year the Group disposed of its schools infrastructure business, which resulted in a loss of £0.9 million.

During both the current and previous years the Group paid certain accrued costs on previously disposed of businesses of £2.0 million (2017: £0.6 million).

## 30. Transactions with non-controlling interests

During the year the put option in respect of the non-controlling interest in Scandinavian AirAmbulance AB was exercised resulting in the Group paying £5.3 million plus deferring a further payment of £2.4 million for a year, in order to acquire the balance of the share capital in that company.

## 31. Operating lease commitments – minimum lease payments

	2018		2017	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
<b>Commitments under non-cancellable operating leases payable:</b>				
Within one year	29.9	126.9	31.5	110.7
Later than one year and less than five years	82.3	287.0	78.6	293.0
After five years	61.6	114.2	49.1	110.3
	173.8	528.1	159.2	514.0

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 £389.5 million (2017: £389.4 million) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

## 32. Contingent liabilities

- Pursuant to the Rosyth Dockyard privatisation agreement, the MOD will share in the net proceeds of sale or development of the dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MOD dated 30 January 1997. By way of security for the MOD's rights to such share, the Company has granted a fixed charge (standard security) over the dockyard in favour of the Authority.
- The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.
- The Group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.
- As part of its role in the Submarine Enterprise Performance Program, the Group has provided a £9 million financial guarantee for a supplier to ensure continuity of supply.

### 33. Capital and other financial commitments

	2018 £m	2017 £m
Contracts placed for future capital expenditure not provided in the financial statements	11.8	29.4

### 34. Related party transactions

- (a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 13.

	2018 Revenue to £m	2018 Purchases from £m	2018 Year end debtor balance £m	2018 Year end creditor balance £m
<b>Joint ventures and associates</b>				
Holdfast Training Services Limited	72.0	–	0.3	–
ABC Electrification Limited	–	–	3.8	–
First Swietelsky Operation and Maintenance	10.5	–	0.5	(0.8)
FSP (2004) Limited	–	(0.3)	–	–
Ascent Flight Training (Management) Limited	0.5	–	–	–
Ascent Flight Training Holdings Limited	0.8	–	–	–
Fixed Wing Training Limited	9.6	–	–	–
Advanced Jet Training Limited	–	–	–	–
Rear Crew Training Limited	4.2	–	–	–
AirTanker Services Limited	9.1	–	0.5	–
Alert Communications Limited	7.3	–	0.7	–
ALC (Superholdco) Limited	–	–	5.3	–
Naval Ship Management (Australia) Pty Limited	4.6	–	–	–
Cura Classis (UK) Limited	3.7	–	–	–
Cura Classis (US) LLC	5.0	–	–	–
Cura Classis Canada (Hold Co) Inc.	12.9	–	–	–
Cavendish Dounreay Partnership Limited	3.9	–	0.3	–
Cavendish Fluor Partnership Limited	32.3	(0.2)	0.6	–
Cavendish Boccard Nuclear Limited	2.4	–	0.3	–
Duqm Naval Dockyard SAOC	–	–	1.0	–
	178.8	(0.5)	13.3	(0.8)

All transactions noted above arise in the normal course of business.

- (b) Defined benefit pension schemes.  
Please refer to note 24 for transactions with the Group defined benefit pension schemes.
- (c) Key management compensation is shown in note 6 and in the Remuneration report.
- (d) Transactions in employee benefits trusts are shown in note 22.

### 34. Related party transactions (continued)

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 13.

	2017 Revenue to £m	2017 Purchases from £m	2017 Year end debtor balance £m	2017 Year end creditor balance £m
<b>Joint ventures and associates</b>				
Holdfast Training Services Limited	73.9	(0.1)	7.3	(0.1)
ABC Electrification Limited	28.2	–	3.2	–
First Swietelsky Operation and Maintenance	10.6	–	2.2	(1.5)
FSP (2004) Limited	–	(0.6)	–	–
Ascent Flight Training (Management) Limited	1.9	–	–	–
Ascent Flight Training Holdings Limited	0.7	–	–	–
Advanced Jet Training Limited	1.8	–	0.1	–
Rear Crew Training Limited	2.9	–	0.5	–
Airtanker Services Limited	8.9	–	0.5	–
ALC (Superholdco) Limited	2.2	–	–	–
Naval Ship Management (Australia) Pty Limited	3.8	–	0.4	–
Cura Classis (UK) Limited	5.3	–	–	–
Cura Classis (US) LLC	5.6	–	–	–
Cura Classis Canada (Hold Co) Inc.	11.3	–	–	–
Cavendish Dounreay Partnership Limited	4.3	(0.1)	0.3	–
Cavendish Fluor Partnership Limited	22.1	(0.1)	2.3	–
Cavendish Boccord Nuclear Limited	1.4	–	0.4	–
	184.9	(0.9)	17.2	(1.6)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.

Please refer to note 24 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 6.

(d) Transactions in employee benefits trusts are shown in note 22.

### 35. Post balance sheet events

Details on dividends are given in note 8. There are no further material events subsequent to 31 March 2018 that require disclosure.

## 36. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2018 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. No subsidiary undertakings have been excluded from the consolidation.

