

BABCOCK INTERNATIONAL GROUP PLC

GROUP TAX STRATEGY – SCHEDULE 19, FINANCE ACT 2016

This document has been approved by the Board of Directors of Babcock International Group PLC for publication in accordance with Finance Act 2016.

Group Tax Strategy in Summary

We support the requirement within Finance Act 2016 for us to publish our Group Tax Strategy.

Our Group Tax Strategy is based around the following key objectives:

- We strive to achieve the highest level of compliance that we can with all relevant tax laws in any country in which we operate;
- We strive to have an open and collaborative dialogue with tax authorities;
- We will avail ourselves of legislative tax exemptions and incentives; but only where consistent with the commercial make-up of the business;
- We will always be mindful of our reputation;
- We strive for the best possible tax processes and controls to help us achieve our objectives with regard to tax compliance.

Further detail in respect of our tax strategy is set out below, applying to both UK taxation and non-UK taxation:

Approach to Tax Risk Management and Governance

The Board of Directors of Babcock International Group PLC has ultimate responsibility for the tax strategy of the Group. Responsibility for implementation of / continued compliance with this strategy lies with the Group CFO, who is supported by the Group Head of Tax, who assumes day to day responsibility in this area.

On an annual basis, the Head of Tax gives a full tax presentation to the Board, which will include:

- A summary of the Group's tax strategy;
- A summary of the Group's level of compliance with tax laws in all relevant jurisdictions (including timely tax filings and tax payment processes).

This will normally take place in the fourth quarter of the accounting period.

At the end of the second quarter of the accounting period, the Group submits its annual SAO (Senior Accounting Officer) self-certification, which certifies that the Group has adequate tax controls and tax processes. A thorough review process takes place before this annual submission. Great emphasis is placed on the SAO reporting process by the Group and a number of work streams take place each year that are SAO relevant, including (but not limited to):

- Testing of documented controls and processes by business line;
- Detailed review of tax controls and processes of selected business lines by external advisers;
- Holding of training days for key individuals; and
- Workshops with external advisers in respect of significant new developments in tax legislation.

In addition, the Group Tax Department feeds into the Group Risk Register, so that regular reports to the Group Audit Committee / Board around the Group Risk Register will therefore include any comments around tax that are appropriate.

Corporation tax compliance (i.e. preparation and filing of corporation tax returns) is outsourced to “Big Four” service providers for both the UK and non-UK parts of the Group to help us achieve the highest levels of compliance.

Attitude to Tax Planning

As stated above, the Group will avail itself of legislative exemptions and incentives where to do so is consistent with the commercial make-up of the Group.

Where statutory alternatives allow the possibility of achieving the same commercial result through alternative methods, the Group will always consider compliance with Group Tax Strategy as well as potential reputational impact as part of any decision making process. In particular, the Group will ensure that it is at all times in compliance with the UK Government Contractor Guidance, as it has always done.

Level of Tax Risk

Because of the level of complexity of tax legislation (thereby leading to the possibility of differences in interpretation or application of tax laws), coupled with the volume of different taxes across jurisdictions, there will always be tax risk within a Group of our size. Nevertheless, we firmly believe that the key principles of our Group Tax Strategy ensure we take a prudent approach to tax risk, consistent with our Group-wide attitude to risk generally.

Approach towards HMRC

The Group strives to have an open and collaborative dialogue with Tax Authorities. In particular, this includes a regular dialogue with HM Revenue & Customs (HMRC) in the UK in respect of the Group's HMRC risk rating, which is assessed annually. The Group works hard to try to achieve as low a risk rating as is possible for a Group of its size and complexity.

As stated above, the Group pays particular attention to the UK SAO process in respect of Tax Controls Frameworks and ensures its tax controls and processes are as good as possible in order to help it achieve the highest levels of tax compliance.

The Group is also supportive of new tax compliance and disclosure regimes within the UK, as and when they arise. For example we have most recently shared our submissions with HMRC for Country-by-Country-Reporting and Transfer Pricing documentation requirements, when they became due and look forward to working with HMRC on any new items when needed.

Conclusion

Babcock International Group PLC, as a multinational group, operates in a complex environment, with fast evolving and frequently changing tax legislation and interpretation of that legislation. We are committed to ensuring that we can continue to meet the primary objectives of our Group Tax Strategy in this environment.