

# 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.

## Introduction

As I have said in my Chairman's review, this is my last year as Chairman of Babcock. I am convinced that part of the extraordinary growth of the Company over the time that I have been Chairman is due to the Company's commitment to corporate governance and doing business in an effective, transparent and ethical manner. I believe that this will be as true in the future as in the past.

The Board welcomed the introduction of the new UK Corporate Governance Code by the Financial Reporting Council in July 2018 (the revised Code) and believes that its approach will provide a constructive guide to good governance in the UK.

## Compliance with the UK Corporate Governance Code

This year the Company is reporting under 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 2019. 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. As it did last year, the Board, in particular, considered

the independence of Sir David Omand, who joined the Board in 2009. The Board remains satisfied that Sir David continues to be independent. The Board also noted that Ian Duncan, our Chair of the Audit and Risk Committee, will have served nine years in November 2019. In its discussions, the Nominations Committee was keen to maintain continuity during the handover to a new Chair. However, it is not expected that either will wish to seek reappointment at the Company's 2020 AGM. 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.

## Company values

A key role of the Board is to reinforce the values of the Company. The values of the Company are clearly set out in our Code of Business Conduct and require us as a company, amongst other things, to respect our fellow employees, to ensure the safety of each other at work, to minimise our impact on the environment, and to abide by our ethics policy in our business dealings. The Board seeks to ensure that these values are embedded within all parts of the Company's business, by ensuring that our ethics policy is available to all on our website and appropriate training is given to our employees as to the standards that we expect from them under the policy. As described on page 98, the Audit and Risk Committee reviews and monitors all reports to our whistleblowing line, which encourages all employees to report any breach of our Code of Conduct or our ethics policy.

## Stakeholders

The revised Code emphasises the requirement for Directors to consider their statutory duty to the Company's many stakeholders. As a Board, we understand that stakeholder engagement is vital to building a sustainable business and that stakeholders have an interest in how we interact with them. The list below identifies some of our stakeholders and how we, as a Board and a Company, engage with them:

- Customers – a key focus for the Company is that we are “trusted to deliver” by our customers. The Company engages with its customers at all levels from the shop floor, as we deliver our services alongside our customer, to the Board. In respect of the Board, its engagement is mainly through the Executive Directors, but I also meet with our principal customer. This year, the Board was particularly pleased that the Company formalised further its ongoing relationship with the UK MOD by signing a “Joint Ways of Working Charter” as part of the UK Government/MOD Strategic Partner Programme/Strategic Supplier Management Programme. For more detail, please see page 24.
- Investors – the support of our Shareholders is vital to the long-term performance of the Company. The Board works to ensure that our investors and the wider investment community understand our strategy and our performance. The Executive Directors meet regularly with our investors as described on page 132. The Board also receives a regular report from the Head of Investor Relations, which details his engagement with investors, together with their feedback. This year, there will also be a capital markets day on 5 June, more detail about which can be found on page 7.
- Employees – we have spoken about our engagement with our workforce and the efforts we make to maintain an open dialogue with our workforce on page 59. In order to meet the guidance in the revised Code concerning our engagement with the workforce, we host the Babcock International Group Employee Forum. The Forum meets twice a year and is attended by representatives from across our European business operations. Senior management attend the Forum and update it about developments in the management of the Group. In addition, the remuneration policy for Executive Directors is presented to the Forum and any feedback from the Forum is taken back to the Remuneration Committee for its consideration.
- Business partners – our partners, both in our external supply chains and in our joint ventures, are an important part of our performance. We engage with our joint venture partners at multiple levels – working alongside them in the joint ventures themselves and also at a more general relationship level. With our supply chain, we are always looking to deliver the optimal solution for our customers which means working closely with our suppliers, both at a central level and at a contract level. More information about our supply chain can be found on page 56.
- Communities – where we have major operations, such as at Devonport, Faslane or Rosyth, we are often one of the largest employers in the local area and, therefore, we are aware of the impact that we have on those communities. We aim to build positive relationships with those communities and support local groups that we believe are relevant to our operations.
- Governing bodies and regulators – we manage complex assets in highly regulated environments. This means that we must maintain positive and constructive relationships with a number of regulators across the globe. These relationships are usually held at the sector or contract level. We aim to keep the dialogue between our business and the relevant regulators as open as possible.

**Mike Turner CBE**  
Chairman

# Creating the right culture through our governance framework

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 workforce 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.

## 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.

## 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.

### Senior Independent Director

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

### Non-Executive Directors

The Non-Executive Directors bring external perspectives and insight to the deliberations of the Board and its Committees, providing a range of knowledge and business or other experience from different sectors and undertakings (see their biographies on pages 88 to 89). 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.

### 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 90.

### 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 71.

**Diversity Steering Group:** coordinates the implementation of our equality and diversity policy. See page 60.

**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 62 to 64.

**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 65.

### 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 of Directors



**Mike Turner** CBE  
Chairman

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

**Tenure:** 11 years

**Nationality:** British

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

**External appointments:** Mike is a member of the UK Government's Apprenticeship Ambassadors Network.

**Previous roles:** He was a Non-Executive Director of Barclays PLC until 2 May 2019 and formerly Chairman of GKN PLC and the UK Defence Industries Council (DIC), Chief Executive of BAE Systems PLC 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 University. Mike has honorary degrees from Manchester Metropolitan, Cranfield and Loughborough universities.



**Ruth Cairnie**  
Independent Non-Executive Director

**Appointed:** April 2019

**Tenure:** One month

**Nationality:** British

**Experience:** Ruth brings extensive experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc, with experience advising government departments on strategic development and capability building.

**External appointments:** Ruth is currently the Senior Independent Director of Associated British Foods plc and a Non-Executive Director of Rolls-Royce Holdings plc and ContourGlobal plc. She is the Chair of POWERful Women, an initiative to advance gender diversity within the energy sector. Ruth is also a trustee of Windsor Leadership and a member of the finance committee of the University of Cambridge.

**Qualifications:** Ruth is a Master of Advance Studies of Mathematics from the University of Cambridge.



**Sir David Omand** GCB  
Senior Independent Director

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

**Tenure:** 10 years

**Nationality:** British

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

**External appointments:** Sir David 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.



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

**Appointed:** February 2016

**Tenure:** 3 years

**Nationality:** French

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

**External appointments:** Victoire 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, Victoire held senior management positions in France, Germany and the USA, with Atochem, Carnaud MetalBox and Pechiney.

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



**Ian Duncan**  
Independent Non-Executive Director

**Appointed:** November 2010

**Tenure:** 8 years

**Nationality:** British

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

**External appointments:** Ian is currently the Senior Independent 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.



**Lucy Dimes**  
Independent Non-Executive Director

**Appointed:** April 2018

**Tenure:** 1 year

**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.

**Previous roles:** She was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. In her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and was previously 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:** Lucy holds an MBA from London Business School and a First Class Honours Degree in Business Studies from Manchester Metropolitan University.

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



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**Myles Lee**  
Independent Non-Executive Director

**Appointed:** April 2015

**Tenure:** 4 years

**Nationality:** Irish

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

**External appointments:** Myles 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.



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**Kjersti Wiklund**  
Independent Non-Executive Director

**Appointed:** April 2018

**Tenure:** 1 year

**Nationality:** Norwegian

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

**External appointments:** Kjersti 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. Kjersti was also a Non-Executive Director of Cxense ASA and Fast Search & Transfer ASA in Norway and Telescience Inc in the US.

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



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**Jeff Randall**  
Independent Non-Executive Director

**Appointed:** April 2014

**Tenure:** 5 years

**Nationality:** British

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

**External appointments:** Jeff 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. Jeff 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.



E

**Archie Bethel CBE**  
Chief Executive

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

**Tenure:** 9 years

**Nationality:** British

**Experience:** Archie was Chief Executive, Marine and Technology division, from June 2007, having joined the Group in January 2004. He was appointed 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.



E

**Franco Martinelli**  
Group Finance Director

**Appointed:** Board Director August 2014

**Tenure:** 5 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.



E

**John Davies**  
Chief Executive, Land

**Appointed:** Board Director January 2013

**Tenure:** 6 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 and is now sector CEO, Land.

**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.

# Executive Committee



**Archie Bethel CBE**  
Chief Executive



**Franco Martinelli**  
Group Finance Director



**John Davies**  
Chief Executive, Land

**B** Board

Biographies for Archie Bethel CBE, Franco Martinelli and John Davies are on page 89.



**Roger Hardy**  
Chief Executive, Aviation



**John Howie MBE**  
Chief Executive, Marine



**Simon Bowen**  
Chief Executive, 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  
Communications

## Roger Hardy

**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 be Chief Executive of the then Defence and Security division. In April 2017 Roger was appointed to sector Chief Executive, Aviation, leading Babcock's military and civil aviation businesses.

## John Howie

**Appointed:** Executive Committee April 2016

**Experience:** John joined Babcock in April 2001. He has been sector CEO for Marine since 2016 and has responsibility for Babcock's warship operations as well as the commercial and international marine operations. 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

**Appointed:** Executive Committee April 2017

**Experience:** Simon is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock in December 2015 as Managing Director of Cavendish Nuclear. 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. In the early part of his career Simon was an Engineering Officer in the Royal Navy on operating submarines.

