

Maintaining high standards



Mike Turner CBE, Chairman

Dear Shareholder

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

The period under review saw the appointment of Archie Bethel as Chief Executive on the retirement of Peter Rogers. Archie's appointment was the culmination of a number of years planning for succession by the

Nominations Committee. At Babcock, succession planning is taken seriously and the Board does devote time to considering the talent management, recruitment and training and development programmes of the business.

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

Finally, we are satisfied as a Board that all our Non-Executive Directors are independent for UK Corporate Governance Code purposes and have the necessary time to devote to their duties. We, therefore, recommend to shareholders that they reappoint each of our Non-Executive Directors at the forthcoming Annual General Meeting in July. In this regard, the Nominations Committee, after consideration, has extended for a further three-year term, subject to annual re-election, the current

expected term of appointment of Jeff Randall. Jeff has been a Director since April 2014. The Nominations Committee was satisfied as to both Jeff's continuing independence and the ongoing value of having him serve as our Chairman of the Remuneration Committee.

A handwritten signature in black ink, appearing to read 'M Turner'.

Mike Turner CBE
Chairman

23 May 2017

Governance Code Compliance Statement

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

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

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

How the Company has applied the principles of the Code

Leadership

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

Effectiveness

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

Accountability

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

Remuneration

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

Relations with shareholders

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

Babcock governance structure



Leadership

Board of Directors

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

The current Directors' biographies are set out on pages 82 and 83. The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities and that between them the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

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

Board meeting attendance

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

Attendance at Board meetings

Chairman

Mike Turner	12 of 12
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Executive Directors

Archie Bethel	12 of 12
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Peter Rogers ¹	4 of 4
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Franco Martinelli	12 of 12
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John Davies	12 of 12
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Bill Tame ²	11 of 12
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Non-Executive Directors

Sir David Omand	12 of 12
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Ian Duncan	12 of 12
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Anna Stewart	12 of 12
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Jeff Randall	12 of 12
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Myles Lee ³	11 of 12
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Victoire de Margerie	12 of 12
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(1) Peter Rogers retired from the Board on 31 August 2016.

(2) Bill Tame was unavailable to attend one meeting due to overseas business commitments.

(3) Myles Lee was unavailable for one meeting due to medical reasons.

Composition of the Board

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

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

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

Board matters and delegation

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

Summary of key Board reserved matters

- Group strategy and resourcing
- Interim and final results announcements and the Annual Report and financial statements
- Dividend policy
- Acquisitions, disposals and other transactions outside delegated limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management systems (advised by the Audit and Risk Committee)
- Major press releases and shareholder circulars.

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

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

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

Key areas of focus during the year

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

Strategy and business development

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

Risk

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

Shareholder relations

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

Governance

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

The Chairman and Chief Executive

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

Chairman

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

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

Chief Executive

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

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

Senior Independent Director

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

Non-Executive Directors

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

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

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

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

Group Executive Committee

The Group Executive Committee reviews and discusses all matters of material significance to the Group's management, operational and financial performance as well as strategic development. It is not a formal Board Committee and has no delegated powers as such. It is now made up of the Chief Executive, the Group Finance Director, the sector Chief Executives, the Chief Executive, Global Growth and Operations, the Company Secretary, the Group Director of Organisation and Development, the Group Director of Investor Relations and Communications and the Managing Director Technology. It is scheduled to meet 10 times a year and minutes of its meetings are circulated to Board members.

Group International Committee

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

Effectiveness

Board evaluation

The evaluation for the financial year ending 31 March 2017 was carried out externally by Independent Board Evaluation (IBE). Neither IBE nor any of its representatives had any other connections with the Company. IBE carried out confidential one on one meetings with each Director, the Company Secretary and other senior managers, as well as representatives from certain external advisers who work closely with the Board or its Committees. The review considered the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its Committees, the Chairman and individual Directors performed and how they worked

together; as well as other factors relevant to effectiveness. As part of the evaluation process, IBE attended, as observers, a Board meeting and a Remuneration Committee meeting. IBE found that the feedback from Board members was positive and concluded that the Board was functioning well. No significant concerns were expressed by Board or Committee members as to the way in which the Board or its Committees functioned, the support given to them, the matters covered at their meetings or how they were dealt with, or as to the contribution of any individual Director.

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

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

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

Follow up on the review for year ending 31 March 2016

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

Executive succession plans and their implementation

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

Planning to ensure that the Group has the necessary talent and skills being recruited and developed for its long-term needs

This was the subject of formal presentations at both the Board and the Executive Committee following detailed divisional reviews. Further information on activity in this area can be found on page 63.

Strategy and awareness of potential strategic risks

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

Induction and training for Directors

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

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

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

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

Information and support for the Board

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

Election of Directors

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

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

Relations with shareholders

Dialogue with shareholders

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

How we communicate

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

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

Dealings with shareholders, investors and analysts

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

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

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

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

Annual General Meeting

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

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

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