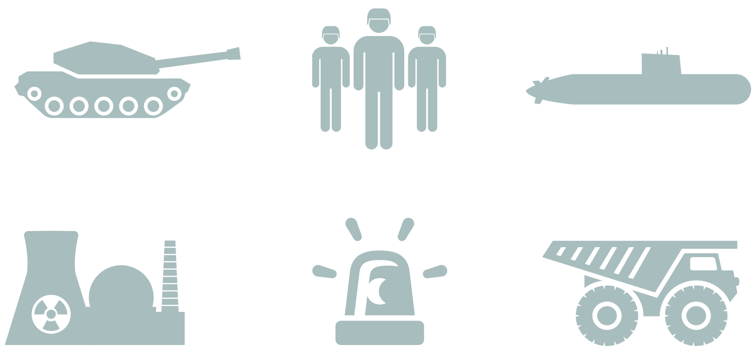
trusted to deliver™

Babcock International Group PLC
Annual Report and Accounts 2013

trusted to deliver



Introduction

trusted to deliver

Babcock is the UK's leading engineering support services organisation.

Operating in the UK and overseas, we are trusted to deliver complex and critical support to the defence, energy, emergency services, transport, education and telecommunications sectors. We pride ourselves on our long-term customer focused relationships and ultra-reliable engineering excellence.

In this year's report

Business Review

Overview

Directors' report

The Directors present the Annual Report and Accounts for the year ended 31 March 2013. This page and pages 2 to 100, inclusive, of this Annual Report and Accounts comprise a Report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. In particular, Directors would be liable to the Company (but not to any third party) if the Directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

Forward-looking statements

Certain statements in this Annual Report and Accounts are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 50 to 55 which set out some of these risks and uncertainties. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this Annual Report and Accounts regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the time of preparation of this Annual Report and Accounts and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

Our business today

Delivering critical support

Operating through four divisions, we deliver critical and complex support to strategically important assets, infrastructure and training programmes in the defence, energy, transport, telecommunications and education markets.

Based primarily in the UK, but with a growing position in select international markets, our c 26,000 skilled staff design, build, manage, operate and maintain assets that are vital to both the public and private sectors.

We provide cost saving solutions and greater availability to key customers such as the MoD, central and local government, regulated bodies, international navies and blue chip companies.

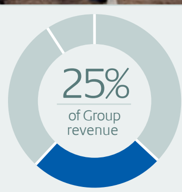
Marine and Technology

Marine and Technology is the UK's leading provider of through-life engineering support services to the Royal Navy. Drawing on an unmatched range of engineering and technical skills, the division operates a wide range of strategic shore-based naval support facilities and provides through-life services and deep maintenance to the Royal Navy's major warships and nuclear-powered submarines.

The division continues to grow its activities in Canada and Australasia whilst expanding into other overseas naval market sectors. It is also utilising its core capabilities and skills to increase its footprint in the commercial marine and offshore energy sectors.

Divisional Chief Executive: Archie Bethel

9,576
Employees



Defence and Security

Defence and Security is a leading support provider to all three armed forces delivering leading-edge asset, infrastructure and training support. It supports c 18,000 military vehicles, including the Army's entire white and construction vehicle fleets and provides integrated facilities management to the MoD estate in the UK and Germany.

The division is the largest training support provider to the MoD, offering expertise in engineering, artisan trades, flight and naval training. Around 50,000 servicemen are trained per annum by Babcock through the MFTS, RSME, REME and FOAP contracts.

Divisional Chief Executive: John Davies

6,689
Employees

Support Services

Support Services has established leading positions across several markets. The division has three core capabilities; it manages critical assets, delivers complex programmes and teaches vital skills for civil government and blue-chip commercial organisations. It is the UK's largest private sector training provider and a market leader in the management of critical assets, including vehicle and equipment fleets, global broadcast infrastructure, high-voltage power networks and baggage handling systems. Its reputation for delivering complex programmes extends to the nuclear industry, where it delivers decommissioning, new build and power generation support. It is also the UK's largest conventional rail track renewals company.

Divisional Chief Executive: Kevin Thomas

7,866
Employees

International

In South Africa, the International division is the leading supplier of engineering support services. It is responsible for the construction, erection and maintenance of high voltage power lines and provides engineering support to Eskom's power stations. The division also has a growing crane hire business and is the exclusive regional distributor for Volvo heavy vehicle equipment and DAF trucks.

In the Middle East, the division provides civilian and military flight training and support to the Royal Oman Air Force.

Divisional Chief Executive: Peter Rogers

1,379
Employees

Group snapshot

£3,243.5m
Continuing underlying revenue

£376.6m
Continuing underlying operating profit

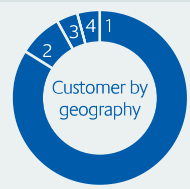
£317.8m
Continuing underlying profit before tax

71.3p
Continuing underlying basic earnings per share

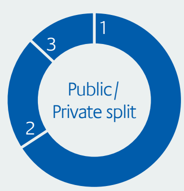
£12bn
Order book

1. Marine and Technology	37%
2. Defence and Security	25%
3. Support Services	29%
4. International	9%

1. UK Defence	55%
2. UK Civil	29%
3. International Civil	9%
4. International Defence	7%

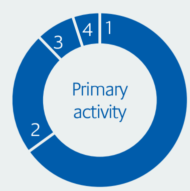


1. UK	84%
2. Africa	8%
3. Canada	4%
4. RoW	4%



1. Public	66%
2. Regulated	21%
3. Private	13%

1. Defence	62%
2. Energy	14%
3. Transport	11%
4. Volvo / Plant hire	6%
5. Education	5%
6. Telecommunications	2%



1. Asset support	65%
2. Infrastructure support	23%
3. Military training	7%
4. Civil training	5%

Chairman's statement

Successful delivery of strategy

Statutory results

Group revenue	£3,029.4m (2012: £2,848.4m)	+6%
Operating profit	£234.5m (2012: £202.0m)	+16%
Profit before tax	£224.6m (2012: £173.0m)	+30%
Basic earnings per share Continuing	53.0p (2012: 42.9p)	+24%

Total revenue

£m +6%

2009	1,915.2
2010	1,923.4
2011	2,703.2
2012	3,070.4
2013	3,243.5

Operating profit

£m +14%

2009	147.3
2010	164.7
2011	275.4
2012	329.0
2013	376.6

Profit before tax

£m +16%

2009	120.9
2010	145.2
2011	216.7
2012	274.1
2013	317.8

Basic earnings per share

p +16%

2009	41.9
2010	51.4
2011	52.5
2012	61.5
2013	71.3

Full year dividend

p +16%

2009	14.4
2010	17.6
2011	19.4
2012	22.7
2013	26.3

Underlying results

Throughout the overview and business review sections, unless otherwise stated, revenue, operating profit, operating return on revenue, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items and including the Group's share of joint ventures (jv) and including investment income arising from IFRIC12 (Accounting for Service Concession Arrangements).

Collectively these adjustments are made to derive the underlying operating results of the business. A reconciliation of statutory to underlying results is set out on page 36 .

The underlying figures provide a consistent measure of business performance year-to-year thereby enabling comparison and understanding of Group financial performance.

Focus on creating value

I am pleased to report another year of strong progress for Babcock. Once again we have delivered an excellent set of financial results which continue to build on our successful long-term track record of growth.

I am proud to report that in June 2012, Babcock was recognised as one of the largest companies in the UK and entered the FTSE 100 index. We have come a long way from the 'small cap' company we were some ten years ago when we first embarked on our strategy to become the UK's leading engineering support services company.

Over this period our fundamental strategy has remained unchanged and by consistently focusing on our strategy we have created a business that is set apart from many others in our sector. The Board has had a key role supporting and challenging the businesses as they focused on delivering growth, through a series of transformational, and smaller, acquisitions as well as by bidding and winning a number of strategically important long-term contracts. As Chairman, I am committed to continuing this process, ensuring our business is governed with openness, honesty and transparency and that our core focus is on creating long-term, sustainable value for shareholders.

As I set out in the Chairman's corporate governance statement on page 58, the Board continues to focus on achieving the highest standards of corporate governance. Part of this is ensuring we have the appropriate skills and experience on the Board to drive the business forward, supporting the growth and strategic ambitions of the Group.

During the year we said goodbye to Sir Nigel Essenhigh who retired from the Board after over nine years of exemplary service. I would like to thank Sir Nigel personally for the commitment, insight, constructive and robust challenge he gave to the Board during his period of service. We welcomed Anna Stewart as a Non-Executive Director in November 2012 and John Davies, Chief Executive of our Defence and Security division, as an Executive Director in January 2013. Both Anna and John bring with them a wealth of experience and I look forward to working with them in the future.

Dividend

This year underlying basic earnings per share has increased by 16% to 71.3 pence per share (2012: 61.5 pence per share), the Group has continued to convert more than 100% of operating profit to cash and visibility of future revenue has remained strong. As earnings have grown, the Board has always been committed to ensuring our shareholders share in this success and have maintained our policy of dividend cover, on underlying earnings per share, of between 2.5 and 3 times. Therefore, reflecting the strength of our confidence in the long-term future of our business, the Board is recommending a final dividend of 20.0 pence per share. This will give a total dividend for the year of 26.3 pence per share, an increase of 16% (2012: total dividend 22.7 pence per share). The dividend will be paid on 8 August 2013 to shareholders on the register at close of business on 5 July 2013.

Our people

Our employees are critical to our success. It is their commitment that ensures we meet or exceed our customers' expectations and maintain our 'trusted to deliver reputation'. On behalf of the Board I would like to thank everyone who works for Babcock, across the globe, for their hard work and dedication. Once again, they have been responsible for the delivery of another set of excellent financial results.

Outlook

2012/13 was a strong year for Babcock. We delivered good growth in underlying revenue and further strengthened our operational performance to deliver significant growth in underlying earnings.

Our markets remain positive as the current economic climate continues to create long-term opportunities. Our business model, the scale of our operations, the depth and breadth of our experience and our track record of delivering operational and financial efficiencies provide an excellent platform from which to benefit.

The Group continues to benefit from excellent visibility of future revenue through its strong order book and bid pipeline. In light of this, the Board is confident that the Group will continue to make further strong progress over the coming year.

Mike Turner CBE
Chairman

Chief Executive's report

Well positioned for the future

"We have a clear strategy and business model that will support growth and help us generate long-term, sustainable value."

Another record year – creating a strong platform for growth

2012/13 has been another successful year for Babcock, our 12th consecutive year of growth. Once again we have built on our track record of delivering strong financial results and have maintained our commitment to provide superior and sustainable returns for our shareholders. Our consistent ability to deliver excellent financial results, strong growth and value reflects the strength of our underlying business and the strong platform this creates for Babcock's future.