## Jon Hall

**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

**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

**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

**Appointed:** Executive Committee April 2017

**Experience:** Kate joined Babcock following its acquisition of Avancis, and subsequently was appointed as the Group's Director of Communications.

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, with 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 |
| Executive Directors     |          |
| Archie Bethel           | 12 of 12 |
| Franco Martinelli       | 12 of 12 |
| John Davies             | 12 of 12 |
| Non-Executive Directors |          |
| Sir David Omand         | 12 of 12 |
| Victoire de Margerie*   | 11 of 12 |
| Ian Duncan              | 12 of 12 |
| Lucy Dimes              | 12 of 12 |
| Myles Lee               | 12 of 12 |
| Kjersti Wiklund*        | 11 of 12 |
| Jeff Randall            | 12 of 12 |

\* Victoire de Margerie and Kjersti Wiklund were unable to attend one meeting due to pre-existing 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 2018 – 2 April 2019 | 1        | 3                   | 7                                   |
| 3 April 2019 – 21 May 2019  | 1        | 3                   | 8                                   |

During the financial year and up to the date of this report, the only change to the Board was the appointment of Ruth Cairnie on 3 April 2019.

## 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).

## 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
- 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

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.

## Board effectiveness

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. In order to monitor the Board's effectiveness, the Board conducts an evaluation every year. The evaluation for the financial year ending 31 March 2019 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

### 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 Corporate Governance Code

the feedback from Board members was positive and concluded that the Board was functioning well and effectively. 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. The Board discussed the evaluation at its meeting in March 2019. At the meeting, the Board agreed that it was improving its ways of working and agreed to review how the Board may work more effectively in the coming year. At a private meeting, Sir David Omand, SID, led a review of the Chairman's performance and concluded that the Chairman continued to be effective.

### Board induction and development

New Non-Executive Directors receive comprehensive and tailored induction programmes. During the financial year ending 31 March 2019, Lucy Dimes and Kjersti Wiklund visited our main operating sites, both in the UK and in Europe. They have also met with all members of the senior executive team to understand their respective areas of responsibility. In addition, the Company Secretary arranges training and ongoing updates as requested or as required. For example, during the year under review, he updated the Board on the revised UK Corporate Governance Code. Non-Executive Directors may at any time make visits to any Group business and presentations are made to the Board during the year. This year, the Board conducted an in-depth review of our Australia business.

### 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. 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 the UK Corporate Governance Code, all existing Directors will be seeking re-election at the 2019 AGM. The names and biographical details of each of the Directors are set out on pages 88 and 89.

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**

## Membership of the Committee

The Nominations Committee was during the year, and at the date of this report is, made up entirely of independent Non-Executive Directors, chaired by the Company's Chairman. The Committee sometimes invites Executive Directors to attend meetings of the Committee, if appropriate. Committee membership and its attendance at its meetings in the year are set out 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.

## Committee membership and attendance

|                        |        |
|------------------------|--------|
| Mike Turner (Chairman) | 6 of 6 |
| Sir David Omand        | 6 of 6 |
| Victoire de Margerie*  | 5 of 6 |
| Ian Duncan             | 6 of 6 |
| Lucy Dimes             | 6 of 6 |
| Myles Lee              | 6 of 6 |
| Kjersti Wiklund*       | 5 of 6 |
| Jeff Randall           | 6 of 6 |

\* Victoire de Margerie and Kjersti Wiklund were unable to attend one meeting due to pre-existing business commitments.

## 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 pages 54 and 60.

## Talent and succession

The Committee is mindful of its responsibilities to consider succession planning for the senior executive team and annually reviews the Company's talent pipeline in order to ensure that the Company and the sectors are identifying near and medium term candidates for all the key roles. The Committee also looks to see if those who are identified as candidates are being given the right attention and training to make sure that they are progressing in their careers.

## Activities undertaken by the Committee during the year

During the year ended 31 March 2019, the Committee:

- Managed the succession of Ruth Cairnie as Chair designate following Mike Turner's decision to retire from the Board. The Committee asked Sir David Omand, SID, to lead the search, which he did, supported by Ian Duncan and Kjersti Wiklund.
- Considered the continued independence of Sir David Omand and the reappointment of Myles Lee and Victoire de Margerie as Non-Executive Directors.

In the search for the new Chairman, 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**

I am pleased to present the 2019 report of the Audit and Risk Committee. The report describes how the Committee has carried out its responsibilities during the year.

## 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, as well as attendance at its meetings in the year, is 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 88 and 89. 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 the UK Corporate Governance Code. Ian is a chartered accountant and former Group Finance Director of Royal Mail Holdings PLC. Currently, Ian is the 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
- Provide advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy
- Review the statement in the Annual Report confirming that the Directors have carried out a robust assessment of the principal and emerging risks facing the Company and how they are being managed or mitigated
- 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

## Committee membership and attendance

|                       |        |
|-----------------------|--------|
| Ian Duncan (Chairman) | 5 of 5 |
| Sir David Omand       | 5 of 5 |
| Victoire de Margerie* | 4 of 5 |
| Lucy Dimes            | 5 of 5 |
| Myles Lee             | 5 of 5 |
| Kjersti Wiklund       | 5 of 5 |
| Jeff Randall          | 5 of 5 |

\* Victoire de Margerie was unable to attend one meeting due to a pre-existing business commitment.

- Review and monitor at least once a year the external auditor's independence and objectivity, as well as the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Approve the engagement of the external auditor to supply non-audit services, in line with policy (see page 100)
- 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, the sector Chief Executives and the Group Financial Controller. 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 2019, Ernst & Young LLP (EY) provided internal audit services to the Company and PricewaterhouseCoopers LLP (PwC) was the Group's external auditor. Both auditors attended the Committee's meetings during the year to 31 March 2019. The Committee Chairman also met PwC and EY in the absence of executive management before every meeting. 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 2019 the Committee met five times. The agenda for each meeting is set by the Committee Chairman in conjunction with the Group Company Secretary and General Counsel 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
- 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 2019 (see pages 98 and 99)
- review of the assessment that the Company's financial statements are presented 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 81 for further details).

#### Fair, balanced and understandable assessment

Advice to the Board on the requirement for a statement from it that the Annual Report and Accounts for the year to 31 March 2019 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. Before drafts are

submitted to the Board, the Group Director of Investor Relations and Group Director of Communications review the content of the Strategic report to ensure consistency with other financial statements made by the Group during the year and that the necessary information is included in the draft. 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, and confirming that the draft, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy.

#### Audit Quality Review

During the year, the Audit Quality Review team of the Financial Reporting Council (FRC) reviewed the work performed by PwC for the audit of the Company for the year ended 31 March 2018. The FRC has provided a copy of their confidential report to the Chairman of the Committee, which has been reviewed and discussed by the Committee and with PwC. Areas of the external audit procedures were identified as requiring improvement and the Committee is satisfied with the responses implemented by PwC for the audit of the Group's financial statements for the year ended 31 March 2019 and the Committee is content that the matters raised do not give it concerns over the future quality, objectivity or independence of the audit.

### Correspondence with the FRC

The FRC sent a letter in March to the Company, suggesting areas where the Company might consider making improvements in respect of its Annual Report and Accounts. The Company, under the Committee's oversight, responded to the letter and made changes to its Annual Report and Accounts for the year ending 31 March 2019 in order to address points made by the FRC. The FRC has confirmed that the matter is now closed.

### Audit plans

Internal and external audit plans for the year were reviewed and approved.

### Internal audit

At each meeting, the Committee receives internal audit reports on findings from internal audit visits to business units, which look at matters including accounting and financial controls, 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 the principal and emerging risks facing the Company and how they are being managed or mitigated
- review of the Group's risk management and internal control systems and consideration of 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
- in-depth reviews of selected specific risks. This year, the Committee considered the Company's customer profile risk, in particular, the relationship with the UK Government, the UK's exit from the EU and the Group's joint ventures.

### Fraud

Reports covering any suspected incidents of fraud, their investigation and any remedial or preventative action.

### Whistleblowing

The Committee monitors the Group whistleblowing policy on behalf of the Board 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 2019 was 71 (2018: 66). For further explanation of the whistleblowing procedure please see page 72.

### Audit/non-audit fees and auditor independence

Audit and non-audit fees for the external auditor were reviewed by the Committee and considered in relation to their effect on auditor independence. The Committee is satisfied that independence was maintained throughout the year.

### IFRS16 – leases

IFRS16 – leases was adopted by the Group on 1 April 2019. The Committee considered the impact of IFRS16 on the future reporting of the Group. The expected impact is set out in note 31 on pages 199 to 200.

### Significant issues considered by the Committee in relation to the financial statements

We are required to provide an explanation of the significant issues the Committee considered in relation to the financial statements for the year to 31 March 2019 and how these issues were addressed, having regard to matters communicated to the Committee by the external auditor.