### Subsidiaries: Incorporated in the United Kingdom, wholly owned:

Active Management Limited	Babcock Education and Skills Limited	Babcock Investments (Number Three) Limited
Air Power International Limited 110 Queen Street, Glasgow, G1 3HD, Scotland	Babcock Education Holdings Limited	Babcock Investments Limited
Airwork Limited	Babcock Emergency Services Limited	Babcock IP Management (Number One) Limited
Alstec Automation Limited	Babcock Engineering Assessments Limited <sup>d</sup>	Babcock IP Management (Number Two) Limited
Alstec Defence Limited	Babcock Engineering Limited	Babcock Land (Whitefleet Management) Limited
Alstec Limited	Babcock Environmental Services Limited	Babcock Land Limited
Appledore Shipbuilders (2004) Limited <sup>c</sup> Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Babcock Finance Limited	Babcock Leaseco Limited
Armstrong Technology Associates Limited	Babcock Fire Services (SW) Limited	Babcock Lifeskills Limited
Babcock (UK) Holdings Limited <sup>a,i</sup>	Babcock Fire Services Limited	Babcock Managed Security Services Limited <sup>m</sup>
Babcock 1234 Limited	Babcock Fire Training (Avonmouth) Limited	Babcock Management Limited
Babcock 2010 Limited	Babcock Flagship Limited <sup>c</sup>	Babcock Marine & Technology Holdings Limited
Babcock Aerospace Limited	Babcock Group (US Investments) Limited	Babcock Marine (Clyde) Limited Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Babcock Airports Limited	Babcock Group International Limited	Babcock Marine (Devonport) Limited <sup>c</sup> Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock Assessments Limited	Babcock Group Limited	Babcock Marine (Rosyth) Limited Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Babcock Aviation Services (Holdings) Limited <sup>a,i</sup>	Babcock Holdings Limited <sup>i</sup>	Babcock Marine Holdings (UK) Limited <sup>f</sup>
Babcock Brazil Investments Limited	Babcock HSPS Trustees Limited	Babcock Marine Limited
Babcock Brisco Limited	Babcock Information Analytics and Security Holdings Limited Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ	Babcock Marine Products Limited
Babcock Careers Guidance Limited <sup>m</sup>	Babcock Information Analytics and Security Limited <sup>f</sup> Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ	Babcock Media Services Limited
Babcock Civil Infrastructure Limited	Babcock Infrastructure Holdings LLP	Babcock Mission Critical Services Design and Completions Limited
Babcock Communications Limited	Babcock Integrated Technology (Korea) Limited	Babcock Mission Critical Services Leasing Limited
Babcock Contractors Limited	Babcock Integrated Technology Limited	Babcock Mission Critical Services Limited
Babcock Corporate Secretaries Limited	Babcock Integration LLP	Babcock Mission Critical Services Offshore Limited
Babcock Corporate Services Limited	Babcock International Guarantee Company	Babcock Mission Critical Services Onshore Limited
Babcock Critical Assets Holdings LLP	Babcock International Limited <sup>f</sup>	Babcock Mission Critical Services Topco Limited <sup>c</sup>
Babcock Critical Services Limited 110 Queen Street, Glasgow, G1 3HD, Scotland	Babcock International Middle East Limited	Babcock Mission Critical Services UK Limited
Babcock Defence & Security Holdings LLP	Babcock International Support Services Limited	
Babcock Defence and Security Investments Limited	Babcock Investments (Fire Services) Limited	
Babcock Defence Systems Limited	Babcock Investments (Number Eight) Limited	
Babcock Design & Technology Limited Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	Babcock Investments (Number Four) Limited	
Babcock DSG Limited		
Babcock Education & Training Holdings LLP		