Throughout the year our markets have remained buoyant and we have seen neither change to the scale or range, nor any slowdown in the pace of new outsourcing opportunities we are tracking or that have come into our bid pipeline. As a result, throughout the 2012/13 financial year, we have reported continued increases in our bid pipeline, demonstrating further progress in securing the long-term future of our businesses.

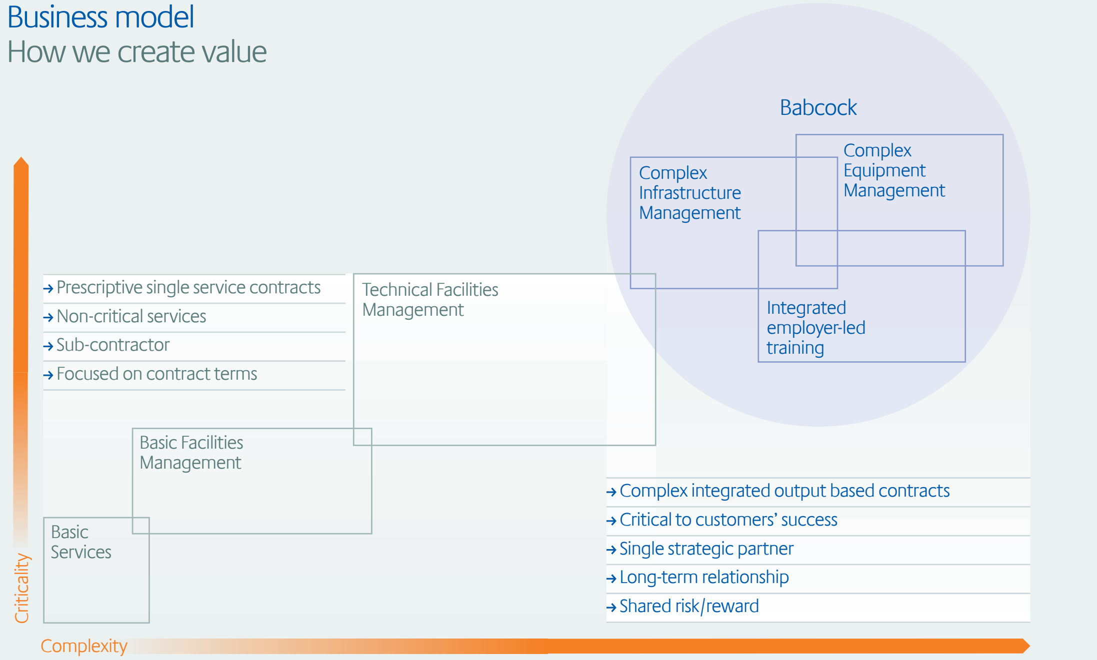
We have established ourselves as the UK's leading engineering support services business. Since 2001 we have grown our business through a series of successful acquisitions and major contract wins all of which have been aligned to our strategy and helped us achieve our strategic objective. By sticking to a consistent and clearly defined strategy, (set out below), we have created a distinctive and unrivalled engineering support services business.

Our strategy supports and has helped define our individual business model: together our strategy and business model set us apart from others operating in our markets. They have been the basis of our successful track record of growth for more than ten years and have created the strong platform which we believe will continue to deliver long-term, sustainable growth and value.

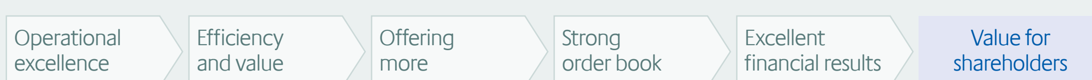
Fundamental to the future success of our business is our commitment to delivering operational excellence for our customers. We will focus on designing innovative engineering and support solutions to ensure they achieve the efficiency and value for money they require. By focusing on working in partnership with our customers, developing a deeper understanding of their businesses and delivering outstanding customer service, we are able to offer them more – both in terms of financial or operational benefits. Our ability to do this is reflected in the strength of our financial results, order book and pipeline along with the successful growth in total shareholder returns.

We intend to keep building on and developing from this position – we do not expect our businesses to stand still.

Business model
How we create value



Value chain



Chief Executive's report (continued)

Strategy

Our objective is to develop from our position as the UK's leading engineering support services company and grow in both the UK and overseas.

1 Leading market positions

Aim
We expect our businesses to be one of the top three in their market sector. If they are not, they will have clear plans to achieve this goal.

Progress
We are the largest support services provider to the Royal Navy, providing 100% of submarine refit and repair work including the long period overhaul and refuel of HMS Vengeance, a key component of the UK's nuclear deterrent.

2 Preferred customer characteristics

Aim
We seek to work with customers who own large strategically important assets. These customers tend to be government departments, public bodies or private companies operating in highly regulated markets.

Progress
We have been trusted to deliver vehicle support to the London Fire Brigade following an 18 month interim contract win.

3 Customer focused, long-term relationships

Aim
We seek to work collaboratively with our customers to support the long-term nature of our contracts.

Progress
We extended our excellent working relationship with Heathrow Airport Limited and British Airways by an initial five years following successful rebids in baggage handling and ground fleet support.

4 Integrated engineering and technical expertise

Aim
We seek to use our skills, integrating engineering and technical expertise to deliver projects and long-term asset management.

Progress
We continue to ensure that we have the human capital in place to look after our customer's strategically important assets. We have 251 graduates on our graduate programme, 76% of whom are engineers.

5 Balancing risk and reward

Aim
We seek to enter into contracts that fairly balance the risk and reward with our customers, so we can each share the financial effects of success or failure.

Progress
We continue to move away from cost plus and seek out pain/gain share contracting arrangements with new and existing customers.

6 Excellent health and safety record

Aim
We expect all our divisions to deliver a sector-leading safety performance. We believe all our employees and others working on or visiting our operations should be able to return home safe and well at the end of the working day.

Progress
This year we reduced our RIDDOR rate per 100,000 hours worked by 19% to 0.17, down from 0.21 in 2012.

A positive market environment

We are currently operating in markets in the UK and overseas with significant growth opportunities. In addition, we have identified new markets and geographies with similar growth characteristics where we believe our business model will be an advantage.

Over the past few years, there has been no change to the economic environment. Many of our customers are facing increasingly difficult decisions when trying to manage the delivery of critical services with progressively scarce resources. The options they have are to:

- reduce outputs
- eliminate services
- find different delivery models

As a result, across our chosen markets new outsourcing opportunities are being created by customers who:

- need to achieve financial savings without reducing outputs or eliminating services
- want a better value for money support solution at the same time as improving availability of assets or infrastructures
- want to improve or invest in new assets or infrastructures but lack the necessary scale of resource, depth of knowledge or expertise to carry out the highly complex, engineering support required.

For our customers, who manage critical and complex assets, infrastructures and training programmes, by moving from an in-house support solution to a specialist engineering outsourcing solution they will be able to achieve significant financial benefits as well as operation efficiencies. We believe our distinctive business model is ideally structured to help our customers benefit from outsourcing and we are extremely well positioned to help them formulate the best support solutions for their operations.

Building on our strengths, reputation and proven track record

The success of our business in future, both in the UK and overseas, will come from the significant opportunities we are currently bidding or tracking, the further new outsourcing opportunities we are helping to formulate and new market prospects we are considering. All these have been carefully selected as ones where our business model will be beneficial to our customers and where we are confident we can continue to meet our strategic objectives. We remain very focused on what we do and have identified three clear ways in which we will seek to deliver growth:

- Growing existing customers – using depth and breadth of skills across the Group to offer a broader range of services
- Growing new customers – transferring existing capabilities to new customers
- Growing existing contracts – using current arrangements to deliver additional services

Building a leading nuclear position

Six acquisitions between 2006 and 2010 have created the largest specialist nuclear services company in the UK with a skilled nuclear workforce of 5,700 and operating at all levels of the civil and defence nuclear markets

Defence nuclear | Defence nuclear and civil nuclear

Site owner

- Owner of nuclear licensed sites at Devonport and Rosyth Dockyard

Tier 1 – managing licensed sites

- Dounreay (Parent Body Organisation)
- HMNB Clyde
- Harwell and Winfrith

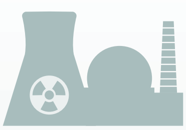
Tier 2 – main contractor

- Sellafield major projects
- AWE A1 decommissioning

Tier 3 – sub-contractor

- Site licensing and safety case support
- Design and engineering contracts
- EDF nuclear training

Growth opportunities



Nuclear new build

- Memorandum of Understanding signed with Hitachi for Horizon
  - potential partner for new build programme from generic design assessment through to build programme to operations and maintenance ▶ page 29
- Bidding into EDF Hinkley Point new build project
  - partnership with Boccard

Power generation support

- Life extension to help bridge UK energy gap
  - 7 year extensions for 5 power stations
  - 2 year extensions for 2 power stations
  - 20 year extension for 1 power station ▶ page 27
  - Broadening training and technology offering

Decommissioning

UK civil nuclear

- Magnox and research sites – UK's biggest new decommissioning opportunity
  - 10 nuclear power stations
  - 2 nuclear research sites
  - NDA current total spend ~£7 billion ▶ page 29

International opportunities

- Requirements in France, Canada, Japan and other international locations

Submarine decommissioning

- Currently 18 laid up Royal Navy submarines ▶ page 18

Chief Executive's report (continued)

All our chosen growth routes will ensure we build on our strengths, reputation and proven track record. I have set out within this report, three examples which demonstrate how, through carefully targeted acquisitions and contract wins, we have established market-leading positions across the Group with unrivalled depth and breadth of skills, knowledge and experience. These case studies also demonstrate how we will use the strength of the business today to address a range of new markets and customers.

We understand there can be many risks associated with growing a business and so have many processes and controls in place to limit this (see Principal risks page 50 to 55).

Meeting or exceeding our customers' requirements

We will only be able to achieve our growth ambitions if we continue to meet or exceed our customers' requirements. As our businesses continue to target opportunities with greater criticality and complexity and to focus on contracts with high levels of technical or engineering content, we need to ensure we have the best people in place to meet these requirements and deliver these contracts successfully. We have built an unrivalled workforce of highly skilled and qualified engineers, technicians, project and programme managers. For example, we are the single largest employer of nuclear qualified engineers in the UK today. We need to ensure we continue to bring new people in and develop the talented people we already employ if we are to achieve sustainable growth. We have many programmes across our business to do this (see page 46) and are committed to making Babcock an exciting and rewarding place to work.