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 2019 and how the Committee addressed them are set out in the table on the opposite page.

| Significant issue  | How the Committee addressed it   |
|--|--|
| Contract accounting and revenue recognition  | The Committee considered the Group's material contracts. These require a significant degree of management judgement that could materially affect the appropriate accounting treatment for these contracts; these were the subject of discussion and challenge with management to ensure that the Committee was satisfied as to the reasonableness of those judgements.   |
| Cash generating units goodwill assessment  | Goodwill is allocated to the Group's cash generating units, Marine, Land, Aviation and Nuclear. The Committee reviewed and challenged management's assessment of the goodwill balance by considering, amongst other matters, management's evaluation of the cash flows resulting from the Group's budget together with the terminal value assessment. After consideration, the Committee was satisfied that the underlying assumptions used in management's evaluation were reasonable and those assumptions left more than sufficient headroom for the Committee to conclude that no impairment was required. Note 11 on page 176 provides information on key assumptions and sensitivity analyses performed.   |
| Exceptional items  | The Group recognised exceptional charges of £161m on a pre-tax basis, together with a £10m tax charge relating to our reorganisation of our Aviation sector in order to prepare for the UK's exit from the EU. The exceptional charges related to the reshaping of the Group's Oil and Gas helicopter business, certain exits and disposals, costs associated with the Guaranteed Minimum Pensions Equalisation charge and restructuring across the sectors. The Committee considered all the charges to assess whether their classification as exceptional was appropriate. Additionally, the Committee reviewed the costs associated with the reshaping of the Group's Oil and Gas helicopter business, including the appropriateness of the asset impairment charges and onerous lease provisions. After consideration, the Committee was satisfied with the quantum of exceptional charges and that the treatment of the charges as exceptional was appropriate. |
| 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 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. After consideration, the Committee was satisfied that the assumptions fell within acceptable ranges. See note 25 on pages 193 to 197.   |
| Adoption of IFRS15 – revenue from contracts with customers   | The Company had announced in December 2017 that it had completed a detailed review of all material contracts and had concluded that the adoption of IFRS15 would not result in a material change to the timing of revenue or profit recognition on the Group's contracts. The Committee remains satisfied that the standard does not drive any material change to the timing of revenue or profit recognition for the Group.   |

### 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 70 to 72, with the principal risks facing the Group described on pages 73 to 81. The Committee has conducted a rigorous and robust review of the ongoing effectiveness of the Company's risk management processes in light of the Code (and the Financial Reporting Council's associated Guidance on Risk Management, Internal Control

and Related Financial and Business Reporting). As part of its review, the Committee asked management to review the risk management and reporting arrangements to ensure that the Group continued to meet best practice. After the review, the Committee was satisfied that the detailed bottom up risk identification process, which includes review and challenge by Group senior management, did allow the Committee to identify and evaluate the Company's principal and emerging risks. The Committee approved the development of an assurance map to set out more clearly the sources of assurance in respect of the Group's

principal risks. These sources of assurance were measured against a "three lines of defence" model: the first line being management control, policies and procedures, together with management oversight; the second being internal assurance activities, such as the review of the sector risk assessments by Group senior management; and the third being assurance obtained from external sources.

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 2019, the Committee was satisfied with the service provided by EY 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 2019, PwC has been the Group's external auditor, having been reappointed by Shareholders at the AGM on 19 July 2018 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 within two 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 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 is reasonably capable of compromising its independence as auditor. Any fee for non-audit work must be approved by the Committee Chairman, subject to the Group Financial Controller being able to approve any single expenditure of £10,000 or less, provided that, in any year, he may not approve more than £50,000 in aggregate. Having considered the non-audit services provided by the auditor during the year ended 31 March 2019, 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 2019, the Committee has approved the payment to PwC of fees of £2.5 million for audit services (£0.6 million of which was for the statutory audit of the Company's consolidated financial statements). A breakdown of fees paid to the auditor is set out in note 4 on page 171.

### Ian Duncan

Committee Chairman

# Report of the Remuneration Committee



**Jeff Randall**, Committee Chair

## Annual Statement of the Remuneration Committee Chair

Dear Shareholder

I am pleased to present the Directors' Remuneration report for 2018/19.

This Directors' Remuneration report has three parts: this, the Chair'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 104 to 113 below.

During the course of this financial year, I will be consulting with Shareholders about our current policy before putting any proposed changes to Shareholders 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 this year's AGM on Thursday, 18 July 2019.

### Activities undertaken by the Committee during the year

The current Remuneration policy is structured to align with 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 believes that this policy continues to support appropriately the strategic focus of the Company and remains fit-for-purpose.

### Remuneration outcomes for 2018/19

This year, when deciding on the remuneration outcomes for 2018/19, the Committee was very aware of the particular emphasis that the revised UK Corporate Governance Code places on the exercise of independent judgement and discretion. The Committee believes that it does review remuneration outcomes to ensure they reflect the broader context, including Shareholders' experience. Against the background reported in the Chairman's statement earlier in this Annual Report, the

### Committee membership and attendance

|                       |        |
|-----------------------|--------|
| Jeff Randall (Chair)  | 6 of 6 |
| Sir David Omand       | 6 of 6 |
| Victoire de Margerie* | 5 of 6 |
| Ian Duncan            | 6 of 6 |
| Lucy Dimes            | 6 of 6 |
| Myles Lee             | 6 of 6 |
| Kjersti Wiklund       | 6 of 6 |

\* Victoire de Margerie was unable to attend one meeting due to a pre-existing business commitment.

Committee has reviewed the resulting outcomes for 2018/19. After due consideration, including in particular, the consideration of the impact of the exceptional costs, which have been described on page 29, the Committee has decided:

- annual bonus payments in respect of the year to 31 March 2019 ranged from 54.6% to 60.9% of maximum (see page 118 for more detail); and
- performance over the longer-term performance period from 1 April 2016 to 31 March 2019 is expected to result in 15.1% vesting of the PSP awards made in 2016 (see page 121 for more detail).

### 2019 salary review

The Committee has reviewed the salary levels of the Executive Directors in conjunction with its review of the remuneration policies relating to the general workforce and has set the base salary increase at 2%, which is below the increase for the wider UK workforce (see page 121 for more detail).

### 2019/20 annual bonus

The Committee has also reviewed the plans for the annual bonus for Executive Directors for 2019/20 and has decided to retain the same financial measures of EPS, PBT and OCF as well as the same non-financial measures as in 2018/19. In addition, it has decided to retain the same weighting between the financial measures (80%) and the non-financial measures (20%). However, in order to support the emphasis placed by the Board on cash generation, it has increased the weighting for OCF from 20% of annual bonus to 30% and decreased the weighting of EPS from 40% of annual bonus to 30% (see page 122 for more detail). In addition, after consideration of recent investor guidance, the Committee reduced the maximum payment that may be earned for the achievement of target from 55% to 50%.

### 2019/20 PSP awards

As well as reviewing the annual bonus measures, the Committee has also considered the measures and targets of the Company's PSP. The Committee continues to believe that the performance measures of EPS, TSR and ROCE, along with their respective weighting of one third each, represent the best alignment with our strategy and Shareholder interests. As part of this review, the Committee considered the respective targets associated with each performance measure to ensure that they continued to be stretching. In respect of TSR, the Committee decided that the target and performance measure would remain unchanged from 2018/19.

In respect of the EPS targets, the Committee considered the forward impact of the loss of the Magnox contract and decided that it would be more appropriate to set a cumulative three-year EPS performance range of between 231.5p and 248.0p for 2019/20 PSP awards, in the belief that a cumulative range will help to reinforce the maximisation of EPS in each year of the performance period. In respect of the ROCE target (based on the average return over the performance period) the Committee has decided to reduce the threshold of the range to 11%, whilst maintaining the maximum of the range at 14%. For more detail see page 122.

Due to the fall in the share price since the 2018/19 PSP grant, the Committee has decided that 2019/20 PSP awards should be scaled back by 20% in value; awards will therefore be granted to the Executive Directors over a face value of a maximum of 160% of salary rather than the normal award value of 200%.

### New PSP rules

The rules of the current PSP were approved by Shareholders on 9 July 2009 and will expire on 9 July 2019. The Committee continues to believe that the PSP incentivises executives to guard against short-term steps and to maximise the long-term sustainability of the Company's future performance, and that it appropriately aligns the interests of executives with those of Shareholders. Accordingly, the Company will be asking Shareholders at its 2019 AGM to approve a new set of PSP rules for awards made after 9 July 2019. The new rules mirror the existing PSP rules, with the only changes being minor in nature and intended to reflect changes of law or UK corporate governance since 2009.

### The revised UK Corporate Governance Code (Code)

In July 2018 the Financial Reporting Council issued its revised Code. The Committee considered those elements that were relevant to remuneration. As the Committee will be submitting its Remuneration policy to shareholders at the Company's 2020 AGM, the Committee will use its wider review of the Remuneration policy in order to assess how it should take the revised Code into account. In particular, the Committee will give further consideration to a post-employment shareholding policy and the policy on pension contribution levels for Executive Directors. However, as a start, the Committee has determined that the pension contribution for any Executive Director appointed after 1 April 2019 will be aligned with that available to the wider workforce in the relevant market. The Committee will seek to engage with Shareholders as widely as practicable over the coming year in order to understand their priorities for the new Remuneration policy to be proposed at the Company's 2020 AGM.