## 36. Group entities (continued)

### Subsidiaries: Incorporated in the United Kingdom, wholly owned: – continued

Babcock MSS Limited	Babcock-Moxey Limited	Eve NCI Limited
Babcock Networks Limited	BCRA Chesterfield Limited <sup>l</sup>	Eve Power Limited
Babcock Nominees Limited	BIL Solutions Limited	Eve Transmission Limited
Babcock Nuclear Limited	Birchill Investment Co. Limited	FBM Babcock Marine Holdings (UK) Limited
Babcock Overseas Investments Limited	BMH (2002) Limited	FBM Babcock Marine Limited
Babcock Partner No 6 Limited	BMPT Limited	FBM Marine International (UK) Limited
Babcock Partner No 7 Limited	BNS Nuclear Services Limited	First Engineering Holdings Limited
Babcock Partners No 2010 Limited	BNS Pension Trustees Limited	Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland
Babcock Power Maintenance Limited	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	First Engineering Limited
Babcock Project Investments Limited	BNS Pensions Limited	First Fire and Rescue Service Limited
Babcock Project Services Limited <sup>c</sup>	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	First Fire and Rescue Service No 2 Limited
Babcock Rail Limited	Bond Aviation Leasing Limited	First Projects Limited
Babcock Services Group Limited	Bond Aviation Topco Limited <sup>f</sup>	Flagship Fire Fighting Training Limited
Babcock Services Limited <sup>g</sup>	Bond Mission Critical Services PLC	FN Consultancy Limited
Babcock Skills Development and Training Limited	British Nuclear Services Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock Southern Careers Limited <sup>d</sup>	Brooke Marine Shipbuilders Limited	FNC Group Limited
Babcock Southern Holdings Limited <sup>m</sup>	Cavendish Nuclear (Overseas) Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock SSD Services Limited	Cavendish Nuclear Limited <sup>f</sup>	FNC Limited
Babcock Support Services (Investments) Limited	Cavendish Nuclear Manufacturing Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock Support Services Limited <sup>j</sup>	Certas Limited	Form Land Support Limited
110 Queen Street, Glasgow, G1 3HD, Scotland	Chart Distribution Services Limited	Frazer-Nash Consultancy Group Limited <sup>c</sup>
Babcock Systems Limited	Chart Services Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock Technical Services Limited	110 Queen Street, Glasgow, G1 3HD, Scotland	Frazer-Nash Consultancy Limited <sup>h</sup>
Babcock Training Limited	Chart Storage & Transportation Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock Transmission Limited <sup>c</sup>	Context Information Security Limited	FW 1B SPV Limited <sup>m</sup>
Babcock Trustees Limited	11 Westferry Circus, London, E14 4HD	Gaycrete Limited
Babcock UK Finance	Costpool Limited	Gibraltar Investments (No. 7) Limited <sup>c</sup>
Babcock US Investments Limited	Defence SCS Limited	HCTC Limited
Babcock Vehicle Engineering Limited <sup>e</sup>	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Hiberna Contract Services Limited
Babcock Welbeck Limited	Devonport Management Limited	Hiberna FM Limited
Babcock Woodall-Duckham (Overseas) Limited <sup>l</sup>	Devonport Royal Dockyard Limited <sup>b</sup>	Hiberna Limited
Babcock2 Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Hiberna Network Solutions Limited
	Devonport Royal Dockyard Pension Trustees Limited	INS Innovation Limited
	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Jackson (EBP) Limited
	Eve Construction Limited	Jackson Management Services Limited
	Eve Developments Limited	
	Eve Group Limited	

## 36. Group entities (continued)

### Subsidiaries: Incorporated in the United Kingdom, wholly owned: – continued

KML (UK) Limited  
 Learning21 Limited  
 Liquid Gas Equipment Limited  
 Rosyth Business Park, Rosyth, Dunfermline, Fife, K11 2YD, Scotland  
 Locam Limited  
 Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ  
 Marine Engineering & Fabrications (Holdings) Limited  
 Marine Engineering & Fabrications Limited  
 Merlin Communications Group Limited<sup>h</sup>  
 Merlin Orfordness Limited  
 Municipal Vehicle Hire Limited  
 Northern Cable Installations Limited  
 Pearson & Raby Limited  
 Peterhouse Group Limited  
 Peterhouse5 (Shorco) Limited<sup>c</sup>  
 Peterhouse6 (IETG) Limited  
 Port Babcock Rosyth Limited  
 Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland  
 Rosyth Royal Dockyard Limited<sup>n</sup>  
 Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland  
 Rosyth Royal Dockyard Pension Trustees Limited  
 Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland  
 SBRail Limited  
 Scimco Limited  
 Skills2Learn Limited  
 St Helen's Securities Limited  
 Strachan & Henshaw Limited  
 The Stirling Boiler Company Limited  
 110 Queen Street, Glasgow, G1 3HD, Scotland  
 Touchstone Learning & Skills Limited  
 Transfleet Distribution Limited  
 Transfleet Truck Rentals Limited  
 Tyneham Investments Limited  
 UKAEA Limited  
 Vosper ManTech Limited<sup>c</sup>  
 Vosper Thornycroft (UK) Limited  
 Westminster Education Consultants Limited

### Subsidiaries: Incorporated overseas, wholly owned:

AUH-Bidco Pty Limited  
 Level 10, 70 Franklin Street, Adelaide SA 5000, Australia  
 Babcock (NZ) Limited  
 Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand  
 Babcock Africa (Pty) Limited<sup>k</sup>  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Africa Holdings (Pty) Ltd<sup>o,f</sup>  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Africa Investments (Pty) Ltd  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Africa Investments BV  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Africa Services (Pty) Ltd  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Australia Holdings Pty Limited  
 Level 10, 70 Franklin Street, Adelaide SA 5000, Australia  
 Babcock Aviation Services (Holdings) SL  
 Plaza Pablo Ruiz, Picasso 1, Torre Picasso, 28020, Madrid, Spain  
 Babcock B.V.  
 Bezuidenhoutseweg 1, 2594AB, The Hague, The Netherlands  
 Babcock Canada Inc  
 45 O'Connor Street, Suite 1500, Ottawa ON K1P 1A4, Canada  
 Babcock Communications Cyprus Limited  
 199 Mariakos III Ave, Neoclous House, CY 3030 Limassol, Cyprus  
 Babcock Education and Training (Pty) Ltd  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Financial Services (Pty) Ltd  
 Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa  
 Babcock Holdings (USA) Incorporated<sup>k</sup>  
 S32 Loockerman Square, Ste. L-100 Dover, Delaware, United States  
 Babcock Integrated Technology GmbH  
 Berliner Platz 12, 41061, Moenchgladbach, Germany  
 Babcock International France SAS  
 4 rue Lord Byron, 75008 Paris, France  
 Babcock International Holdings BV  
 Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands  
 Babcock International Italy S.p.A.  
 Piazza Castello no.26 – 20121 Milan, Italy  
 Babcock International Spain S.L.U.  
 Mutxamel, Alicante, Aeródromo de Mutxamel, 03110, Partida la Almaina 92, Spain

