

# 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
- O 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 Courtaulds, 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 Telesience Inc in the US.

**Qualifications:** She holds a Master of Business Management from BI Norwegian Business School and an MSc in Electrical 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 if 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.

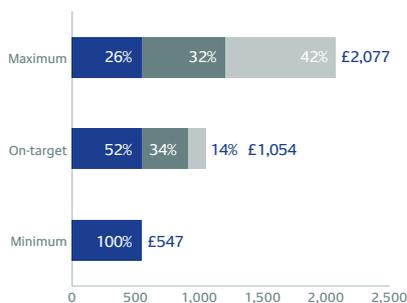
#### Chief Executive

Archie Bethel (£'000)



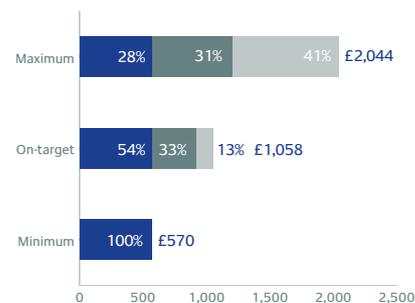
#### Group Finance Director

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 targets are	96,112	£857,000	200%	16.7%	31 March 2020
John Davies	set out below.	92,635	£826,000	200%	16.7%	31 March 2020

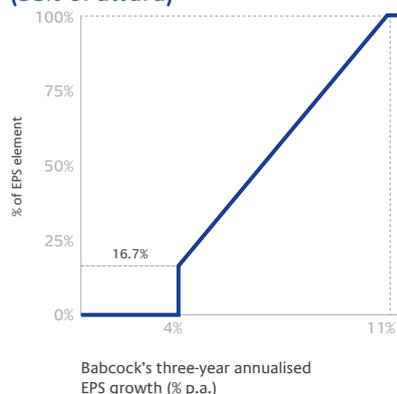
1. Based for Directors on three-day average share price (of 891.67p) at time of grant.

2. Expressed as a percentage of salary at the date of the award (14 June 2017).

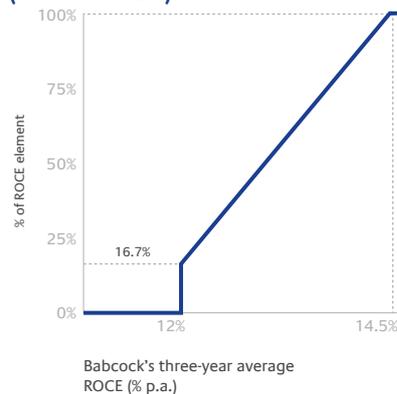
\* In the form of nil-cost options.

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:

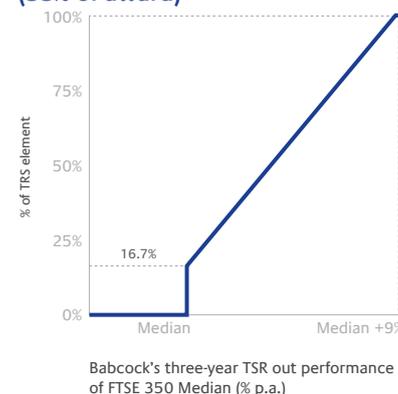
### EPS element (33% of award)



### 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>
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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

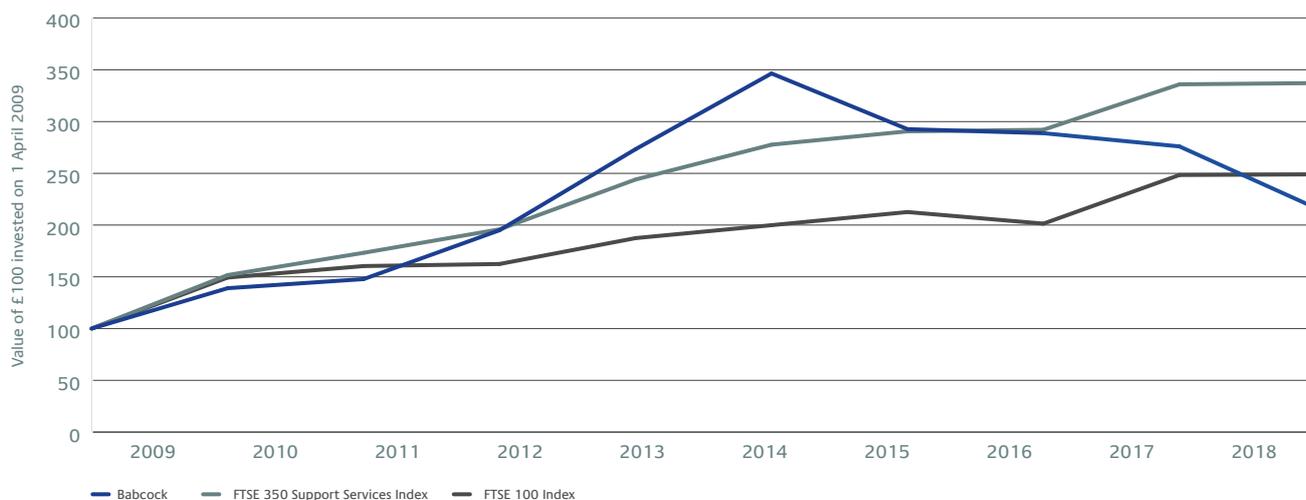
	2017/18	2016/17	% change
Distribution to Shareholders	£144m	£133m	8.3%
Employee remuneration	£1,588m	£1,547m	2.7%

## 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				Current shareholding (% of salary) <sup>2</sup>	Req. met? <sup>2</sup>
	Owned outright by Director or spouse <sup>1</sup>	Owned outright by Director or spouse <sup>1</sup>	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	S/holding req. (% salary)		
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 shows the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 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.

Remuneration

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	PSP 2014	10,940	12 Jun 2017	133,869	97,421	
Bethel	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	PSP 2014	7,178	12 Jun 2017	87,835	63,920	
Martinelli	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	PSP 2014	10,453	12 Jun 2017	127,910	93,084	
Davies	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.