### Jeff Randall

Committee Chair

## 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 Chair, 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 101) 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 2018 to 31 March 2019 and provides details of the Committee's membership, its deliberations on executive remuneration during the year under review and the 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 18 July 2019.

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. The Policy Report that follows is unchanged from that published in last year's Annual Report save for the following 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.<br><br>Latest salaries are set out in the Annual Report on Remuneration on page 121. | Business and individual performance are considerations in setting base salary. |

| Purpose and link to strategy   | Operation   | Opportunity  | Performance metrics      |
|--|---|--|--------------------------|
| <b>Fixed pay</b>   |   |  |                          |
| <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.   | <p>All the Executive Directors currently receive a cash supplement of 25% of base pay in lieu of all pension benefits.</p> <p>The cash supplement payable is set having regard to market practice, and in the context of the other elements of the remuneration package, notably base salary. Other than in exceptional cases (such as to replace existing arrangements for new recruits), the Committee does not anticipate employer contributions into a defined contribution pension scheme or cash in lieu of benefit as being at a cost to the Company that would exceed 25% of base salary.</p>                                | Not performance-related. |
| <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 is 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 (reduced to 50% for the 2019/20 bonus).</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 2018/19 annual bonus and proposed for 2019/20 are included in the Annual Report on Remuneration on pages 118 and 122.</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 (reduced to 160% for the 2019/20 PSP award).</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>2019/20 PSP awards will be based on the achievement of stretching EPS, TSR and ROCE targets.</p> <p>The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.</p> <p>Details of measures and targets used for specific PSP grants are included in the Annual Report on Remuneration on pages 123 to 124.</p> |
| <b>All-employee plans – Babcock Employee Share Plan</b>  |  |   |   |
| <p>To encourage employee ownership of Company shares.</p>  | <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> | <p>Not performance-related.</p>   |

### 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, subject to any pension contribution or salary supplement being aligned to those of the wider UK workforce.   | 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                 |
| <b>Other recruitment events</b> |  |                     |
| Internal promotion              | When appointing a new Executive Director by way of promotion from an internal role, the Committee will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate, these would be expected to transition over time to the arrangements 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 as well as 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**

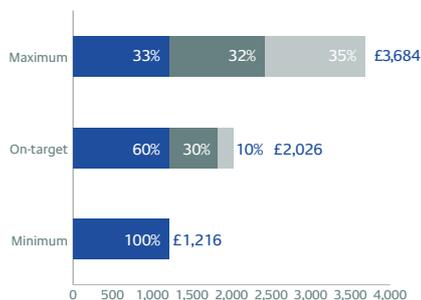
The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The Remuneration 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**

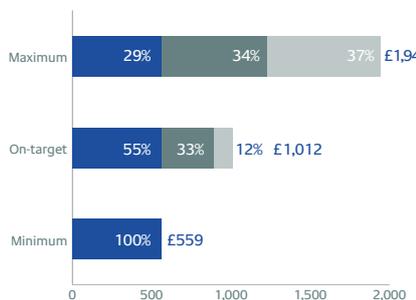
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in 2019/20, as outlined in the Chairman's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2019. 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.

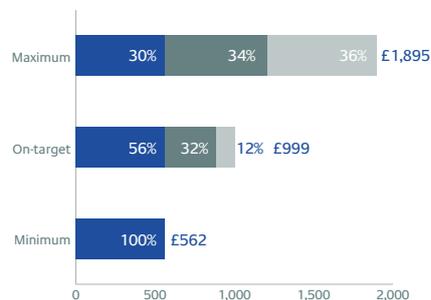
**Chief Executive  
Archie Bethel (£'000)**



**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 50% 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 128.

## 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 |
| John Davies (Chief Executive, Land)        | 20 December 2012         | 12 months from Company, 12 months from Director |

The latest service contracts are available for inspection at the Company's registered office and will also be available at the Company's Annual General Meeting.

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. Under the Executive Directors' contracts, the Company may 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.

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*   | 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.                                   | 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 any award 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.    |

\* 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. 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 Chair, 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 (Chair)  | 1 June 2008                       | 22 February 2017                    | AGM 2019  |
| Ruth Cairnie         | 3 April 2019                      | 2 April 2019                        | AGM 2022  |
| Sir David Omand      | 1 April 2009                      | 17 May 2018                         | AGM 2020  |
| Ian Duncan           | 10 November 2010                  | 1 April 2019                        | AGM 2020  |
| 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                   | 1 April 2019                        | AGM 2022  |
| Lucy Dimes           | 1 April 2018                      | 5 March 2018                        | AGM 2021  |
| Kjersti Wiklund      | 1 April 2018                      | 5 March 2018                        | AGM 2021  |

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 Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for acting as Chair 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 2019 and those for the year ending 31 March 2020 are set out in the Annual Report on Remuneration on page 117 and page 126 respectively.</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 Directors' remuneration, 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 welcomes 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 2018 Annual Report on Remuneration are provided on page 115.

### 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 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 2019 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown on page 101. The Company Secretary attends as Secretary to the Committee.

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 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 £78,000 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 six meetings in the year to 31 March 2019. The Committee plans to meet at least six times in the year to 31 March 2020.

## Matters considered

The Committee considered a number of matters during the year to 31 March 2019, including:

- agreeing Executive Director salaries for the financial year 2019/20
- 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 2015
- considering performance against the measures applied to, and level of pay-out of, the 2017/18 annual bonus
- agreeing the level of 2018 PSP awards
- reviewing share ownership guidelines for senior executives
- agreeing pay review outcomes for other senior executives for the year to 31 March 2020
- 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

The following table shows the results of the last binding Shareholder vote on the Remuneration policy (at the 2017 AGM) and the advisory Shareholder vote on the 2018 Annual Report on Remuneration at the 2018 AGM:

| Votes cast                                  | 2017 Remuneration policy |                               | 2018 Annual Report on Remuneration |                               |
|---|--------------------------|-------------------------------|------------------------------------|-------------------------------|
|   | Total number of votes    | % of votes cast for & against | Total number of votes              | % of votes cast for & against |
| For (including discretionary)               | 368,814,605              | 96.5%                         | 319,644,636                        | 98.7%                         |
| Against                                     | 13,528,165               | 3.5%                          | 4,265,699                          | 1.3%                          |
| Total votes cast (excluding withheld votes) | 382,342,770              | 100.0%                        | 323,910,335                        | 100.0%                        |
| Votes withheld                              | 4,341,748                |                               | 13,868,456                         |                               |
| Total votes cast (including withheld votes) | 386,684,518              |                               | 337,778,791                        |                               |

**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 2019 and 31 March 2018.

|  | Archie Bethel<br>£'000 |       | Franco Martinelli<br>£'000 |       | John Davies<br>£'000 |       |
|--|------------------------|-------|----------------------------|-------|----------------------|-------|
|  | 18/19                  | 17/18 | 18/19                      | 17/18 | 18/19                | 17/18 |
| <b>Fixed remuneration</b>                            |                        |       |                            |       |                      |       |
| 1. Salary  | <b>780</b>             | 765   | <b>437</b>                 | 428   | <b>421</b>           | 413   |
| 2. Benefits in kind and cash                         | <b>221</b>             | 227   | <b>1</b>                   | 1     | <b>24</b>            | 43    |
| 3. Pension   | <b>195</b>             | 191   | <b>109</b>                 | 107   | <b>106</b>           | 103   |
| <b>Annual variable remuneration</b>                  |                        |       |                            |       |                      |       |
| 4. Annual bonus (cash or voluntarily deferred bonus) | <b>409</b>             | 422   | <b>240</b>                 | 238   | <b>207</b>           | 211   |
| 5. DBP (deferred annual bonus)                       | <b>273</b>             | 281   | <b>160</b>                 | 159   | <b>138</b>           | 141   |
| <b>Long-term incentives</b>                          |                        |       |                            |       |                      |       |
| 6. DBMP (matching awards)                            | <b>n/a</b>             | 80    | <b>n/a</b>                 | 35    | <b>n/a</b>           | 66    |
| 7. PSP   | <b>89</b>              | 96    | <b>68</b>                  | 96    | <b>65</b>            | 92    |
| 8. Dividends   | <b>14</b>              | 16    | <b>11</b>                  | 12    | <b>10</b>            | 14    |
| <b>Total (of which)</b>                              | <b>1,981</b>           | 2,079 | <b>1,026</b>               | 1,076 | <b>971</b>           | 1,083 |
| Fixed remuneration <sup>1,2,3</sup>                  | <b>1,196</b>           | 1,183 | <b>547</b>                 | 536   | <b>551</b>           | 559   |
| Annual variable remuneration <sup>4,5</sup>          | <b>682</b>             | 704   | <b>400</b>                 | 397   | <b>345</b>           | 352   |
| Long-term incentives <sup>6,7,8</sup>                | <b>103</b>             | 192   | <b>79</b>                  | 143   | <b>75</b>            | 172   |