We seek to add further value to our customer relationships by designing contract structures that allow us to share the risk and reward of contract outputs. By operating as strategic partners and entering into long-term, integrated output based contracts, we can work together with our customers to improve or enhance the expected outcomes. We are then both able to benefit from the financial savings achieved. This way of working is becoming increasingly attractive for our customers particularly as budgets become ever more constrained.

We would not have been able to establish leading positions in any of our markets or have the scale of opportunities ahead of us if we did not also have an excellent Health and Safety record. Across the Group, safety is our first priority and we are committed to ensuring our employees, contractors or anyone visiting any of our sites goes 'Home Safe Everyday'. We strive for continual improvement in all our Health and Safety activities as we work towards our 'zero accident' goal (see pages 45 and 46).

Trusted to deliver

If organisations are to introduce alternative delivery models or contract structures to their operations, they need to know they can do so without damaging their businesses. They need to have confidence that they can achieve the required level of savings without damage to their operational requirements or reputations. They need to know that their chosen supplier has a proven track record and can be 'trusted to deliver'.

Babcock has that proven track record. As a result of our strategy and business model, developed over a number of years, and our focus on meeting or exceeding our customers' expectations, we have been successful in delivering significant operational as well as financial efficiencies. As a result we have been able to drive continuous improvement in our financial results, grow our business steadily year-on-year and support our future growth plans by increasing our bidding and tracking pipeline. As a result, we have driven increased value for our shareholders and make Babcock a more rewarding place to work for our employees.

Leveraging expertise

Leveraging our experience as the UK's leading provider of through-life engineering support services to the Royal Navy to grow both in the UK and overseas

Building on our core capabilities and unique naval infrastructure to enhance our position with UK customers

Unrivalled naval and nuclear engineering knowledge

- c 9,500 highly skilled employees
- Improving asset availability whilst delivering savings
- First-class safety record ▶ page 45

Specialist systems design, supply and through-life support

- Submarines – we are the key provider of deep maintenance, in-service maintenance and infrastructure support for the UK nuclear submarine fleet.
- Warships – we undertake the majority of deep maintenance for the UK surface warship fleet and around half of the fleet maintenance
- Integral role in the design phases of future naval programmes

Focus on long-term collaborative relationships

- Nominated roles as part of 15 year Terms of Business Agreement with UK MoD
- Significant roles in UK alliance programmes. ▶ page 16
- Maritime capability partner

Managing strategic naval infrastructure

- Experienced owner/manager of complex nuclear and non-nuclear infrastructure to support critical operations
- Efficiencies driven by cross-site management

Transferring our through-life support model to international customers

Australia and New Zealand

- Provision of Collins class and Hobart class weapons handling systems and subsequent through-life support in Australia
- Naval facilities management in New Zealand

Canada

- Babcock awarded 15 year Victoria In-Service Support Contract Support for all four Victoria class submarines in 2008 ▶ page 18

Defence Systems Technology

- Provision and subsequent through-life support of weapons handling systems for international customers including the Spanish and South Korean navies ▶ page 19

Commercial Marine and Offshore Energy

- Commercial engineering and design services of integrity and complex marine equipment

Providing deeper and wider services to our existing international customers

- Building from the strength of our embedded relationships to offer additional complementary services
- Anzac Class – first overseas surface fleet through-life support contract in Australia (awarded 2012)
- Tracking opportunities in facilities management, technology provision and further through-life support contracts ▶ page 18

Offering existing services to new international customers

- Growing our business into adjacent global markets
- Key opportunities in through-life support to select international navies and international blue chip companies ▶ page 15

Chief Executive's report (continued)

Building on a proven capability

Our proven capability in the through-life management of complex and critical mobile assets continues to drive opportunities in new and existing markets. Using our engineering expertise and proven systems, we successfully deliver cost savings, efficiencies and increased availability in output-based mobile asset contracts

UK MoD

- Provision and support to around 14,500 white fleet vehicles
- Provision and support to a global fleet of MoD construction vehicles
  - Fleet rationalisation – 4,000 items reduced to 2,000 whilst overall performance has improved
  - £110 million invested in new equipment

Airports

- Management and support to over 5,000 key assets across the airports sector
- British Airways
  - Support to BA's Heathrow ground support fleet including snow ploughs, de-icers, loading scissor lifts and push back tractors
  - Delivered 16% cost savings year-on-year (2003/4 to 2011/12)
  - Successfully rebid in March 2013 ▶ page 30

Critical services

- Highways Agency
  - Management and support of over 200 vehicles
  - £1.1 million savings in reduced leasing costs over the remaining two year contract period
- Associated British Ports
  - Maintenance and support to critical vessels
  - Successful rebid in January 2013

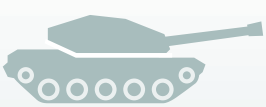
Emergency services

- Metropolitan Police Service
  - Management and support to over 4,000 vehicles
  - Assets including heavy goods vehicles, vans, patrol cars and bicycles
- New Dimension
  - Supporting the UK's Fire and Rescue national resilience capability
  - 20 year support to 650 vehicles and 175,000 stock items of equipment

Mining and construction

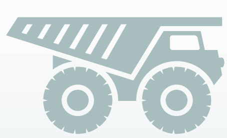
- Leveraging expertise in military and civil markets to offer support solutions to heavy mobile equipment
- Lafarge
  - 10 year contract to manage around 1,000 heavy mobile assets across the UK, Canada and US
  - £27 million invested in new equipment for Lafarge across Babcock supported geographies

Growth opportunities



Military markets

- Defence Support Group(DSG)
  - Opportunity to support 30,000 combat vehicles currently maintained by DSG for the MoD ▶ page 21
- Scope increases to existing contracts ▶ page 24
- International opportunities
  - Monitoring opportunities to support international military fleets ▶ page 21



Mining and construction markets

- Total worldwide market worth in the order of £3 billion ▶ page 27
- New operators
  - Memorandum of Understanding with Aggregate Industries on support to its UK heavy mobile equipment fleet (signed May 2013) ▶ page 29
- Lafarge
  - Progressing discussions to manage new territories and equipment ▶ page 29

Other civil markets

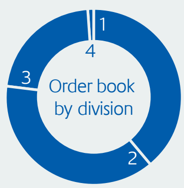
- Management and support of fire service capability for URENCO (signed May 2013)
- Blue light services
  - 18 month fleet management contract to manage London Fire Brigade's fleet (signed November 2012) ▶ page 30
  - Framework agreement with London Ambulance (signed July 2012)

Excellent visibility and significant growth opportunities

A key feature of our business is the excellent visibility we have of future revenues. This is a result of the long-term contracts and partnering agreements which form the basis of our order book. The order book at the end of 2013 stood at £12 billion (2012: £13 billion). As we start the new financial year we have nearly 70% of our anticipated revenue for this year already contracted and over 35% for 2014/15 financial year.

Order book

	£bn
2009	5.7
2010	8.3
2011	12.0
2012	13.0
2013	12.0



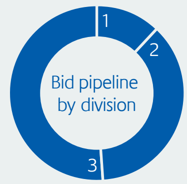
1.	Marine and Technology	39%
2.	Defence and Security	38%
3.	Support Services	22%
4.	International	1%

The bid pipeline has seen strong growth over the year and currently stands at £15.5 billion (2012: £9.5 billion). This is a result of a number of significant transformation, investment or long-term support programmes moving from tracking to formal competitive processes, including Magnox and Research decommissioning, Logistics and Commodities Services Transformation programme, BBC domestic radio services support as well as a number of new through-life vehicle support contracts for the Mobile Assets business and long-term training opportunities. These will be the key drivers of growth over the next few years and include opportunities in the UK and overseas as in both civil and defence markets. Around 75% of the pipeline comprises bids with a value in excess of £100 million of which only 12% are rebids.

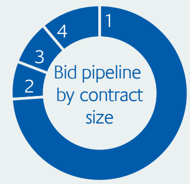
We continue to track or are actively discussing a number of significant future outsourcing opportunities with customers. During the past year we have seen no change to the range or scale of these opportunities or the way in which they have finally come to market. All the new opportunities we track, build on the key elements of our growth strategy.

Bid pipeline history

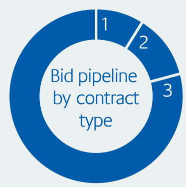
	£m
2009	4.0
2010	3.4
2011	7.0
2012	9.5
2013	15.5



1.	Marine and Technology	12%
2.	Defence and Security	37%
3.	Support Services	51%



1.	> £100m	74%
2.	£100–50m	7%
3.	£50–25m	8%
4.	< £25m	11%



1.	Preferred bidder/sole source	9%
2.	Rebids and extensions	12%
3.	New business	79%

Building future success

The current environment of financial austerity and the demands placed on our customers to achieve increased operational outputs, improved availability of assets as well as financial efficiency places us in a strong position. Our strategy, business model and our consistent track record of successful delivery for our customers set us apart from others in our markets. We have many opportunities ahead of us, in our current markets and in new markets in the UK and overseas, and we are confident that we can continue to build on the strength of our business today and our position as the UK's leading engineering support services company.

Peter Rogers
Chief Executive Officer

Our marketplace

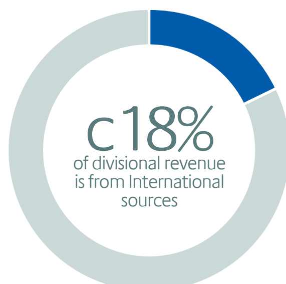
Marine and Technology

Babcock benefits from involvement in the long-term stable UK submarine and surface ship programme. While continuing to support the current fleet, we will have a key role in future programmes providing in-service support to the Astute class and the delivery of systems and engineering support to the Successor class submarines.

We continue to enhance our international footprint in countries such as Canada and Australia as they reform their naval procurement programmes; leveraging our expertise in the UK market.

Furthermore, we are progressing opportunities in the commercial marine and offshore energy markets where our transferrable through-life model supports high integrity, complex marine assets and infrastructure.

Progressing defence and commercial marine opportunities all over the world



Canada

20 year
c Can$32bn
National naval shipbuilding strategy

Lead provider of through-life support to Canadian submarine market for the Victoria Class Submarines.

Babcock continues to investigate opportunities with international navies who are embarking upon national maritime change programmes.