Babcock International US Inc  
 21001 Great Mills Road, Lexington Park, Maryland DE 20653, United States  
 Babcock Ireland Finance Limited  
 44 Esplanade, St Helier, Jersey, JE4 9WG  
 Babcock Luxembourg Investments I S.a.r.l.  
 12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg  
 Babcock Luxembourg Finance S.a.r.l.  
 12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg  
 Babcock Luxembourg Investments S.a.r.l.  
 12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg  
 Babcock Luxembourg S.a.r.l.  
 12F rue Guillaume Kroll, L-1882 Luxembourg, Luxembourg  
 Babcock Malta (Number Two) Limited  
 44 Esplanade, St Helier, JE4 9WG, Jersey  
 Babcock Malta Finance (Number Two) Limited<sup>d</sup>  
 Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta  
 Babcock Malta Finance Limited<sup>d</sup>  
 Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta  
 Babcock Malta Holdings (Number Two) Limited<sup>d</sup>  
 Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta  
 Babcock Malta Holdings Limited<sup>d</sup>  
 Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta  
 Babcock Malta Limited  
 44 Esplanade, St Helier, JE4 9WG, Jersey  
 Babcock MCS Congo SA  
 Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, Republic of the Congo  
 Babcock MCS Fleet Management S.p.A.  
 Piazza Castello no. 26, 20121, Milan, Italy  
 Babcock Mission Critical Services Asset Management SAU  
 Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain  
 Babcock Mission Critical Services Australasia Pty Ltd  
 Level 10, 70 Franklin Street, Adelaide, SA 5000, Australia  
 Babcock Mission Critical Services España SAU  
 Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain  
 Babcock Mission Critical Services Fleet Management SAU  
 Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

## 36. Group entities (continued)

### Subsidiaries: Incorporated overseas, wholly owned: – continued

Babcock Mission Critical Services France SA  
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock Mission Critical Services Germany GmbH  
Augsburg Airport, Flughafenstrasse 19, 86169 Augsburg, Germany

Babcock Mission Critical Services Group, S. A. U  
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Holdings, S. L.U.  
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services International S.A.U.  
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Ireland Limited  
24/26 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services Italia S.p.A  
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Portugal, Unipessoal, LDA  
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Mission Critical Services, S.A.U.  
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services, Scandinavia AB<sup>c</sup>  
Ashurst Advokatbyrå AB, PO Box 7124 10387, Stockholm, Sweden

Babcock Moçambique Limitada  
Av. Samora Macel 3380/1, Mozambique

Babcock MCS Mozambique Limitada  
Sala no. 2022, I Andar, Terminal A, Aeroporto Internacional Domaputo, Distrito Urbano 2, Mozambique

Babcock Namibia Services Pty Ltd  
Unit 5, Ground Floor, Dr Agostinho Neto Road, Aussspannplatz, Windhoek, Namibia

Babcock Networks Ireland Limited  
Unit 2, Red Cow Interchange Estate, Ballymounth, Dublin, 22, Ireland

Babcock Offshore Services Australasia Pty Ltd  
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Oman LLC  
Al Raid Business Centre, Qurum, PO Box 2315, Muscat, PC130, Oman

Babcock Pty Limited  
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock SAA FW AB  
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavia Holding AB  
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavian AirAmbulance AB  
Lägvägen 3, 832 56, Frösön, Sweden

Babcock Scandinavian Air Ambulance AS  
Nerstranda 55, 9008 Troms, Norway

Babcock Support Services (Canada) Inc.  
44, Chipman Hill Suite 1000, Saint John NB NB E2L 2A9, Canada

Babcock Support Services Canada Investments Inc.<sup>f</sup>

45 O'Connor Street, Suite 1500, Ottawa, ON K1P 1A4, Canada

Babcock Support Services (USA) LLC  
251 Little Falls Drive, Wilmington, DE 19808, United States

Babcock Support Services GmbH  
Berliner Platz 12, 41061, Moenchengladbach, Germany

Babcock Support Services s.r.l.  
Via Foro Buonaparte, 70 20121, Milano, Italy

Babcock TCM Plant (Proprietary) Limited<sup>k</sup>  
Unit G3, Victoria House, Plot 132, Independence Avenue, Gaborone, Botswana

Babcock US Investments (Number Two) LLC<sup>c</sup>  
160 Greentree Drive, Suite 101, Dover DE 19904, United States

Babcock US Investments Inc.<sup>c</sup>  
160 Greentree Drive, Suite 101, Dover, Kent County DE 19904, United States

Babcock Zambia Limited  
PO Box 28037, Kitwe, Copperbelt Province, 101010, Zambia

BMH Technologies (Holdings) GmbH<sup>c</sup>  
Berliner Platz 12, 41061, Moenchengladbach, Germany

Chepstow Insurance Limited  
St Martin's House, Le Bodge, St Peter Port, GY1 4AU

Cognac Formation Aero  
Lieu dit le Portaret, 83340, Le Cannet des Maures, France