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 18/19 received £218,181 (17/18: £225,728) 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, but no longer receives the allowance as he is not based away from home.
- 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 118) that is not required to be mandatorily deferred into a basic award of shares under the DBMP (see page 119) and that is paid in cash.
- DBP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
- DBMP (matching awards): the Company stopped making matching awards in 16/17. Note: the difference between the DBMP figures shown for 2017/18 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 862.4p on 11 June 2018.
- PSP: for 18/19, represents the market value of the 2016 awards that vest on performance to 31 March 2019: based on vesting as to 15.1% of the total award (see page 120) and an average share price in the three months to 31 March 2019 of 531.6p. Note: the difference between the PSP figures shown for 2017/18 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 862.4p on 11 June 2018 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 2019 (for 18/19) and 31 March 2018 (for 17/18), 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 2019 and the prior year:

|                      | Base fee<br>£000 |       | Additional fees <sup>1</sup><br>£000 |       | Total<br>£000 |       |
|----------------------|------------------|-------|--------------------------------------|-------|---------------|-------|
|                      | 18/19            | 17/18 | 18/19                                | 17/18 | 18/19         | 17/18 |
| Mike Turner          | 330              | 330   | 0                                    | 0     | 330           | 330   |
| Sir David Omand      | 71               | 71    | 0                                    | 0     | 71            | 71    |
| Ian Duncan           | 60               | 60    | 15                                   | 15    | 60            | 75    |
| Jeff Randall         | 60               | 60    | 15                                   | 15    | 60            | 75    |
| Myles Lee            | 64               | 64    | 0                                    | 0     | 64            | 64    |
| Victoire de Margerie | 64               | 64    | 0                                    | 0     | 64            | 64    |
| Lucy Dimes           | 60               | n/a   | 0                                    | n/a   | 60            | n/a   |
| Kjersti Wiklund      | 60               | n/a   | 0                                    | n/a   | 60            | n/a   |

1. Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).

## 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 2019. 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)

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, Archie Bethel and Franco Martinelli accrued benefits at the rate of one-forti-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 prior financial 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. John Davies transferred his benefit out of the Scheme during the financial year under review on the standard terms offered under the scheme.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2019 are set out in the following table:

| Director <sup>1</sup> | Accrued pension at 31 March 2019 | Normal retirement age <sup>2</sup> |
|-----------------------|----------------------------------|------------------------------------|
|                       | £ pa                             |                                    |
| Franco Martinelli     | 64                               | 65                                 |

- None of the Executive Directors were active members of the scheme during the year.
- Age 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          | 2018/19 | 2017/18 |
|-------------------|---------|---------|
|                   | £'000   | £'000   |
| Archie Bethel     | 5       | 5       |
| John Davies       | 3       | 3       |
| Franco Martinelli | 3       | 3       |

## Annual bonus

### 2018/19 Annual bonus (audited)

For our Executive Directors' annual bonus plans in 2018/19, as in previous years, a mix of financial and non-financial measures was used. The financial element of the 2018/19 annual bonus was based on the Group's underlying PBT and EPS performance, as well as its cash flow against budget. 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 2018/19 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 2018/19. The figures in EPS and Group PBT performance 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 | John Davies |
|---|---------------|---------------------|----------------|----------------|---------------------------------|---------------|-------------------|-------------|
| EPS <sup>1</sup> performance stretching targets, with a sliding scale between threshold and maximum | 83.1p         | 85.6p               | 88.2p          | 84.5p          | Maximum potential (% of salary) | <b>60%</b>    | <b>60%</b>        | <b>60%</b>  |
|   |               |                     |                |                | Outturn (% of salary)           | 28.4%         | 28.4%             | 28.4%       |
| Achieving budgeted Group cash flow  | 95% of budget | Budget (£422.6m)    | 105% of budget | £469.3m        | Maximum potential (% of salary) | <b>30%</b>    | <b>30%</b>        | <b>15%</b>  |
|   |               |                     |                |                | Outturn (% of salary)           | 30%           | 30%               | 15%         |
| Achieving budgeted Group PBT <sup>2</sup>   | 97% of budget | Budget (£528.9m)    | 103% of budget | £521m          | Maximum potential (% of salary) | <b>30%</b>    | <b>30%</b>        | <b>15%</b>  |
|   |               |                     |                |                | Outturn (% of salary)           | 9.0%          | 9.0%              | 4.5%        |
| Achieving budgeted sector cash flow   | 95% of budget | Budget <sup>3</sup> | 105% of budget |                | Maximum potential (% of salary) |               |                   | <b>15%</b>  |
|   |               |                     |                |                | Outturn (% of salary)           |               |                   | 7.5%        |
| Achieving budgeted sector PBIT <sup>2</sup>   | 97% of budget | Budget <sup>3</sup> | 103% of budget |                | Maximum potential (% of salary) |               |                   | <b>15%</b>  |
|   |               |                     |                |                | Outturn (% of salary)           |               |                   | 7.5%        |
| Non-financial objectives <sup>4</sup>   |               |                     |                |                | Maximum potential (% of salary) | <b>30%</b>    | <b>30%</b>        | <b>30%</b>  |
|   |               |                     |                |                | Outturn (% of salary)           | 20%           | 24%               | 19%         |
| Total   |               |                     |                |                | Maximum potential (% of salary) | <b>150%</b>   | <b>150%</b>       | <b>150%</b> |
|   |               |                     |                |                | Outturn (% of salary)           | 87.4%         | 91.4%             | 81.9%       |

1. Threshold vesting is 10% of maximum for each financial bonus element except for EPS performance, where 28% 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. Further details on the non-financial objectives set for 18/19 are set out on the following page.

## Non-financial measures

The Committee sets non-financial objectives at the start of each year around strategic and risk management 'Themes'. For 18/19, the Themes were Growth, Technology, Resources, Reputation and Processes. At the end of the bonus year, the Committee conducted a review of the achievement of the objectives set for the Themes, having regard to all relevant circumstances and adjudicating the appropriate pay-out for the non-financial measures element. In making its assessment in respect of the award under the non-financial measures, the Committee considered the following context in respect of each Theme:

**Growth:** As described in the Strategic report, despite a number of headwinds, the Group has continued to develop with each of the sectors having won important new contracts during the period, both in the UK and internationally. Marine has secured 21 market leading ecoSMRT liquefied natural gas refrigeration systems with Hyundai Heavy Industries; and MV Kairos, the world's largest liquefied natural gas bunker supply vessel, a 50:50 joint venture with Bernhard Schulte Shipmanagement, undertook its first fuelling operation. It successfully secured the first six-week maintenance period for the HMS Queen Elizabeth at Rosyth. Marine also delivered the first missile launch assembly to General Dynamics Electric Boats, part of the UK/US Common Missile Compartment of the future submarine programme. In Australia, the business, through its joint venture, won a significant contract to maintain Australia's fleet of amphibious landing ships. In Land, Network Rail selected Rail to deliver its North Alliance programme, whilst continuing to expand DSG contract services. In Aviation, the HADES RAF support contract was mobilised across 17 bases. Outside the UK, it mobilised its Norway fixed wing aerial emergency service contract and won the Manitoba Wildfire Suppression Contract, giving the sector its first foothold in North America. In Cavendish Nuclear, the sector's joint venture moved the first Magnox site (Bradwell) into care and maintenance, whilst the Silo Maintenance Facility project at Sellafield was completed with an NDA category of "Excellent".

**Technology:** During the year under review, the Group technology team, working with the technology & innovation leads across the sectors, has progressed the fundamental pillars of the Babcock Technology strategy. In relation to 'technology awareness and application', formal arrangements have been made with selected Academic/Government organisations for collaborative work on technologies relevant to our core business; and the first technology horizon scanning work packages were completed. On 'data and digital technology exploitation', particular focus has been given to the iSupport programme in Marine, to predictive modelling of asset condition in Nuclear, and to information exploitation in Land for equipment management and training services. Work around the 'culture and communications' pillar has included internal webinars and intranet communications on selected technology and innovation work; plus a range of external events and articles. This work has been effected via the Technology Executive Group which delivers technology communication, coordination and programme management across all sectors and the international businesses, and which was fully established this year.

**Resources:** The engineering sector presents certain challenges to improving the diversity of the Group's workforce. Despite these challenges, the Group still managed to improve the diversity of its workforce, as shown by the publication of its recent gender pay gap and the increase in female graduates.

**Reputation:** Each sector has delivered a good year of operational performance to customers. The Group is particularly pleased with the work that it has done under the Cabinet Office's Strategic Partnering Programme to reinforce even further the relationship between the Group and its key customer.

**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.

The annual bonus outcome is primarily determined by the extent to which the financial targets and non-financial objectives are met. However, the Committee is clear that the key underpin to the annual bonus scheme is the Group's health and safety performance. The Committee reviewed the health and safety record for the Group during the year 2018/19 and, as a consequence, reduced the bonus of Archie Bethel and John Davies.

### 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). Details of DBP awards made in respect of the annual bonus for 18/19 will be disclosed in next year's Annual Report on Remuneration.