Australia

c Aus$1bn
Annual maritime budget

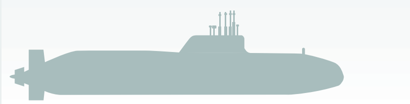
Provides through-life support to:

- The Anzac frigate fleet
- Hobart class weapons handling systems
- Collins class weapons handling systems

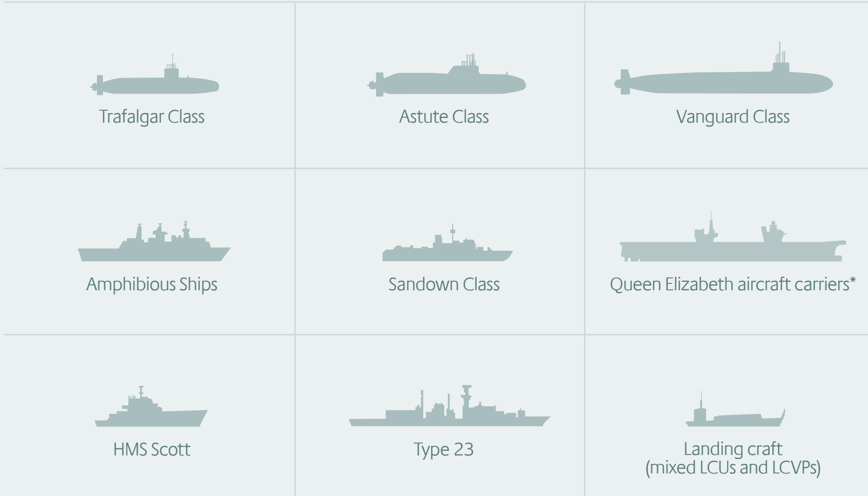
Stable UK market; long-term visibility of future work streams

Babcock undertakes a significant proportion of deep maintenance for the UK surface ship fleet

Babcock is a key provider of deep maintenance, in-service maintenance and infrastructure support for the UK nuclear submarine fleet

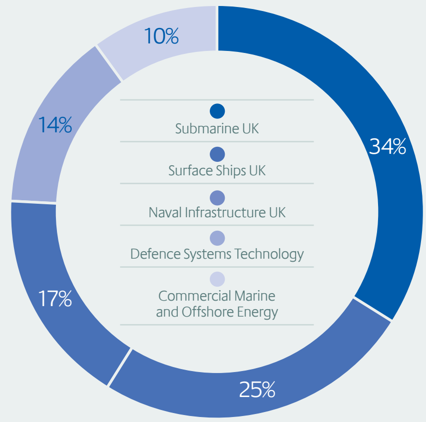


Babcock currently supports the following vessels at Devonport, Rosyth and Clyde:



* Responsible for the assembly and over 50% of the detailed design

Distribution of Marine and Technology UK activities



MoD dedicated to sustained investment in maintaining the effectiveness of its current fleet and future naval platforms.

MoD plan to spend c £17bn on surface ships and around £35bn in submarines and nuclear deterrent programmes over a ten year period. Spending will be allocated to the following equipment categories:

- support to new equipment
- support to in service equipment
- equipment Procurement

Excellent long-term visibility

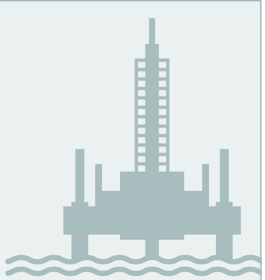
Through-life support partner to the Royal Navy's current and future submarine platforms

- Devonport facility identified as Centre of Excellence for deep maintenance and infrastructure support
- role in the design and engineering of Successor class submarines
- life extension of Vanguard Class
- dismantling of more than 18 laid up submarines at Rosyth and Devonport facilities

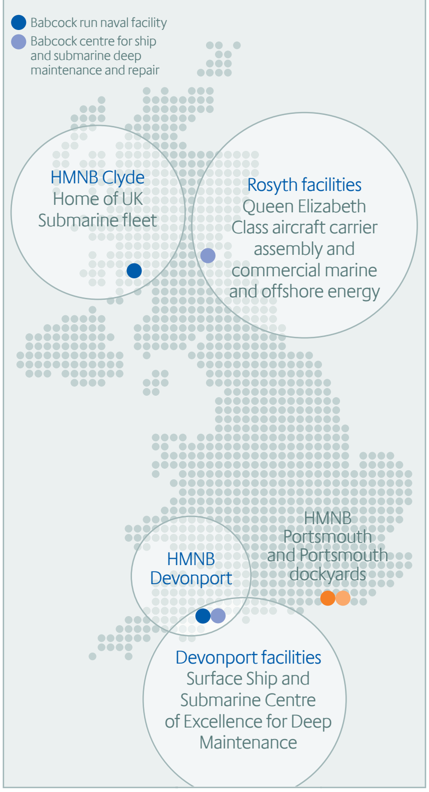
Commercial Marine and Offshore Energy

Babcock continues to develop opportunities in delivering wider services that draw on our strong UK track record, namely engineering and design services to the commercial marine and offshore energy sector. This is typified by:

- the £30 million order that BP has placed with Babcock for over 70 subsea structures for its development west of Shetland
- our recent acquisition of LGE Process has strengthened our position in complex vessel engineering and support



UK naval base and deep maintenance and repair market



Marine and Technology

Key highlights

- Secured contract for HMS Scott refit and through-life support
- HMS Vengeance and refit progressing well
- Preferred bidder for South Korean weapons handling and launch system for Jangbogo-III programme
- Acquired LGE Process to strengthen position in complex vessel engineering and support
- Secured key systems orders for Astute Class submarines (boats 6 and 7)
- Secured key role in the technological development of the Successor Class submarines
- Secured £30 million order with BP for 70 subsea structures for its development west of Shetland
- Started 15 month deep maintenance of HMS Ocean, the principal RN helicopter carrier

Revenue growth KPI

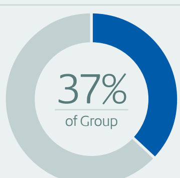
+11%

Return on revenue KPI

%

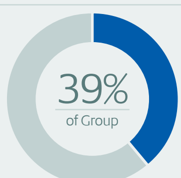
Revenue

%



Order book

%



Our market

The UK market remains positive. The Ministry of Defence's (MoD) outsourcing of maritime contracts continues to develop with a number of opportunities expected over the next 18 months. We believe that the proposed changes to the MoD's procurement organisation, Defence Equipment and Support (DE&S), are likely to create further outsourcing opportunities for larger, more complex programmes well suited to the depth and breadth of our capabilities.

Although there is a general downsizing of the current UK naval fleet, both the Successor and Type 26 programmes offer significant opportunities to supply our core products and provide broader engineering service capabilities.

For our international operations, in Canada, progress continues on naval surface fleet modernisation as well as projected significant near-term investment in the Canadian Coast Guard fleet.

In Australia, the Government continues an ambitious programme of investment in future naval programmes. The Rizzo and Coles Reviews are now being implemented and will assist in the continuous improvement of support solutions for both surface ship and submarine fleets. Both these reviews continue to create opportunities for our proven, value for money support services.

The commercial marine and offshore energy markets continue to pick up in line with general market trends and we are establishing valuable relationships with a number of high profile organisations to address this. In addition, our successful acquisition of the LGE Process business strengthens our ability to deploy complex technology onto marine assets and is already showing encouraging signs of growth.

Our strategy

In the UK, as a result of our Terms of Business Agreement (ToBA) and our position on key MoD programmes, we have excellent visibility of future revenues, including our involvement the Queen Elizabeth (QE) Class carrier project. More generally across our defence market we see a fairly stable environment with a move towards closer co-operation with the end customer via the Surface Ship Support Alliance (SSSA), Maritime Support Delivery Framework (MSDF) and Submarine Enterprise Performance Programme (SEPP) initiatives. Our work in the Naval Design Partnership, whilst small in volume, is of great relevance to future programmes and therefore carries significant importance. Our ability to provide technology-led services across the full programme life cycle has been supported by our growing role in the design development of the future nuclear deterrent submarine as well as the provision of specialist design support and system proposals for the UK naval ship programme.

Internationally, our strategy is to leverage our track record of UK service delivery performance, whilst supporting the indigenous growth strategies of overseas Babcock operations by delivering innovative new products and services that give Babcock a competitive advantage.

In Australia, we have continued to grow our presence through the provision of technical support, with our strategy to become a leading support provider to the Royal Australian Navy.

In Canada, we are enhancing our capabilities for submarine support. Babcock continues to investigate opportunities in delivering wider services that draw on our strong UK track record; namely in providing naval training solutions well as engineering and design services to the commercial marine sector.

In other overseas markets, we continue to build on our design/build activity on the South Korean and Spanish submarine programmes and are also reviewing the potential for our complete naval asset management support models in other countries where Babcock's track record in delivering cost reduction and improvements in service delivery is recognised.

Financial review

The division reported a total increase in revenue of 11% to £1,201.6 million (2012: £1,084.7 million) benefiting from increased revenue on submarine and surface ship refit programmes, including the Queen Elizabeth (QE) Class aircraft carrier programme as well as continued growth in international activities and a contribution of £10 million from the LGE Process acquisition. Operating profit increased to £156.9 million (2012: £135.1 million) an increase of 16% which resulted in an operating return on revenue of 13.1% (2012: 12.5%). Profits were boosted by higher margins on export activities and additional gainshare payments earned of £26 million due on achievement of stretch targets under the ToBA.

Operational review

Our ToBA creates a long-term partnering arrangement that provides us with a predictable, long-term programme of work in submarine and surface ship deep maintenance and support as well as continuing our role as the MoD's strategic partner at the naval bases in Devonport and Clyde. As in previous years, we have continued to meet all of our requirements under the ToBA; including the delivery of significant cost reductions in excess of the guaranteed level.

We retain a strong market position in the through-life support of the UK submarine fleet as sole provider of both deep and in-service maintenance. We continue to work with the MoD, BAE Systems and Rolls Royce on SEPP to ensure maximum availability of the UK submarine fleet whilst delivering ongoing reductions in operating costs.

HMS Vengeance's c £350 million long overhaul period (refuel), is well underway at Devonport, with the vessel significantly stripped out and some equipment already replaced. The current key focus is the refuel process. We have completed a very busy and successful year in supporting both the Trafalgar and Vanguard Class submarines to meet their defence commitments through our Devonport and Clyde operations.

Operating review (continued)

We continue to provide specialist systems and services for the Astute Class submarine programme as well as specialist training for submarine crews. HMS Astute and HMS Ambush are now included in the Babcock led in-service engineering management organisation and are continuing work-up activities and sea-trials before both become fully operational in 2013. We are also supporting procurement activities for the fifth submarine in the Class. On the Successor future deterrent submarine programme, we continue to deliver support on the design phase and to develop the supporting data required for the draft Main Gate business case. Furthermore, Babcock is actively involved in the long-term technical engineering support and has secured the role as provider of the key tactical weapons launch system; we continue to invest in capability to deliver further elements of the programme.

The MoD are progressing their proposals for the Submarine Dismantling Programme (SDP) and have completed the public consultation process at Devonport and Rosyth. The MoD has identified that both these sites will be responsible for dismantling activities and their preference is for these activities to take place in parallel at both sites.