Conbras Servicos Tecnicos de Suporte Limitada  
Rua Nilo Pecanha no 50, Suites 314 & 315, Centro, Rio de Janeiro, 20020.100, Brazil

Context Information Security GmbH  
Ernst-Ludwig-Ring 2, Bad Nauheim, 61231, Amtsgericht Friedberge (Hessen), Germany

Context Information Security LLC<sup>c</sup>  
2711 Centerville Road, Suite 400, Wilmington DE 19808, United States

Frazer-Nash Consultancy (Australia) Pty Limited  
689-695 Mersey Road, Osborne SA 5017, Australia

Heli Aviation (Tianjin) Helicopter Sales Co., Ltd.  
Room 514/515, The Aviation Industry Support Center, Comprehensive Free Trade Zone, Airport Industrial Park, 1 Boahang Riad, Tianjin, China

Heli Aviation China Ltd  
World Finance Centre, Kowloon Hong Kong / Room 1102-1103 11/F, Kowloon Building, 555 Nathan Road, Mongkok, Kowloon, Hong Kong

INAER Helicopter Australia Pty Limited  
Level 10, 70 Franklin Street, Adelaide SA 5000, Australia

INAER Helicopter Chile S.A.  
2880 Americo Vespucio Norte Avenue, Suite 1102, Conchalí, Santiago, Chile

INAER Helicopter Peru S.A.C.<sup>(n)</sup>  
Av. De La Floresta No 497 Int., Lima, Peru

INAER Ireland Finance Limited  
Custom House Plaza, Block 6, IFSC, DUBLIN 1, Ireland

Marine Industrial Design Limited  
Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Naia Marine B.V  
Prins Bernhardplein 200, 1097 JB, Amsterdam Netherlands

National Training Institute LLC<sup>(m)</sup>  
PO Box 267, Madinat Qaboos, Sultanate of Oman, 115, Oman

Peterhouse GmbH  
Berliner Platz 12, 41061, Moenchengladbach, Germany

PHG Insurance Limited  
St Martin's House, Le Bodge, St Peter Port, GY1 4AU, Guernsey

Strachan & Henshaw Canada Inc  
45 O'Connor Street, Suite 1500, Ottawa, ON, K1P 1A4, Canada

Strachan & Henshaw, Inc  
155 Federal Street, Suite 700, Boston MA 02110, United States

VT Communications GmbH  
Mainzer Landstrasse 16, 60325, Frankfurt Am Main, Germany

VT Insurance Services Limited  
St Martins House, Le Bodge, St Peter Port, Guernsey, GY1 4AU

World Helicopters Norway AS  
Norske Helikopterservice Flyplassvegen 214, Sola, 4055, Norway

### Subsidiaries: partly owned:

Airwork Technical Services & Partners LLC (51%)  
PO Box 248 (located at Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock 4S Limited (80.1%)<sup>c</sup>

Babcock Communications & Partners LLC (99%)<sup>(v)</sup>  
PO Box 40 Jalaan, Al Ashkhara, 422, Sultanate of Oman

Babcock Dyncorp Limited (56%)<sup>c</sup>

## 36. Group entities (continued)

### Subsidiaries: partly owned – continued:

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90%)  
2nd Floor, Opeibea House, 37 Liberation Road, P.O. Box CT 9347, Cantonments, Accra, Ghana

Babcock Mission Critical Services Galicia SL (91.1%)  
Lugar Lavacolla-Aeropuerto Santiago, S/N, C.P., 15820, Santiago de Compostela, A Coruna, Spain

Babcock Ntuthuko Aviation (Pty) Limited (74.2%)  
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Proprietary) Limited (75%)  
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Proprietary) Limited (75.3%)  
Unit G3, Victoria House, Plot 132, Independence Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Limited (72%)<sup>f</sup>  
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Capital Careers Limited (88.3%)

Surrey Careers Services Limited (94.1%)<sup>f</sup>

### Joint ventures and associates (equity accounted):

ABC Electrification Limited (33.3%)<sup>b</sup>  
8th Floor, The Place, High Holborn, London, WC1V 7AA

Advanced Jet Training Holdings Limited (50%)

Advanced Jet Training Limited (50%)

AirTanker Finance Limited (13.3%)\*  
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Holdings Limited (13.3%)\*  
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Limited (13.3%)\*  
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Services Limited (22.3%)\*  
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, OX18 3LX

ALC (FMC) Limited (50%)\*  
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

ALC (Holdco) Limited (50%)\*  
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

ALC (SPC) Limited (50%)\*  
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

ALC (Superholdco) Limited (50%)\*  
The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ

Alert Communications (2006) Limited (20%)<sup>f</sup>

Alert Communications (Holdings) Limited (20%)

Alert Communications Group Holdings Limited (20%)

Alert Communications Limited (20%)

Ascent Flight Training (Holdings) Limited (50%)

Ascent Flight Training (Management) Limited (50%)

Ascent Flight Training (Services) Limited (50%)

Babcock Middle East LLC (49%)  
Suite 702, Tower A, Al Jazira Sports Club, Muroor Road, Abu Dhabi, PO BOX 114851, United Arab Emirates