## Long-term incentive schemes (PSP)

### PSP awards made in 2018/19\* (audited)

| Director          | Basis                      | Number of shares | Face value (£) <sup>1</sup> | Face value (% of salary) <sup>2</sup> | % of award receivable for threshold performance | End of performance period |
|-------------------|----------------------------|------------------|-----------------------------|---------------------------------------|---|---------------------------|
| Archie Bethel     | As per the policy.         | 181,605          | £1,560,592                  | 200%                                  | 16.7%   | 31 March 2021             |
| Franco Martinelli | Performance measures and   | 101,723          | £874,140                    | 200%                                  | 16.7%   | 31 March 2021             |
| John Davies       | targets are set out below. | 98,043           | £842,156                    | 200%                                  | 16.7%   | 31 March 2021             |

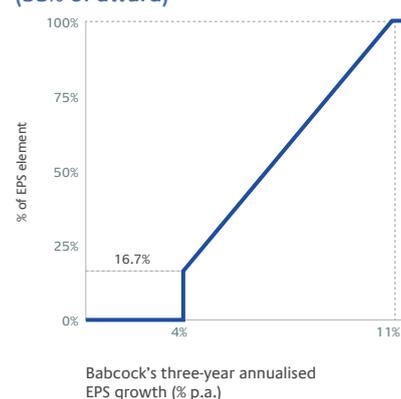
1. Based for Directors on three-day average share price (of 859.33p) at time of grant.

2. Expressed as a percentage of salary at the date of the award (13 June 2018).

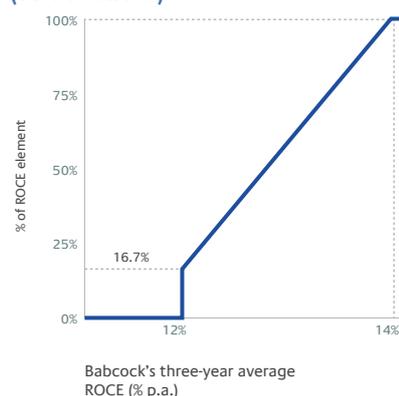
\* In the form of nil-cost options.

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:

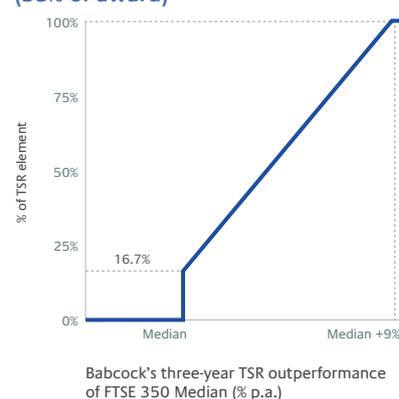
#### EPS element (33% of award)



#### 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% and for threshold vesting at 12%.

### Deferred Bonus Plan awards made in 2018/19\* (audited)

| Director          | Basis                            | Number of shares | Face value (£) <sup>1</sup> | Face value (% of salary) <sup>2</sup> | % of award receivable for threshold performance | End of performance period |
|-------------------|----------------------------------|------------------|-----------------------------|---------------------------------------|---|---------------------------|
| Archie Bethel     | As per the policy.               | 32,749           | £281,423                    | 36%                                   | n/a   | n/a                       |
| Franco Martinelli | No additional performance        | 18,483           | £158,831                    | 36%                                   | n/a   | n/a                       |
| John Davies       | conditions required for vesting. | 16,399           | £140,922                    | 33%                                   | n/a   | n/a                       |

1. Based for Directors on three-day average share price of 859.33p at time of grant.

2. Expressed as a percentage of salary at the date of award (13 June 2018).

\* In the form of nil-cost options.

### 2016 PSP awards vesting (audited)

Awards granted in 2016 under the PSP were subject to three-year TSR and EPS targets outlined on page 123. 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 2019                                  | 15.3% pa below median TSR for the FTSE 350 (excluding investment trusts and financial services) | 33%                         | 0%                        |
| Outcome of three-year adjusted basic underlying EPS growth to 31 March 2019 | 4.2% pa (historical EPS numbers were restated to ensure they were on the same accounting basis) | 33%                         | 19.3%                     |
| Outcome of three-year average ROCE  | 12.3%   | 33%                         | 26.0%                     |
| 2016 PSP awards expected to vest to Executive Directors in June 2019:       |   |                             | 15.1%                     |

| Director          | Award    | Number expected to vest |
|-------------------|----------|-------------------------|
| Archie Bethel     | PSP 2016 | 16,657                  |
| Franco Martinelli | PSP 2016 | 12,719                  |
| John Davies       | PSP 2016 | 12,265                  |

### Sourcing of shares

Shares needed to satisfy share awards for Directors are either shares that are newly issued to the Group's employee share trusts to meet share awards or 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 2019/20

The Committee has set the remuneration for Executive Directors for 2019/20 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 pay for 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 2019/20 £ | Salary 2018/19 £ |
|--------------------------|------------------|------------------|
| Archie Bethel            | <b>796,000</b>   | 780,300          |
| Franco Martinelli        | <b>446,000</b>   | 437,070          |
| John Davies <sup>1</sup> | <b>430,000</b>   | 421,260          |

1. John Davies also 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 2020 is expected to be between 2.5% and 3% (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%.

### 2019/20 Annual bonus

Executive Directors' annual bonus plans for 2019/20 are largely unchanged from the structure adopted in 2018/19 as set out on page 118, other than for revisions to the weighting of EPS (reduced from 40% to 30%) and OCF (increased from 20% to 30%). PBT and non-financial objectives each continue to be weighted 20%. For John Davies, a portion of the PBT and OCF element will be based on performance of his area of the business. In addition, the Committee decided to reduce the maximum payment that may be earned for the achievement of target from 55% to 50%. The Committee intends to disclose the Group financial performance targets for 2019/20 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. Non-financial objectives will continue to 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.

For all Executive Directors, 40% of any earned bonus will continue to be deferred into shares for three years.

### PSP awards for 2019/20

Due to the fall in the share price since the 2018/19 PSP grant, the Committee has decided that 2019/20 PSP awards should be scaled back by 20% in value. Consequently, the Committee intends to grant awards in 2019/20 under the PSP with a maximum face value of 160% of salary for all Executive Directors, with the performance measures and targets as follows: in respect of the EPS targets, the Committee, having considered the forward impact of the loss of the Magnox contract and wishing to reinforce the maximisation of EPS in each year of the performance period, set a cumulative three-year EPS performance range of between 231.5p and 248.0p for 2019/20 PSP awards; a TSR performance range of median to median+9% relative to the peer group (i.e. unchanged from 2018/19 awards); and a ROCE performance range (based on the average ROCE over the performance period) of 11% to 14%.

### Summary of the structure of Executive Directors' remuneration

Based on the Committee's policy, the principal elements of the remuneration arrangements for Executive Directors in the year to 31 March 2020 and for the year to 31 March 2019 are (other than pension benefits or supplements in lieu of pension benefits) summarised in the table below.

| Director          | 2019/20    |                                      |  | 2018/19    |                                      |  |
|-------------------|------------|--------------------------------------|--|------------|--------------------------------------|--|
|                   | 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     | 796,000    | 150%                                 | 160%                                   | 780,300    | 150%                                 | 200%                                   |
| Franco Martinelli | 446,000    | 150%                                 | 160%                                   | 437,070    | 150%                                 | 200%                                   |
| John Davies       | 430,000    | 150%                                 | 160%                                   | 421,260    | 150%                                 | 200%                                   |

### Outstanding share award summaries: grants made up to and during 2018

The following tables on pages 123 to 124 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).

| Scheme                     |   | Performance Share Plan (nil price options)   |  |  |
|----------------------------|---|--|--|--|
| Performance period         | For the 2016 awards: 1 April 2016 to 31 March 2019 (expected to vest in June 2019 as to 15.1%)<br>For the 2017 awards: 1 April 2017 to 31 March 2020<br>For the 2018 awards: 1 April 2018 to 31 March 2021  |  |  |  |
| 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: 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%, 2018 awards: ROCE of more than 14% | 33% on EPS, TSR and ROCE                                   |
| Threshold                  | Compound annual growth: 4% or more  | TSR performance equivalent to the median for the peer group as a whole                         | ROCE of 12%  | 5.6%   |
|                            | Intermediate growth between the above points  | Intermediate ranking between the above points  | Intermediate ROCE between the above points   | Straight-line basis between 5.6% and 33%                   |
|                            | 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 and the broader group makes the calibration more robust. |  |  |  |

### Performance Share Plan (nil price options) 2016-2018 continued

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

EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is before exceptional items.

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.

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.

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## 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.<br><br>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.<br>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.<br><br>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 criteria 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)

Peter Rogers retired from the Company on 31 August 2016. During the year under review, 23.9% and 20.0% of his retained interests in the 2015 PSP and 2015 DBMP matching awards, totalling 45,584 shares, vested at the normal time and in line with other participants, on 11 June 2018. In addition to the vesting of these shares, Mr Rogers was paid a cash sum of £35,966, representing the total value of dividends accruing on his 2015 PSP and DBMP matching awards.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. During the year under review, he received a salary of £118,660, benefits in kind and cash of £2,364, a pension cash supplement of £26,781 and a cash payment of £209,774 in respect of his 2017/18 annual bonus (disclosed in last year's Annual Report on Remuneration). 23.9% and 20.0% of his retained interests in the 2015 PSP and 2015 DBMP matching awards, totalling 34,972 shares, vested at the normal time and in line with other participants, on 11 June 2018. Mr Tame was also paid a cash sum of £27,593, representing the total value of dividends accruing on his 2015 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, 23.9% and 20.0% of his retained interests in the 2015 PSP and 2015 DBMP matching awards, totalling 26,660 shares, vested at the normal time and in line with other participants on 11 June 2018. Mr Thomas was also paid a cash sum of £21,035, representing the total value of dividends accruing on his 2015 PSP and DBMP matching awards.