This year, under SSSA, we have successfully delivered three major frigate refits and started the 15 month deep maintenance of HMS Ocean, the principal RN helicopter carrier. We are working jointly with the MoD and our partners to bring all support for all complex surface ships, including the QE Class (from 2015) and replacement frigates (from 2020) into the SSSA; these activities will sustain and grow our future roles. In addition, this financial year ended with the successful bid for the through-life support of the oceanographic survey vessel HMS Scott.

Over the past 12 months, our UK surface ship activities continue to include our activities on the QE Class aircraft carrier project where we play a key role in the management of the overall programme. With completion of the hull assembly phase for the QE Class on target for late autumn 2013, over 80% of the structure is now in place in the assembly dock at our facilities in Rosyth. Significant effort is now being applied to outfitting the assembled ship with key electrical and mechanical systems. The next planned significant milestone is the flooding of the dock in mid 2014 when the ship will float for the first time.

We have been successfully managing the delivery of services at HMNBs Devonport and Clyde under the Warship Support Modernisation Initiative (WSMI) for the past 11 years. Under the framework of the ToBA, we are currently developing the contracting approach beyond March 2013 which includes an extension to the current WSMI contracts with further development of the new Maritime Support Delivery Framework (MSDF) replacement contract, planned to run from April 2014. This new contract will provide a platform for further development of our role in both naval bases and provide a mechanism for us to deliver further scope expansion.

In addition, we continue to provide engineering and logistical support for a range of key UK defence assets where we have consistently achieved or exceeded our customer's operational KPIs. We have been successful in securing additional packages and are currently tendering to the MoD for a range of equipment management services; these are roles where we can demonstrate industry leading capabilities. In Defence Communications, we continue to provide an excellent service to the MoD for HF (high frequency) and VLF (very low frequency) worldwide communications.

With the Australian Government committed to progressive reform of its naval support activities, which has included an in-depth review of its submarine support and surface ship activities, a number of opportunities continue to arise aligned to our proven, value for money support capabilities. Recent contract wins include leadership roles in Future Submarine Project IPT and the Power Plant Test Facility (SPESIFy).

On the Canadian submarine programme, HMCS Victoria successfully completed a torpedo firing trial and HMCS Windsor is undergoing pre-operational trials. We are progressing pre-refit work for HMCS Corner Brook and have submitted our proposal to the Canadian Government for the refit. HMCS Chicoutimil is preparing to undock which has significantly increased our in-country capacity and capability for future support of the submarine and surface ship programmes. We expect these programmes, and the Government investment in Canadian Coast Guard vessels, to progress in the medium-term and bring a range of growth opportunities for us.

Furthermore we are successfully growing our business with international customers. In Spain, significant deliveries of Babcock systems have been made throughout the year in support of the Spanish S-80 submarine programme and these are being integrated into the first of Class build programme. Further success was recently recorded in securing preferred bidder status for weapons handling and launch systems for the South Korean Jangbogo-III submarine programme.

Our approach

The division currently employs over 9,000 highly skilled people with a wealth of knowledge and experience, frequently working in collaboration with partners to meet and exceed our customers' needs and expectations.

Drawing on an unrivalled depth of naval and nuclear engineering knowledge, our teams safely and efficiently support complex and critical programmes. In doing so, Babcock seeks to achieve the highest standards in the management of Health, Safety, Security and Environment (HSSE). These standards apply not only to protect our own employees but also contractors, customers, agents and visitors to our sites. We operate industry leading models to provide a structured approach to assess and inform our HSSE strategy and assure our stakeholders of our sustained positive attitude towards HSSE.

As an engineering support services provider, with large industrial facilities, we recognise the impact our operations have on the environment. As a result, all our sites strive to incorporate environmental best practice into all operations through ISO 14001, carbon management and recycling programmes.

Due to the criticality of the engineering services we provide, it is imperative that all our employees continue to be developed throughout the course of their careers. We work closely with local colleges and schools to recruit and train our 355 apprentices in specialist skills and engineering. Furthermore, we recognise the importance of supporting our future leaders to reach their full potential and as such, we provide a comprehensive graduate training programme for our 189 graduates, helping them achieve Chartership with accredited institutions such as the Institution of Mechanical Engineers (IMechE) and the Royal Institution of Naval Architects (RINA).

In addition we run continuous engagement programmes within the local communities in which we operate. These programmes help us identify organisations, events and charities that may benefit from sponsorship and charitable donations which support the people, environment and infrastructure of these communities.

Divisional outlook

In the UK, as a result of our ToBA and our position on a number of key programmes we have excellent visibility of future revenues. We are well positioned, with unrivalled depth and breadth of expertise within each of our business units, to assist the MoD and Royal Navy as they seek to achieve maximum availability and increased financial efficiency as well as supporting them as further programmes are outsourced.

We are successfully enhancing our position in our international target markets. We continue to increase our presence and are establishing strong relationship with governments who are seeking to achieve better value for money for naval equipment and infrastructure support and improved availability for their submarine and surface ship fleets. In addition, we continue to utilise our core capabilities and skills to build our commercial marine business, whilst increasing our footprint within the offshore energy sector.

We believe the outlook for the Marine and Technology division is extremely secure with a number of opportunities to deliver further growth in the UK and overseas.

Our marketplace

Defence and Security

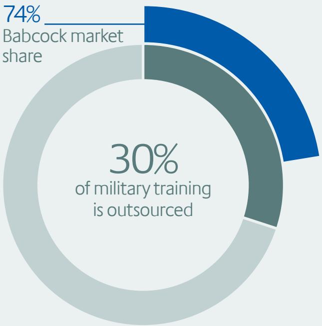
Continuing constraint on the MoD budget to 2015 and beyond has driven further initiatives for outsourcing of in-house training, support and infrastructure projects. This has resulted in a growing bid pipeline of significant opportunities and an addressable market of over £3bn p.a. across a range of activities, including key programmes in defence estates, vehicle support and logistics where Babcock has already developed a market-leading position. Further opportunities have been identified in international markets, with a focus on Canada, Australia and the Middle East.

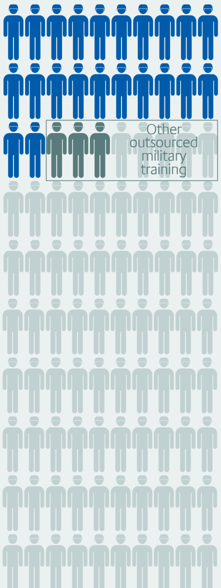
£3.2bn

Total UK annual addressable market

Military training	Vehicle support	Aircraft support	MoD Logistics	Infrastructure
£600m	£900m	£500m	£400m	£800m
Addressable market	Addressable market	Addressable market	Addressable market	Addressable market

UK military training





22%
of military training market is addressed by Babcock

Flight training

70%
Involved with 70% of all MoD flying training hours delivered

Support to all elementary flying training for the three armed forces

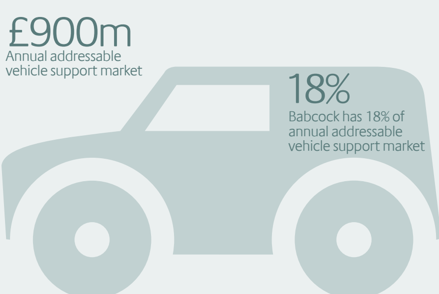
Support to fast jet aircrew leading up to the operational front line

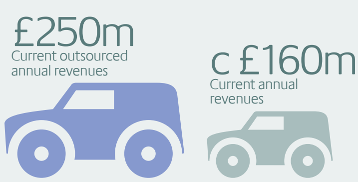
UK infrastructure

Babcock is the only organisation to have pre-qualified to tender for all six of the NGEC opportunities. Competitive bids have been submitted and we are working closely with the customer as they move through their competitive dialogue process leading to contract awards in early 2014

UK vehicle support

Currently supporting the MoD's white and construction vehicle fleets. Significant opportunity to support combat vehicles through the outsourcing of The Defence Support Group





UK MoD Logistics

MoD intends to outsource Logistics, Commodities and Services and, although the precise detail of this requirement has yet to emerge, the value in the medium term is likely to be up to £400 million

UK aircraft support

Babcock has...

23%
of annual addressable aircraft support market

Worldwide opportunities

Canada
£1.5bn
Annual addressable market

Key opportunities
- Training
- Infrastructure
- Aerospace

Middle East
£450m
Annual addressable market

Key opportunities
- Aircraft support
- Aviation services
- Training

Australia
£1.0bn
Annual addressable market

Key opportunities
- Equipment support
- Logistics
- Vehicles
- Training

Operating review (continued)

Defence and Security

Key highlights

- 18,000 military vehicles supported
- 1.5 million training days delivered to 50,000 military students
- £15 million three year contract extension for support to the Defence Support Group estate
- Down-selected to bid for all six Next Generation Estate Contracts for DIO
- £25 million three year contract for support to the Sea King Integrated Operational Support programme
- £19 million extension to the Hawk support contract at RAF Valley

Revenue growth KPI

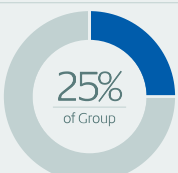
-9%

Return on revenue KPI

%

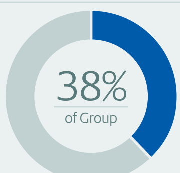
Revenue

%



Order book

%



Strategic overview

In Defence and Security our focus remains on securing our market-leading position through successfully competing for rebids and extensions of our existing services and in developing solutions for the current programme of major UK Ministry of Defence (MoD) outsourcing competitions. During the year we have added £0.4 billion in new orders and closed the year with an order book in excess of £4.5 billion.

Following the Strategic Defence and Security Review in 2010, it has taken some time for the Defence funding arrangements over the next decade to be clarified. Notwithstanding the significant progress towards balancing the MoD's books, it is clear that the Government's commitment to further efficiencies and savings in the face of sustained budgetary pressure will lead to further outsourcing as a means of delivery. This gives us confidence in our ability to exploit addressable markets across Defence, amounting to over £3 billion per annum out to 2020. Tangible proof of the MoD's desire to outsource is evidenced by the definitive progress on a range of outsourcing programmes which we have been closely tracking – including the sale of the Defence Support Group (DSG), the Logistics, Commodities and Services Transformation (LCST) project, the Defence Fire and Rescue project and the Next Generation of Estate Contracts (NGEC).

Although we are now focused on several of these major bidding opportunities, which cover estates, logistics, equipment support and training, we continue to upgrade our market offering to match the emergent needs of our defence customer. This includes the integration of our Defence Infrastructure business, which had previously formed part of the Support Services division, into the Defence and Security division, both to match customer requirements and to provide a deeper and broader market offering across defence and adjacent sectors.