Cavendish Bocard Nuclear Limited (51%)

Cavendish Dounreay Partnership Limited (50%)<sup>b</sup>

Cavendish Fluor Partnership Limited (65%)

Cura Classis (Canada) Inc. (48%)  
44 Chipman Hill, Suite 1000, PO Box 7289, Str. "A", Saint John, NB E2L 2A9, Canada

Cura Classis (UK) Limited (48%)

Cura Classis (US) Hold Co LLC (48%)  
251 Little Falls Drive, Wilmington, DE 19808, United States

Cura Classis (US) LLC (48%)  
251 Little Falls Drive, Wilmington, DE 19808, United States

Cura Classis Canada (Hold Co) Inc. (48%)<sup>n</sup>  
44 Chipman Hill, Suite 1000, PO Box 7289, Str. "A", Saint John, NB E2L 2A9, Canada

Cura Classis UK (Hold Co) Limited (48%)

Debut Services (South West) Limited (50%)  
20 Triton Street, Regent's Place, London, NW1 3BF

Debut Services Limited (15%)  
20 Triton Street, Regent's Place, London, NW1 3BF

Dounreay Site Restoration Limited (50%)<sup>c</sup>  
Building D2003, Dounreay, Thurso, Caithness, KW14 7TZ, Scotland

Duqm Naval Dockyard SAOC (49%)  
Wadi Say, Al-Duqm, Al-Wusta'a, 3972 112, Oman

European Air-Crane S.p.A. (49%)  
Via Duca D'Aosta no. 20, 50129, Florence, Italy

Falck Air Ambulance A/S (49.1%)  
Polititorvet 1, 1569, Copenhagen, Denmark

FBV Designs Limited (50%)<sup>b</sup>

Fixed Wing Training Holdings Limited (50%)

Fixed Wing Training Limited (50%)

FSP (2004) Limited (50%)<sup>c</sup>  
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Helidax S.A.S. (50%)\*  
Route de Tercis, 40100, Dax, France

Holdfast Training Services Limited (74%)

Magnox Limited (65%)<sup>c</sup>  
Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RG

Naval Ship Management (Australia) Pty Limited (50%)

Level 10, 40 Miller Street, North Sydney NSW 2060, Australia

Rear Crew Training Holdings Limited (50%)

Rear Crew Training Limited (50%)

Research Sites Restoration Limited (65%)<sup>c</sup>  
Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RG

Rotary Wing Training Limited (50%)

S.I.M.A. Societa Italiana de Manutenzioni Aeronautiche SpA (29.4%)  
Via Duca D'Aosta no. 20, 50129, Florence, Italy

### Notes

- (i) The Group's interest in Babcock Africa Holdings (Pty) Limited carries 90% of the voting rights, and the right to substantially all of the distributable profits.
- (ii) The Group's interest in INAER Helicopter Peru S.A.C. carries 70% of the voting rights, and the rights to substantially all distributable profits.
- (iii) The Group's interest in National Training Institute LLC carries over 70% of the voting rights, and the rights to substantially all distributable profits.
- (iv) The Group's interest in Babcock Communication & Partners LLC carries over 70% of the voting rights, and the rights to 99% of the distributable profits.
- a Babcock International Group PLC has direct holdings in Babcock (UK) Holdings Limited, and preference shares class A and B in Babcock Aviation Services (Holdings) Limited.
- b Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
- c Holding of two types of ordinary shares.
- d Holding of three types of ordinary shares.
- e Holding of six types of ordinary shares.
- f Holding of ordinary and preference shares.
- g Holding of two types of ordinary and preference shares.
- h Holding of ordinary and two types of preference shares.
- i Holding of ordinary and three types of preference shares.
- j Holding of ordinary and five types of preference shares.
- k Holding of ordinary and redeemable preference shares.
- l Holding of two ordinary and redeemable preference shares.
- m Holding of ordinary and deferred shares.
- n Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.

\* Year end 31 December.

## Company balance sheet

As at 31 March 2018	Note	2018 £m	2017 £m
<b>Fixed assets</b>			
Investment in subsidiaries	5	2,466.5	2,359.5
<b>Current assets</b>			
Trade and other receivables	6	3,433.7	3,049.2
<b>Creditors: Amounts falling due within one year:</b>			
Trade and other payables	7	(1,813.1)	(1,820.4)
<b>Net current assets</b>		1,620.6	1,228.8
<b>Total assets less current liabilities</b>		4,087.1	3,588.3
<b>Creditors: Amounts falling due after more than one year:</b>			
Trade and other payables	7	(1,371.7)	(1,281.9)
<b>Net assets</b>		2,715.4	2,306.4
<b>Equity</b>			
Called up share capital	9	303.4	303.4
Share premium account		873.0	873.0
Capital redemption reserve		30.6	30.6
Other reserve		768.8	768.8
Retained earnings		739.6	330.6
<b>Total shareholders' funds</b>		2,715.4	2,306.4

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £538.5 million (2017: £146.8 million).