### 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 2019. Prior to this, they were last increased in April 2017.

| Annual rate of fees  | Year to<br>31 March 2020 £ | Year to<br>31 March 2019 £ | % change since last review<br>(% p.a.) |
|--|----------------------------|----------------------------|--|
| Chairman   | <b>336,000</b>             | 330,000                    | 2%                                     |
| Senior Independent Director (inclusive of basic fee)                 | <b>72,000</b>              | 71,000                     | 1%                                     |
| Basic Non-Executive Director's fee (UK based Directors) <sup>1</sup> | <b>61,000</b>              | 60,000                     | 1%                                     |
| Chairmanship of Audit and Risk Committee <sup>2</sup>                | <b>15,000</b>              | 15,000                     | 0%                                     |
| Chairmanship of Remuneration Committee <sup>2</sup>                  | <b>15,000</b>              | 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 £65,000 for the year to 31 March 2020.

2. Committee chairmanship fees are paid in addition to the basic applicable Non-Executive Director's fee. No additional fees are paid for membership of Committees.

### Percentage change in Chief Executive's 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 116) 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 2017/18 to 2018/19 |                 |
|----------------------|-----------------------------|-----------------|
|                      | Chief Executive             | Other employees |
| Base salary          | 2%                          | 1.9%            |
| Taxable benefits     | 3%                          | (7.7)%          |
| Single-year variable | 3%                          | (34)%           |

## Relative importance of spend on pay

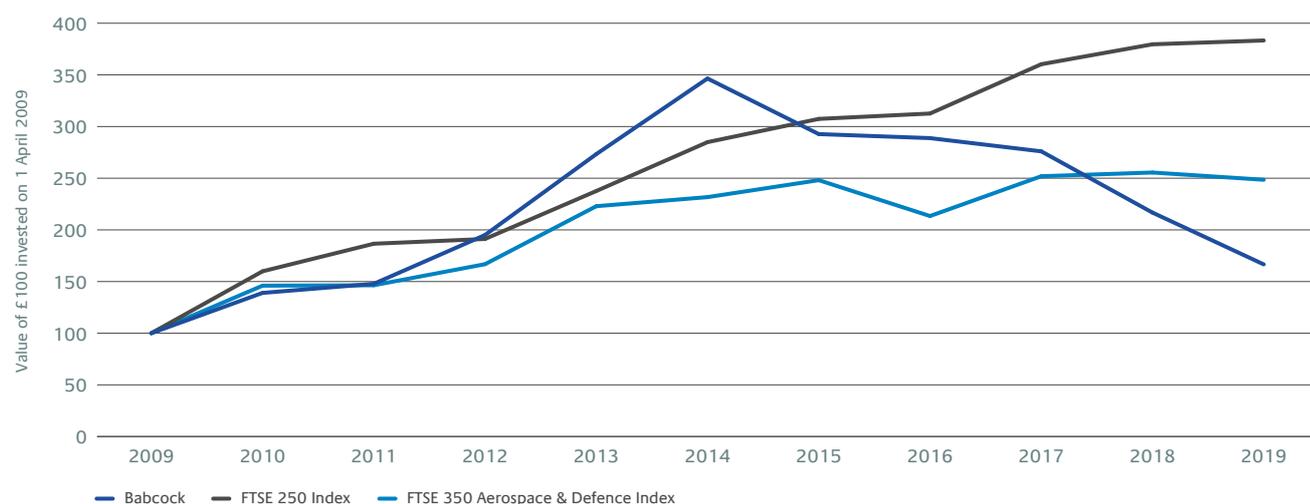
|                              | 2018/19        | 2017/18 | % change |
|------------------------------|----------------|---------|----------|
| Distribution to Shareholders | <b>£151m</b>   | £144m   | 4.9%     |
| Employee remuneration        | <b>£1,607m</b> | £1,588m | 1.2%     |

## Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence Indices, assuming £100 was invested on 1 April 2009. This investment in the Company was worth £167 on 31 March 2019. The Board considers that the FTSE 250 Index (excluding investment trusts) and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.

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

### Babcock vs. FTSE 250 Index vs. FTSE 350 Aerospace & Defence 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 | 2018/19      |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------------|
| <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   | 2,079   | <b>1,981</b> |
| Bonus vesting (% max)                |         |         |         |         |         |         |         | 66%     | 61%     | <b>58%</b>   |
| DBMP matching shares vesting (% max) |         |         |         |         |         |         |         | 17.0%   | 20.0%   | <b>n/a</b>   |
| PSP vesting (% max)                  |         |         |         |         |         |         |         | 26.5%   | 23.9%   | <b>15.1%</b> |

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 2019 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 2018                                  | At 31 March 2019                                  |                                      |                          |  |  |                           |   |                        |
|----------------------|---|---|--------------------------------------|--------------------------|--|--|---------------------------|---|------------------------|
|                      | Shares held                                       | Shares held                                       |                                      |                          | Options held                                   |  |                           |   |                        |
|                      | Owned outright by Director or spouse <sup>1</sup> | Owned outright by Director or spouse <sup>1</sup> | Vested but subject to holding period | Vested but not exercised | Unvested and subject to performance conditions | Unvested and subject to continued employment | S/holding req. (% salary) | Current shareholding (% of salary) <sup>2</sup> | Req. met? <sup>2</sup> |
| Archie Bethel        | 388,191   | <b>424,063</b>                                    | <b>0</b>                             | <b>0</b>                 | <b>463,505</b>                                 | <b>75,096</b>                                | <b>300%</b>               | <b>316%</b>                                     | <b>Yes</b>             |
| Franco Martinelli    | 300,219   | <b>322,509</b>                                    | <b>0</b>                             | <b>0</b>                 | <b>282,073</b>                                 | <b>49,713</b>                                | <b>200%</b>               | <b>424%</b>                                     | <b>Yes</b>             |
| John Davies          | 177,246   | <b>197,202</b>                                    | <b>0</b>                             | <b>0</b>                 | <b>271,908</b>                                 | <b>42,860</b>                                | <b>200%</b>               | <b>278%</b>                                     | <b>Yes</b>             |
| Mike Turner          | 84,884  | <b>107,384</b>                                    |                                      |                          |  |  |                           |   |                        |
| Jeff Randall         | 5,520   | <b>5,758</b>                                      |                                      |                          |  |  |                           |   |                        |
| Sir David Omand      | 0   | <b>0</b>  |                                      |                          |  |  |                           |   |                        |
| Ian Duncan           | 0   | <b>0</b>  |                                      |                          |  |  |                           |   |                        |
| Myles Lee            | 10,000  | <b>20,000</b>                                     |                                      |                          |  |  |                           |   |                        |
| Victoire de Margerie | 3,000   | <b>4,800</b>                                      |                                      |                          |  |  |                           |   |                        |
| Lucy Dimes           | n/a   | <b>5,000</b>                                      |                                      |                          |  |  |                           |   |                        |
| Kjersti Wiklund      | n/a   | <b>2,100</b>                                      |                                      |                          |  |  |                           |   |                        |

1. Beneficially held shares (of Director and/or spouse).

2. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2019 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. Holdings are valued assuming options are exercised on 31 March 2019 and a three-month average share price to 31 March 2019 of 531.6p, and calculated post-tax.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2019 and 22 May 2019.

## Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 29 March 2019 was 493.5p. The highest and lowest mid-market share prices in the year ended 31 March 2019 were 862.4p and 472.8p, respectively.

| Director      | Plan <sup>1</sup> and year of award           | Number of shares subject to award at 1 April 2018 | Granted during the year | Exercised during the year | Lapsed during the year | Number of shares subject to award at 31 March 2019 | Exercise price (pence) <sup>2</sup> | Market value of each share at date of award (pence) | Exercisable from <sup>3</sup> | Expiry date <sup>4</sup> |
|---------------|---|---|-------------------------|---------------------------|------------------------|--|-------------------------------------|---|-------------------------------|--------------------------|
| Archie Bethel | PSP 2015                                      | 46,519  |                         | 11,118                    | 35,401                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|               | DBMP 2015 (basic award)                       | 12,187  |                         | 12,187                    |                        | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|               | DBMP 2015 (basic matching award)              | 24,374  |                         | 4,874                     | 19,500                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|               | DBMP 2015 (voluntary deferral award)          | 10,955  |                         | 10,955                    |                        | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|               | DBMP 2015 (voluntary deferral matching award) | 21,910  |                         | 4,382                     | 17,528                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|               | PSP 2016                                      | 110,312   |                         |                           |                        | 110,312  |                                     | 997.17  | Jun 2021                      | Jun 2022                 |
|               | DBP 2016                                      | 13,162  |                         |                           |                        | 13,162   |                                     | 997.17  | Jun 2021                      | Jun 2022                 |
|               | PSP 2017                                      | 171,588   |                         |                           |                        | 171,588  |                                     | 891.67  | Jun 2022                      | Jun 2023                 |
|               | DBP 2017                                      | 29,185  |                         |                           |                        | 29,185   |                                     | 891.67  | Jun 2022                      | Jun 2023                 |
|               | PSP 2018                                      |   | 181,605                 |                           |                        | 181,605  |                                     | 859.33  | Jun 2023                      | Jun 2024                 |
|               | DBP 2018                                      |   | 32,749                  |                           |                        | 32,749   |                                     | 859.33  | Jun 2023                      | Jun 2024                 |

(a) Market value of each share at date of exercise (13 Jun 2018) = 856.57p.