Our business model, built on strong customer relationships with the armed forces and MoD, is highly adaptable to meet their future requirements in, for example, optimising the employment and training of military personnel post Army re-basing following withdrawal from Germany and Afghanistan and military training and equipment support, for both regular and reserve forces. In this context, we expect to compete for an opportunity, which is due to come to market in mid 2013, to support the British Army's Recruitment and Training Division (ARTD) as a strategic partner until well into the next decade.

Along with our domestic markets, where we have a healthy bid pipeline, we continue to pursue opportunities internationally, with a particular focus on Australia, Canada and the Middle East. These are burgeoning markets for first generation outsourcing where customers have similar value perceptions to our domestic customers, demanding high quality, output or availability based contracts for a wide variety of training, equipment support and infrastructure activities.

Financial overview

As anticipated, revenue for the year including the Group's share of joint ventures for the Defence and Security division decreased by 9% to £820.2 million (2012: £901.1 million) as a result of reductions in training activities at HMS Sultan and the timing of completion of construction and ITS (into service) milestones at Future Strategic Tanker Aircraft (FSTA) and Royal School of Military Engineering (RSME) in the previous year. Total operating profit for the division increased by 14% to £112.2 million (2012: £98.3 million) resulting in a total operating return on revenue for the division of 13.7% (2012: 10.9%). Operating profit benefited from profit catch up for UK Military Flying Training System (MFTS) following approval to proceed being received from MoD, increased income from FSTA on a larger airtanker fleet along with gainshare payments from the regional Prime contracts, RSME and naval training contracts.

Operational overview

The Air business has continued to provide effective support to the RAF throughout the year. Key contracts supporting UK military flying training at the Elementary, Basic and Advanced stages have all performed strongly and continue to meet the MoD flying task requirements. Further opportunities are beginning to emerge at all three stages of training to support MoD initiatives in respect of International Defence Training.

New business successes have been achieved in competitions to deliver the RAF Cosford multi-activity contract and in securing an extension to our Sea King Integrated Operational Support (SKIOS) framework with AgustaWestland. The SKIOS contract will provide support to the Sea King helicopter in its Search and Rescue role until it is withdrawn from service in 2016.

Support to our joint ventures is now well established in the operational phase. Our Communications and Information System supporting Air Tanker Services is operational and the capability continues to expand in the lead-in for full service delivery in 2014 – the fourth aircraft has recently been delivered for operations from the Main Operating Base by us at RAF Brize Norton. Ascent, our Joint Venture with Lockheed Martin to deliver the UK MFTS, has now successfully graduated its first students from the Royal Navy Observer course at RNAS Culdrose.

Our Infrastructure business continues to deliver a range of critical infrastructure support to the British Forces within the UK and Germany with Babcock now supporting over 35,000 properties at 116 sites – approximately 30% of the military estate.

Within the UK, the regional prime contracts in the South West and the East have delivered in excess of £115 million improvement works ranging from development of gas, electricity and telecoms infrastructure in connection with the Lynx Helicopter simulation project at RNAS Yeovilton to the refurbishment of the primary runway at RAF Scampton, the home of the Red Arrows. The maintenance activity within these contracts has remained strong, with Babcock staff taking on additional roles as the Defence Infrastructure Organisation (DIO) move to their Enhanced Operating Model. The regional prime contracts are being extended to aid migration to the NGEC.

Operating review (continued)

In Germany, the Babcock team continue to support the British Forces, maintaining some 22,000 military buildings including single living accommodation, technical and office facilities and service housing. The team are actively supporting the military and DIO staff as plans are developed to refocus military effort in the North Eastern region in Germany and the general drawdown of troops to the UK. The Babcock team in Germany have introduced a number of new techniques and processes, including the use of PDAs for work scheduling, consignment stock models and interactive customer tasking all of which have helped to drive down delivery costs and enhance the quality and timeliness of our service delivery.

The contract for operational support to the DSG estate across the UK has been extended for a further three years, securing an additional £15 million revenue for the business.

Looking forward, our primary focus is our bids for the NGEC programmes. Babcock is the only organisation to have pre-qualified and pursued to tender all six of the NGEC opportunities. Competitive bids have been submitted with the team working closely with DIO as they move through their competitive dialogue process leading to contract awards in early 2014.

In our Land business we have made significant progress over the last year with the implementation of the Phoenix programme, our MoD service for the delivery of 14,000 white fleet continuous hire vehicles and car rental service. Following delivery of the online booking systems and innovative scheduling capability we have completed a full capability and training roll-out across MoD sites. We also have installed in excess of 11,000 telematics units across the MoD fleet, and coupled with the enhanced management systems we have delivered, this enables the MoD to start to drive efficiencies into its operations through fleet optimisation. Our continuous hire team have also successfully competed for the provision of a fleet of 71 coaches which has a value in excess of £20 million and we look forward to similar opportunities in 2014.

We continue to respond to the challenge of identifying savings opportunities for customers. In our ALC joint venture with Amey for the provision of 2,000 construction vehicles worldwide for the MoD, we have agreed a contract change to include RAF and Royal Navy equipment lines. This has avoided the need for the MoD to buy new equipment whilst enabling RAF and Royal Navy to benefit from the fleet management services we deliver. We have also passed the second year of support to the Army in Afghanistan where we provide continuous manpower to support the maintenance of the ALC construction vehicles and the wider range of MoD green fleet vehicles as required.

Across our training portfolio we have introduced a capability improvement programme where we are enabling our customers to benefit from modern training methods and systems. At RSME we continue to manage the adoption of self-paced and computer-based learning methods which have reduced the duration of courses by up to 25%. We have extended the programme of course improvements to our training contracts for the Royal Electrical and Mechanical Engineers at Bordon and Arborfield and for the Royal Armoured Corps and other units at Bovington. The competition for the future delivery of this training, and the engineering training for the Royal Navy at HMS Sultan, has now begun as part of the Defence College of Technical Training Programme. We have pre-qualified as one of three bidders for this requirement which is now expected to include a consolidation of the Bordon and Arborfield sites at RAF Lyneham. We have successfully bid for a contract with the Royal Navy for the Technology Based Training Unit and at Bovington we have successfully secured a £22 million three year extension to our training contract where again we have commenced a training capability development programme to offer important savings to the customer.

For the Royal Navy we have successfully implemented the Fleet Outsourcing Activities Project Training contract providing training and support to over 5,000 courses and have completed the first annual change programme to help the Royal Navy re-balance their training requirements. During the year we introduced improvements in training design and assurance to enable the launch of a redesign of major training courses to reduce course lengths and provide benefit to the Navy in returning students to front line activities in shorter timescales.

We continue to deliver successful ship crew training programmes to international naval customers including Australia, Algeria, and Brazil and through our strong relationship with the Royal Saudi Naval Force.

The regeneration programme at RSME has continued with the successful completion of a comprehensive construction programme through our Holdfast joint venture with Carillion. At Bicester, this included a range of accommodation and other specialist assets, including a training dive pool, a tunnel complex for confined space training and a series of contemporary operating environments for the Defence Explosives Munitions and Search School. Three newly refurbished accommodation blocks have been completed at Minley and work on the new Officers' Mess is on schedule for its planned opening in summer 2013.

In the Security sector we have undertaken a significant improvement programme to enhance our service delivery and this is achieving increasing recognition from our customer. Enhancements we have made in our approach to asset management, project and operational performance leave us well placed for the rebid for these services which is anticipated to start late in 2013.

We anticipate that the MoD will launch a competition this year for the sale of DSG, the MoD capability for delivering deep maintenance and spares support to the Army's tracked vehicle fleet. We see this as an opportunity to bring our industry leading fleet management services to this organisation to enable the MoD to benefit from an improved assured service including optimising the usage of the fleet. Earlier this year, the MoD announced a competition for the LCST project – a programme to outsource commodity procurement, warehousing and distribution services. We have formed a joint venture with DHL to pursue this business and expect the bid programme for this significant opportunity to run until 2015.

As a division we have implemented a concerted programme of improvements in the Health and Safety of our people as evidenced in our continued reduction in accident frequency rates. At the core of the programme has been the engagement of our people in the Health and Safety Lens where we have sought wide feedback from across the organisation to enable focus our improvement programme. From the implementation of a systemic management system for accident and near-miss recording and investigation through to the empowerment of employees through Safety Ownership Groups we have enabled an important improvement in our reportable accident rate through this persistent focus.

Outlook

Over this year we have made significant progress in reconfiguring our business to match fully the expectations and demands of our principal customer as well as strongly positioning ourselves to address adjacent markets and international opportunities. With a growing bid pipeline of significant opportunities and an excellent track record of delivering operational and financial efficiencies through its current contracts, the Defence and Security division is well placed to compete for the broad spectrum of major new MoD outsourcing programmes currently being progressed. In addition the division continues to pursue opportunities in adjacent markets and internationally, where it can build on its UK expertise and capabilities.

Our marketplace

Support Services

The current economic environment continues to create outsourcing opportunities. The public sector remains heavily focused on continuing to deliver services, whilst meeting budget reductions and the private sector continues to experience pressure on corporate profit margins.

Against this backdrop we are witnessing strong demand for a broad range of support services spanning our core capabilities of infrastructure, equipment and training.

With the largest nuclear skilled workforce in the UK, Babcock is well placed to provide decommissioning solutions to the current generation of nuclear reactors coming to the end of their working lives. The emerging energy gap, carbon emission targets and a growing global population is also driving the construction of new nuclear power plants internationally.

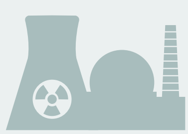
Our training business is expecting major growth opportunities as a leading provider of specialist skills development services to major engineering and emergency response industries. We will expand our training operations in complex, critical and highly regulated markets where there is an acute need to replace an ageing workforce and address skills shortages.

In equipment support, there is significant interest in our outsourced support model amongst mining companies and other fleet operators.