The financial statements on pages 200 to 206 were approved by the Board of Directors on 22 May 2018 and are signed on its behalf by:

**A Bethel**  
Director

**F Martinelli**  
Director

## Company statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
For the year ended 31 March 2018						
<b>At 1 April 2016</b>	302.5	873.0	768.8	30.6	269.8	2,244.7
Profit for the year	–	–	–	–	146.8	146.8
Other comprehensive income	–	–	–	–	40.1	40.1
Shares issued in the year	0.9	–	–	–	–	0.9
Dividends	–	–	–	–	(132.5)	(132.5)
Share-based payments	–	–	–	–	15.0	15.0
Tax on share-based payments	–	–	–	–	(0.8)	(0.8)
Own shares and other	–	–	–	–	(7.8)	(7.8)
Net movement in equity	0.9	–	–	–	60.8	61.7
<b>At 31 March 2017</b>	303.4	873.0	768.8	30.6	330.6	2,306.4
<b>At 1 April 2017</b>						
Profit for the year	–	–	–	–	538.5	538.5
Other comprehensive income	–	–	–	–	10.3	10.3
Dividends	–	–	–	–	(143.9)	(143.9)
Share-based payments	–	–	–	–	6.4	6.4
Tax on share-based payments	–	–	–	–	1.9	1.9
Own shares and other	–	–	–	–	(4.2)	(4.2)
Net movement in equity	–	–	–	–	409.0	409.0
<b>At 31 March 2018</b>	303.4	873.0	768.8	30.6	739.6	2,715.4

### 1. General information

Babcock International PLC is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX.

### 2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

#### Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments on a going concern basis. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £ million.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1, 'Share capital and reserves';
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

#### Investments

Fixed asset investments are stated at cost less provision for impairment in value.

#### Taxation

##### Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

##### Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

## 2. Significant accounting policies (continued)

### Taxation (continued)

#### Deferred income tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

### Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

### Employee benefits

#### (a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 23 to the Group financial statements.

#### (b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. See note 22 to the Group financial statements for further details.

#### (c) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 24 to the Group financial statements for further details.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in the profit and loss account immediately.

### Financial risk management

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents.

### Dividends

Dividends are recognised in the Company's financial statements in the period in which they are approved and in the case of interims, when paid.

### Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no key estimate or judgements for the Company.

### 3. Company profit

The Company has no employees.

The fee payable to the parent auditor and its associates in respect of the audit of the Company's financial statements was £0.4 million (2017: £0.4 million).

### 4. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors emoluments, excluding Company pension contributions, were £6.5 million (2017: £6.7 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 the Directors' 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 2018 as at the date of exercise was £0.6 million (2017: £2.8 million) and the net aggregate value of assets received by Directors in 2018 from Long Term Incentive Plans as calculated at the date of vesting was £0.6 million (2017: £2.9 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

### 5. Investment in subsidiary undertakings

	2018 £m	2017 £m
At 1 April	2,359.5	2,359.5
Additions	107.0	–
At 31 March	2,466.5	2,359.5

During the year preference shares of US\$150 million (£107.0 million) converted to increase the investment in Babcock (UK) Holdings Limited. The Directors believe that the carrying value of the investments is supported by the underlying net assets.

### 6. Trade and other receivables

	2018 £m	2017 £m
<b>Non-current debtors</b>		
Amounts due from subsidiary undertakings	337.7	112.7
Preference shares in a subsidiary undertaking	926.7	1,084.7
Other debtors	0.6	0.9
	1,265.0	1,198.3
<b>Current debtors</b>		
Amounts due from subsidiary undertakings	2,154.6	1,835.3
Prepayments and accrued income	0.5	–
Income tax recoverable	6.2	–
Deferred tax	7.4	15.6
	2,168.7	1,850.9
<b>Total trade and other receivables</b>	<b>3,433.7</b>	<b>3,049.2</b>

Of the preference shares in a subsidiary undertaking, the B preference shares of US\$500 million mature on 17 March 2021 and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings are Euro denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4%, and with a maturity date of 29 July 2019. The A preference shares of US\$150 million matured on 19 March 2018 and carried interest at 4.94%.

## 6. Trade and other receivables (continued)

Interest rates on amounts owed by subsidiary operations.

	Non-current		Current	
	2018 £m	2017 £m	2018 £m	2017 £m
EURIBOR + 4%	158.2	91.0	24.7	63.8
EURIBOR + 2%	11.8	–	–	–
LIBOR +5%	140.0	–	–	140.0
LIBOR +4%	–	–	29.2	36.2
LIBOR +1%	–	–	–	5.0
USD LIBOR + 4%	22.1	13.6	23.3	28.0
STIBOR + 4%	2.7	4.9	27.5	24.4
BBSW +4%	2.9	3.2	0.5	0.5
4.5%	–	–	100.8	100.8
Interest free	–	–	1,948.6	1,436.6
	337.7	112.7	2,154.6	1,835.3

## 7. Trade and other payables

	2018 £m	2017 £m
<b>Amounts due within one year</b>		
Bank loans and overdrafts	314.8	162.6
Amounts due to subsidiary undertakings	1,490.4	1,650.2
Accruals and deferred income	7.9	7.6
	1,813.1	1,820.4
<b>Amounts due after one year</b>		
Bank loans and other borrowings	1,371.0	1,281.0
Other creditors	0.7	0.9
	1,371.7	1,281.9

The Company has £2,026.6 million (2017: £2,030.2 million) of committed borrowing facilities, of which £1,379.4 million (2017: £1,400.9 million) was drawn at the year end. The interest rate applying to bank loans is 1.6% (2017: 1.8%) and is linked to LIBOR, the Eurobond is at 1.8% (2017: 1.75%) whilst the interest rate applying to overdrafts is 1.3% (2017: 1.3%).