For other notes to the table see page 130.

| Director          | Plan <sup>1</sup> and year of award | Number of shares subject to award at 1 April 2018 | Granted during the year | Exercised during the year | Lapsed during the year | Number of shares subject to award at 31 March 2019 | Exercise price (pence) <sup>2</sup> | Market value of each share at date of award (pence) | Exercisable from <sup>3</sup> | Expiry date <sup>4</sup> |
|-------------------|-------------------------------------|---|-------------------------|---------------------------|------------------------|--|-------------------------------------|---|-------------------------------|--------------------------|
| Franco Martinelli | PSP 2014                            | 3,761   |                         | 3,761                     |                        | 0  |                                     | 1,015.00  | Jan 2018                      | Jan 2019                 |
|                   | PSP 2015                            | 46,519  |                         | 11,118                    | 35,401                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|                   | DBMP 2015 (basic award)             | 10,042  |                         | 10,042                    |                        | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|                   | DBMP 2015 (basic matching award)    | 20,084  |                         | 4,016                     | 16,068                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|                   | PSP 2016                            | 84,238  |                         |                           |                        | 84,238   |                                     | 997.17  | Jun 2021                      | Jun 2022                 |
|                   | DBP 2016                            | 12,843  |                         |                           |                        | 12,843   |                                     | 997.17  | Jun 2021                      | Jun 2022                 |
|                   | PSP 2017                            | 96,112  |                         |                           |                        | 96,112   |                                     | 891.67  | Jun 2022                      | Jun 2023                 |
|                   | DBP 2017                            | 18,387  |                         |                           |                        | 18,387   |                                     | 891.67  | Jun 2022                      | Jun 2023                 |
|                   | PSP 2018                            |   | 101,723                 |                           |                        | 101,723  |                                     | 859.33  | Jun 2023                      | Jun 2024                 |
|                   | DBP 2018                            |   | 18,483                  |                           |                        | 18,483   |                                     | 859.33  | Jun 2023                      | Jun 2024                 |

(a) Market value of each share at date of exercise (13 Jun 2018) = 856.57p.

For other notes to the table see page 130.

## Remuneration continued

| Director | Plan <sup>1</sup> and year of award           | Number of shares subject to award at 1 April 2018 | Granted during the year | Exercised during the year | Lapsed during the year | Number of shares subject to award at 31 March 2019 | 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 2015                                      | 44,447  |                         | 10,622                    | 33,825                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
| Davies   | DBMP 2015 (basic award)                       | 11,785  |                         | 11,785                    |                        | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|          | DBMP 2015 (basic matching award)              | 23,570  |                         | 4,714                     | 18,856                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|          | DBMP 2015 (voluntary deferral award)          | 7,366   |                         | 7,366                     |                        | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|          | DBMP 2015 (voluntary deferral matching award) | 14,732  |                         | 2,946                     | 11,786                 | 0  |                                     | 1,141.00  | Jun 2018                      | Jun 2019                 |
|          | PSP 2016                                      | 81,230  |                         |                           |                        | 81,230   |                                     | 997.17  | Jun 2021                      | Jun 2022                 |
|          | DBP 2016                                      | 13,571  |                         |                           |                        | 13,571   |                                     | 997.17  | Jun 2021                      | Jun 2022                 |
|          | PSP 2017                                      | 92,635  |                         |                           |                        | 92,635   |                                     | 891.67  | Jun 2022                      | Jun 2023                 |
|          | DBP 2017                                      | 12,890  |                         |                           |                        | 12,890   |                                     | 891.67  | Jun 2022                      | Jun 2023                 |
|          | PSP 2018                                      |   |                         | 98,043                    |                        |  | 98,043                              |   | 859.33                        | Jun 2023                 |
| DBP 2018 |   |   | 16,399                  |                           |                        | 16,399   |                                     | 859.33  | Jun 2023                      | Jun 2024                 |

(a) Market value of each share at date of exercise (13 Jun 2018) = 856.57p.

Notes applicable to all tables on pages 129 to 130.

1. PSP = 2009 Performance Share 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 123 to 124.
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 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 10<sup>th</sup> anniversary of the award.

### General notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 78.9p per vested share had accrued on the PSP 2015 awards and on the DBMP 2015 awards, in each case for the period between grant and vesting. It is payable by the Company to the award holder on exercise of the award concerned.
2. Closing share price on the last dealing date before vesting was 862.4p (11 June 2018) for PSP 2015 and DBMP 2015 awards.

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

During the year to 31 March 2019 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 2015                                      | 11,118         | 11 Jun 2018  | £126,856                                 | £95,882   |   |
| Bethel            | DBMP 2015 (basic award)                       | 12,187         | 11 Jun 2018  | £139,054                                 | £105,101  |   |
|                   | DBMP 2015 (basic matching award)              | 4,874          | 11 Jun 2018  | £55,612                                  | £42,033   |   |
|                   | DBMP 2015 (voluntary deferral award)          | 10,955         | 11 Jun 2018  | £124,997                                 | £94,476   |   |
|                   | DBMP 2015 (voluntary deferral matching award) | 4,382          | 11 Jun 2018  | £49,999                                  | £37,790   |   |
| Franco Martinelli | PSP 2015                                      | 11,118         | 11 Jun 2018  | £126,856                                 | £95,882   |   |
|                   | DBMP 2015 (basic award)                       | 10,042         | 11 Jun 2018  | £114,579                                 | £86,602   |   |
|                   | DBMP 2015 (basic matching award)              | 4,016          | 11 Jun 2018  | £45,823                                  | £34,634   |   |
| John Davies       | PSP 2015                                      | 10,622         | 11 Jun 2018  | £121,197                                 | £91,604   |   |
|                   | DBMP 2015 (basic award)                       | 11,785         | 11 Jun 2018  | £134,467                                 | £101,634  |   |
|                   | DBMP 2015 (basic matching award)              | 4,714          | 11 Jun 2018  | £53,787                                  | £40,654   |   |
|                   | DBMP 2015 (voluntary deferral award)          | 7,366          | 11 Jun 2018  | £84,046                                  | £63,524   |   |
|                   | DBMP 2015 (voluntary deferral matching award) | 2,946          | 11 Jun 2018  | £33,614                                  | £25,406   |   |

### 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 2018/19

None of the Executive Directors received a fee for any external appointment during the year.

This Remuneration report was approved by the Board on 21 May 2019 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 Investor Relations team organises a full investor calendar throughout the year including meeting with existing and potential Shareholders at results presentations, results roadshows, conferences and directly arranged ad hoc meetings. These meetings normally include the Chief Executive, the Group Finance Director

and the Director of Investor Relations and include a discussion of the Group's strategy and financial performance. In addition to this, the Company arranges site visits to showcase some of its operations throughout the year. These events are complemented by regular interaction with sell-side analysts and sales teams. 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 101 and 102. 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<br>(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 2018                       |
| Trading updates and conference calls with Chief Executive and Group Finance Director  | July 2018, September 2018 and February 2019 |

| Other presentations   | When               |
|---|--------------------|
| Site visit to our Aviation business in Spain including a presentation by the sector Chief Executive   | October 2018       |
| Site visit to our Marine business in Devonport including a presentation by the sector Chief Executive | March 2019         |
| Group Finance Director presentations at broker organised conferences and events                       | June and July 2018 |

| Dealings with Shareholders, investors and analysts<br>Resolutions of AGM available at <a href="http://www.babcockinternational.com/investors">www.babcockinternational.com/investors</a> | When                                  |
|--|---------------------------------------|
| Meetings with Shareholders and potential investors   | Throughout                            |
| Meetings with sell-side analysts and sales teams   | Throughout                            |
| Letter from the Group Chairman to our Shareholders   | December 2018                         |
| Annual General Meeting   | July 2018                             |
| Roadshows in London, Edinburgh, Paris, New York, Boston, Chicago, Kansas and Toronto   | May, June, November and December 2018 |

Over 97% 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 is presented at each Board meeting, including a summary of share price performance, sector developments, changes to the Share Register, analyst research, consensus expectations and progress on the investor relations strategy.

### Annual General Meeting

The 2019 AGM will be held at 11:00 am on Thursday 18 July 2019 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.