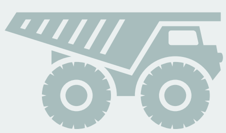
£12.0bn

Total addressable market spread across our three capabilities:

Training
£6.2bn
Total addressable market



Infrastructure
£4.0bn
Total addressable market



Equipment
£1.8bn
Total addressable market

Training

£29bn
Total annual value of the UK training and education market

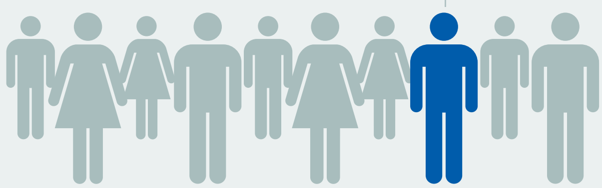
£6.2bn
Annual addressable market

Addressable market covers training and education in the specialist and industry specific areas targeted by Babcock

22,000
apprentices that Babcock train each year

Training circa 10% of all UK apprentices

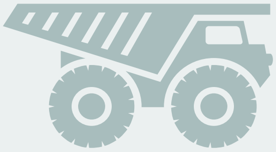
Leading apprentice training supplier in the UK



Equipment

Mobile Assets

£3bn
Annual total worldwide mining and construction mobile asset management support market



£400m
Value of fleet currently supported in UK, Canada and USA by Babcock

Airports

£1.6bn
Total UK annual baggage handling and ground fleet support market

£750m
Annual addressable market

c £100m
Current Babcock share

Infrastructure

Nuclear

£4.8bn
Current UK annual nuclear spend

£270m
Babcock UK current share

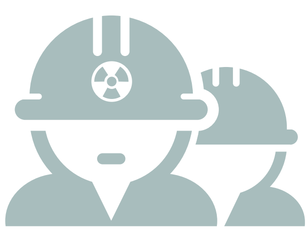
£1.8bn
Addressable annual UK market

Decommissioning opportunities:

£250bn
Estimated planned global spend on decommissioning

The single largest employer of nuclear qualified engineers

One in every 10 people working in UK nuclear industry employed by Babcock



New Build opportunities:

£930bn
Planned total global investment in new build reactors

12 new reactors planned for UK by 2025

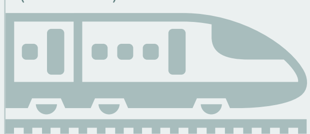
UK Life extension opportunities:

7 year extensions for 5 power stations
2 year extensions for 2 power stations
20 year extension for 1 power station

59 years
Total life extension opportunity across the 8 power stations

Rail

£4.8bn
Total size of rail electrification market (2012–2019)



£2.8bn
Addressable market

£60m
Current share

Operating review (continued)

Support Services

Key highlights

- Successfully mobilised 1st European closure contract to decommission and clean-up the Dounreay nuclear licensed site
- Strengthened our position in the design and build of new nuclear electricity generation plant supporting EDF and Hitachi
- Named as 'Supplier of the Year' by Network Rail for successful project delivery and our partnering approach
- Secured a new contract to operate and maintain the baggage handling facilities across the entire Heathrow Airport campus
- Delivered increased training capability for the London Fire Brigade in year one of a 25 year contract and won additional interim contract to support their vehicle fleet
- MoU signed with Aggregate Industries for the management of its UK heavy mobile equipment fleet

Revenue growth KPI

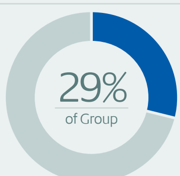
+17%

Return on revenue KPI

%

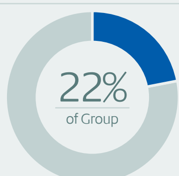
Revenue

%



Order book

%



Market overview

The protracted difficult economic environment in the UK remains both a challenge and an opportunity for the division. The public sector remains heavily focused on meeting budget reductions whilst continuing to deliver services and the private sector continues to experience pressure on corporate profit margins driving them to seek innovative ways of securing cost savings from their existing supply chain. New regulatory regimes in both the rail and power sectors have caused renewed focus on efficiency in these markets. Whilst this backdrop requires constant focus on the optimisation of operations in Babcock's existing contracts it also provides the stimulus to develop broader relationships, tighter partnering and the joint appraisal of new value creating opportunities. This general view, supported by strong underlying demand in more specific sectors, for example nuclear, Network Rail's electrification programme, means the division remains confident in its selected markets.

Strategy

The division's strategy remains tightly focused and relevant to the current market environment. Aligned to the Group's strategic objectives, the divisional strategy focuses on taking responsibility for our customers' complex and critical assets, providing technical expertise and improving service delivery at reduced cost to give our customers the confidence to focus on their core operations and strategic direction. Our business units continue to refine their strategies to ensure that they can compete effectively within their specific markets.

Our core priority is growth and we remain focused on three key sectors; nuclear, mobile assets and education & training. Good progress has been made in each of these sectors. Further to these market sectors we have refined our view on our core capabilities to fixed infrastructure management, equipment management, programme and project management and training – focused investment is being made in these capabilities to underpin our growth expectations.

Finance review

The division's revenue, including the Group's share of joint ventures, increased by 17% to £943.7 million (2012: £804.6 million) as a result of new contracts won in the last quarter of the last financial year, in particular in the Nuclear, Education and Training and Mobile Assets business units as well as a 10% increase in the Rail revenue during the second half of this year. Operating profit, including jvs, increased by 4% to £91.2 million (2012: £88.0 million) which gave an operating return on revenue of 9.7% (2012: 10.9%). As anticipated, operating return on revenue was below the previous year as a result of cautious margin take on long-term contracts mobilising at the beginning of the year, slow market conditions in high voltage powerline and communication activities, combined with significant expenditure on major bids.

Operational review

Our Nuclear business continues to grow through its broad range of capabilities and its position as the single largest employer of nuclear qualified engineers in the UK. It remains focused on its three core business streams; decommissioning, new build and power generation support. To date this focus has been largely UK focused, but strategic options to explore targeted international opportunities are currently being considered.

The decommissioning sector continues to offer growth. Following the successful bid for the decommissioning and clean-up of the Dounreay nuclear licensed site we have successfully mobilised, transitioned and consolidated our position at the site. During the year detailed plans have been developed to tackle the major technical projects on the site and the team has successfully managed the first fuel moves from the site to Sellafield. The next major bid target is the Magnox and RSRL Parent Body Organisation competition being run by the Nuclear Decommissioning Authority. We are bidding in partnership with Fluor in a programme that will conclude with complete bids being submitted in November 2013 and the successful bidder being notified in March 2014. At Sellafield, our teams continue to provide support on a range of demanding major projects within a challenging environment. The Design Services Alliance framework has been mobilised and we are providing critical design support to underpin the Sellafield Programme. We are also delivering engineering, procurement and construction services on a number of projects. In respect of a significantly high hazard reduction project, we moved successfully to the detailed design phase of the project and are commencing work on early module build. We expect Sellafield Limited to continue to place major work packages into the supply chain and our nuclear business is well placed to bid and win work in the technically demanding environment.

In the nuclear new build sector, we continue to develop our relationship with EDF, through our Balance of Nuclear Island bid, in support of the programme to build new generation capacity at Hinkley and Sizewell. Further to this, we were very pleased to announce the signing of a Memorandum of Understanding (MoU) with Hitachi to support the design and build of its nuclear reactors in the UK. This followed Hitachi's acquisition of Horizon Nuclear Power, giving it access to two potential sites at Wylfa and Oldbury.

In addition to our bidding in the new build sector, we provide ongoing support to EDF Nuclear Generation by ensuring that we play our part as a strategic through-life partner, supporting the EDF '0 : 65 : 9' ambitions (Zero Harm, 65 TWh annual generation, nine years life extension). We continue to demonstrate our long-term commitment to these ambitions through our involvement in fuel route improvements as well as the provision of specialised engineering, spares and strategic spares support throughout the EDF fleet. The recently awarded five year contract to provide all the fuel route kitting spares across both the Heysham A and Hartlepool power stations demonstrates the success of this commitment.

The Mobile Assets business has continued to show strong growth with revenue increasing by 60% on last year through winning a range of opportunities with new customers and also demonstrating an ability to expand scope with its existing customers.

Our relationship with Lafarge has continued to develop through the year. Following the successful mobilisation of the service teams in the USA and Canada, Babcock is making good progress in discussions concerning the Ready-Mix fleet in West Canada and with Lafarge Poland.

We have signed an MOU with a new customer, Aggregate Industries (part of the Holcim group of companies), for the fleet management and maintenance services across their fleet of c 500 heavy mobile assets.

Operating review (continued)

The Mobile Asset business successfully rose to the challenge of the London 2012 Olympics and Paralympic Games. By drawing upon their core capabilities, including asset management and project management, the team delivered vital infrastructure upgrades and enhanced levels of equipment provision and support to ensure a diverse set of customers, including the Metropolitan Police and Heathrow Airports Limited, could meet the heightened demands placed upon their operations.

In November, the business was awarded an 18 month interim contract with the London Fire and Emergency Planning Authority (LFEPA) to provide fleet maintenance services for 500 vehicles and over 50,000 pieces of equipment across 113 fire stations. The contract was entered into following the deterioration of LFEPA's arrangements with its previous supplier. This demanded a fast moving and pragmatic solution from Babcock. We are also looking to develop value propositions with the Greater London Authority as we seek potential synergies across the range of emergency fleets within its responsibility.

The contract to deliver school effectiveness services with Devon County Council was mobilised successfully in the first quarter of the financial year and is performing in line with our expectations. Together with our school effectiveness venture with Surrey County Council, Babcock is positioned Babcock as the largest provider of integrated school improvement services in the UK, with over 600 education experts providing services to over 800 schools.

We are in advanced discussions with BMW to continue delivering technical and retail training to its UK dealer network. We have also opened a new automotive training facility at Milton Keynes during the year, providing training programmes to Volkswagen and Mazda.

In the first year of our 25 year contract to deliver training to the London Fire Brigade, we have trained a higher proportion of the total delegate requirement than when the service was delivered in-house. We are also commencing the build of two dedicated training facilities. Our apprentice training business continues to perform well. In February 2013 the business was selected by ASDA to deliver its retail apprenticeship programme across its UK stores and will mobilise over the first quarter of the 2013/14 financial year.

The quality of our service delivery was recognised by the business winning industry awards (sponsored by EducationInvestor) including 'Education Business of the Year' and 'Post 16: Education Provider of the Year'.

Outside the core growth areas highlighted above, the division continues to show success across a range of other markets.

Our airports business retained and expanded two major rebids at Heathrow Airport. In addition to our existing operations, Babcock is now responsible for the operations and maintenance of the baggage handling facilities across the entire campus. The contract, which mobilised in April 2013, combines a number of separate workforces and introduces additional technology to deliver a more integrated and resilient service at lower cost to Heathrow Airport Limited (HAL). Also at the airport, we secured a rebid of our maintenance services contract for the British Airways fleet of ground support equipment. Together, these contracts are worth £440 million over five years, including a two year option to extend the HAL contract, demonstrating our position as the major provider of critical services in this complex environment.

Babcock's Rail business also had a successful year. Successful project delivery on the industry acclaimed Paisley Canal electrification project, market-leading track renewal performance and delivery of innovative partnering arrangements resulted in the business being declared Network Rail's Supplier of the Year. The business also responded to Network Rail's £9.4 billion investment in electrification, by forming the ABC joint venture with Alstom and Costain. The combined capabilities of this joint venture make a strong proposition, which has already been evidenced with a £48 million contract win as part of the wider £300 million West Coast Power Supply Upgrade project and the development of a strong pipeline of further opportunities.