The amounts due to subsidiary undertakings are repayable on demand and £1,490.4 million (2017: £1,469.2 million) is interest free. In 2017 a further £136.3 million carried interest at LIBOR + 4%, £9.1 million carried interest at LIBOR + 1% and £35.6 million carried interest at 4.5%.

## 8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2018 included interest rate swaps in relation to the US\$500 million US\$ to GBP cross-currency swap.

The fair values of the financial instruments are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, as it and its subsidiary undertakings are included by full consolidation in the Group accounts on pages 150 to 199.

## 9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2017 and 31 March 2018	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2016	504,196,597	302.5
Shares issued	1,400,000	0.9
At 31 March 2017	505,596,597	303.4

## 10. Contingent liabilities

- (a) The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2018 (2017: £5.7 million) provided to certain Group companies.
- (b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2018 these amounted to £252.8 million (2017: £279.2 million), of which the Company had counter-indemnified £184.4 million (2017: £182.5 million).
- (c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

## 11. Group entities

See note 36 to the Group financial statement for further details.

## 12. Post balance sheet events

The Directors have proposed a final dividend of 22.65p per 60p ordinary share (2017: 21.65p per 60p ordinary share) and it will be paid on 10 August 2018 to shareholders registered on 29 June 2018, subject to approval at the Annual General Meeting on 19 July 2018.

## Financial calendar

Financial year end	31 March 2018
2017/18 full year results announced	23 May 2018
Annual General Meeting	19 July 2018
Final dividend payment date (record date 29 June 2018)*	10 August 2018

\* See also 'Results and dividends' on page 133.

## Registered office and company number

33 Wigmore Street  
London, W1U 1QX

Registered in England  
Company number 2342138

## Registrars

Link Asset Services  
The Registry  
34 Beckenham Road  
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Kent, BR3 4TU

Tel: 0871 664 0300  
(Calls cost 12p per minute plus your phone company's access charge, from overseas – call +44 371 664 0300, calls outside the UK will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)  
Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.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 Link Asset Services using their postal or email addresses given above.

## Independent auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London, WC2N 6RH

## Share dealing services

A simple and competitively priced service to buy and sell shares is provided by Link 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.linksharedeal.com](http://www.linksharedeal.com) or call 0371 664 0445. (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 8.00am and 4.30pm, Monday to Friday excluding public holidays in England and Wales.)

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply. Link Asset Services is a trading name of Link Market Services 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 Link Market Services Trustees Limited on +44 (0) 371 664 0381. (Calls are charged at standard geographic rate and vary by provider, calls outside the UK are charged at the applicable international rate. Lines are open from 9.00am to 5.30pm Monday to Friday.) Alternatively, email [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.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

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
<b>Continuing revenue</b>	<b>4,659.6</b>	<b>4,547.1</b>	<b>4,158.4</b>	<b>3,996.6</b>	<b>3,321.0</b>
Operating profit from continuing operations	370.6	359.6	352.5	352.3	233.1
Share of profit from joint ventures	68.5	56.7	34.6	29.4	20.9
Profit before interest from continuing operations	439.1	416.3	387.1	381.7	254.0
Net interest and similar charges	(48.0)	(54.2)	(57.0)	(68.6)	(35.2)
Profit before taxation from continuing operations	391.1	362.1	330.1	313.1	218.8
Income tax expense	(53.4)	(46.5)	(39.0)	(46.7)	(30.8)
Profit from continuing operations	337.7	315.6	291.1	266.4	188.0
Profit for the year	337.7	315.6	291.1	266.4	188.0
Non-controlling interest	(1.4)	(3.8)	(4.5)	(6.2)	(7.5)
<b>Profit attributable to owners of parent</b>	<b>336.3</b>	<b>311.8</b>	<b>286.6</b>	<b>260.2</b>	<b>180.5</b>
Non-current assets	4,750.3	4,866.5	4,551.8	4,499.1	2,323.9
Net current assets/(liabilities)	72.2	(239.9)	(245.7)	(221.4)	(246.6)
Non-current liabilities	(1,911.5)	(1,934.4)	(1,949.8)	(2,079.6)	(1,051.2)
<b>Total net assets</b>	<b>2,911.0</b>	<b>2,692.2</b>	<b>2,356.3</b>	<b>2,198.1</b>	<b>1,026.1</b>
Equity holders of the parent	2,892.9	2,669.8	2,338.5	2,180.1	1,004.4
Non-controlling interest	18.1	22.4	17.8	18.0	21.7
<b>Total equity</b>	<b>2,911.0</b>	<b>2,692.2</b>	<b>2,356.3</b>	<b>2,198.1</b>	<b>1,026.1</b>
Total earnings per share – basic	66.6p	61.8p	57.0p	52.9p	44.3p
Dividend per share (proposed)	29.5p	28.15p	25.8p	23.6p	21.4p



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