Capability development

With skilled personnel remaining scarce in our selected markets, the recruitment, development and retention of key personnel is a key focus for the division. Ensuring we attract and retain the best people, capable of delivering excellence and adding value to our customers' operations, remains a priority to underpin the division's continued track record of success. The division continues to invest in its graduate programme supporting 52 individuals at present. The division has further expanded its talent management programme with business units extending their own programmes to more junior levels. With this approach we are seeking to create a clear structure for our staff such that they have visibility on how both the Company and they can support their personal and career development.

Safety at work remains a key principle in the division. Maintaining a safe working culture across a rapidly growing business remains challenging. A Safety Director has been recruited at divisional level to support and challenge the business unit programmes. A behavioural safety programme was launched in late 2012 aimed at identifying and promoting behaviours linked to safe working, in particular at site supervisory staff. To date 1,188 people have attended.

By harnessing the combined expertise and knowledge of our 8,000+ strong team, we are setting out to deliver excellence in everything we do; from account and bid management to employee development.

Outlook

The pressure on our customers to deliver services within restricted budgets continues to create growth opportunities for the Support Services division. The division is assured that its markets remain attractive and through the execution of our consistent strategy we are able to offer Babcock propositions to our customers that are exciting and valuable and are clearly founded on the depth of our technical knowledge and experience. We are confident that our track record of managing complex projects and activities and our desire to deliver excellence alongside our focus on our customers provides a strong foundation for growth.

Operating review (continued)

International

Key highlights

- Won extended Sasol crane hire order and awarded Sasol preferred crane hire status A
- Awarded R150 million order for high-pressure steam piping renewal at Matimba power station unit 1
- Awarded extension to the maintenance support agreement of five Eskom power stations
- Won R200 million supply and equipment maintenance order to support the building of a harbour and airport on St Helena Island
- Opened a new state of the art dealership in Kwazulu Natal
- Training 80 new apprentices in the equipment business
- Provided 46 business start-up opportunities within our enterprise development program for emerging entrepreneurs
- Supporting an orphanage catering for aids orphans
- Supporting 14 underprivileged children with bursaries for private high school education

Revenue growth KPI (in local currency)

+12%

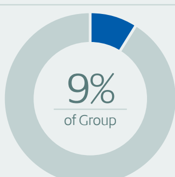
Return on revenue KPI

%

2011	6.8
2012	6.9
2013	8.9

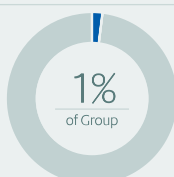
Revenue

%



Order book

%



£2bn

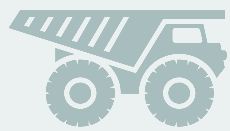
Total annual addressable market

Power generation and transmission

£350m

Total addressable market

- Opportunities in the 10 year Eskom transmission line extension programme totalling 12,500 km
- Extensive bid programme of maintenance and renewal opportunities in industrial power generation



Equipment

£1.5bn

Total addressable market

- Extending operations in Zambia and Mozambique to take advantage of opportunities in new coal, oil, copper and natural gas expansions
- Operating 250 maintenance support agreements for a variety of machines and trucks

Rentals

£150m

Total addressable market

- Acquired Target Cranes hire business during the year and increased the crane hire fleet to 160 mobile cranes
- Future growth driven by export opportunities in Mozambique and large infrastructure spend by the South African Government

Financial overview

Continuing revenue for the division in local currency increased by 12%, with equipment and power markets remaining strong. The effect of movement in foreign exchange rates saw revenue in sterling terms reduce by 1% to £278.0 million (2012: £280.0 million). Operating profit grew very strongly in sterling terms increasing by 28% to £24.7 million (2012: £19.3 million), in local currency profit increased by 44%. This resulted in an increase in operating return on revenue to 8.9% (2012: 6.9), benefiting from strong market conditions for the equipment and crane hire operations and improved operational gearing.

South African market

The South African economic environment remains a challenge with continual pressure on commodity prices affecting trading conditions. This, combined with mixed messages from the global economy, made for an interesting trading year. The early part of 2013 has seen good recovery in African markets and the focus on infrastructure development bodes well for the areas in which we participate. Energy demand continues to grow in Southern Africa and the ageing fleets of existing generators require continual maintenance and upgrade to meet electricity needs. This has created new and continuing demand for our power generation support business as well as our plant hire division. Although South African mining has been negatively affected by strikes, demand for construction and mining equipment has grown slightly during the year and we expect this trend to continue.

South African strategy

Although the recovery that started during 2011 has stalled slightly, our strategic focus remains one of market share gains and has to date resulted in market share growth in our Volvo Construction Equipment dealership of 2% to c 12%. During the year we will be opening new branches in Mozambique and Zambia, as well as converting our dealer in Botswana to a Babcock owned dealer. This will enable us to take advantage of the opportunities afforded by new copper and coal mines in these countries. The large-scale development-taking place in the Northern Mozambique Indian Ocean gas fields will increase demand for our rental products. Eskom will be building approximately 12,000km of new transmission lines during the next eight to ten years and this, together with the power station life extension and maintenance programmes provide revenue streams for our power support division. We continue to seek an opportunity to develop a new business stream within technical training, particularly in the automotive field and building on our recent success at the Simonstown naval dockyard.

Operational overview

The continuing demand for long-term crane hire led to the acquisition of Target Cranes (Pty) Ltd in June 2012, doubling our existing fleet of mobile cranes. This position was strengthened further in March 2013 when another 24 second hand cranes were purchased. The acquisition has been fully integrated and all the extra cranes are being fully utilised on lucrative long-term contracts. We are confident that the infrastructure growth plan announced by the South African Government will lead to increased demand for both construction equipment and plant hire in the medium term. Growth in Mozambique, Zambia, Botswana and Namibia combine to add revenue opportunities in all the South African business units.

The demand for electricity in South Africa continues to grow and as a result, Eskom, South Africa's power utility company cannot catch up on their planned outage and maintenance activities. This is providing increased activities within our power generation support operations both in maintenance and life extension work and will continue as such for the foreseeable future.

During the year, our automotive division appointed new DAF dealerships and a new Babcock owned distributorship was opened in Kwazulu Natal to take advantage of the traditional Durban to Johannesburg freight route. Plans are advanced to open a Babcock branch in the coal-mining region in the new financial year.

Throughout the year we have also continued to develop our presence in the Middle East, focusing our business development activities on the United Arab Emirates, Kuwait and Oman. We have signed strategic partnership agreements with local organisations to help advance a number of opportunities where we believe we can build on capabilities across the Group. Working alongside business development teams within the divisions, we have made good progress during the year, although as previously indicated, the competitive process can take time to conclude.

We continue to believe these markets will provide the Group with significant growth opportunities as the drive for economic diversification away from oil continues and we will be able to exploit capabilities across the Group and our successful track record of delivery.

International outlook

Looking forward our primary focus is to grow our market share in the automotive and construction equipment market in South Africa, expand in our export markets and extend our support service operations in power generation. We are streamlining our transmission line business unit to take advantage of the large-scale expansion planned for the national electricity grid. In addition, we are exploring and have identified new opportunities where we can develop our business further by building on Group expertise.

How we performed

Our KPIs

The areas we focus on

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

Financial KPIs

Revenue growth %

	%
2009	23
2010	0
2011	41
2012	14
2013	6

Description

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

Operating Cash Flow (OCF) conversion rates %

	%
2009	141
2010	121
2011	146
2012	111
2013	117

Description

Operating Cash Flow (OCF) conversion rate is defined as cash generated by operations after adding back retirement benefit cash flows in excess of cost as a percentage of operating profit (pre-exceptionals and amortisation of acquired intangibles).

Net debt/EBITDA x

	x
2009	2.0
2010	1.6
2011	2.4
2012	1.8
2013	1.5

Description

Net debt/EBITDA is calculated as net debt divided by earnings (as based on financial covenants) and excludes share of joint ventures before interest, tax, depreciation and amortisation.

EBITDA interest cover x

	x
2009	6.5
2010	10.2
2011	5.3
2012	10.3
2013	12.7

Description

Interest cover is profit before interest, tax, depreciation, amortisation, joint ventures and exceptionals divided by net interest payable.

Gearing ratio %

	%
2009	145
2010	74
2011	59
2012	54
2013	45

Description

Gearing ratio measures the extent to which a company is funded by debt. Calculated as net debt divided by shareholder funds excluding retirement benefit deficits or surpluses.

Return on Invested Capital (ROIC) % restated

	% restated
2009	24.9
2010	23.1
2011	13.9
2012	18.0
2013	21.2

Description

Return on Invested Capital (ROIC) is defined as underlying profit before financing and tax divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt).

Our KPIs are used to measure our performance

The device below highlights KPI related content in the Financial review on pages 36 to 43.

◀ KPI: page 34

Operating Return on Revenue (ORR)

%

	%
2009	7.7
2010	8.6
2011	10.2
2012	10.7
2013	11.6

Description

Operating Return on Revenue (ORR) is defined as underlying operating profit expressed as a percentage of revenue.

In the Operating review we used the following KPIs to measure each division's performance.

Operating Return on Revenue (ORR)

Operating profit before amortisation of acquired intangibles and exceptional items expressed as a percentage of revenue.

Revenue growth

The percentage increase in the division's continuing revenue when compared to that of the previous years.

Non-financial statistics and measures

Total injuries rate per 100,000 hours worked (KPI)

2009	4.15
2010	3.67
2011	2.86
2012	2.65
2013	2.64

Description

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

Order book

£bn

	£bn
2009	5.7
2010	8.3
2011	12.0
2012	13.0
2013	12.0

Description

Includes total value of signed contracts and prudent estimate of value of framework contracts only where we are sole supplier.

Environmental quality

58%

Description

Percentage of the Group's operations with environmental management systems ISO 14001 certified.

Number of graduates

251

Description

Number of graduates currently on a graduate programme across the Group.

Senior management retention

96%

Description

Percentage of senior managers at the beginning of the financial year still employed by the Group at the end of the year.

Number of apprentices

551

Description

Number of apprentices currently on apprenticeships across the Group.

Financial review

Building momentum

"Babcock's unique commercial offering has meant that our focus on cost reduction for our customers' operations as well as our own overheads has delivered a Group operating margin of over 11%."

Statutory to underlying reconciliation

	Continuing operations – statutory £m	Joint ventures and associates			IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	Exceptional items £m	Continuing operations – underlying £m
		Revenue and operating profit £m	Finance costs £m	Tax £m					
31 March 2013									
Revenue	3,029.4	214.1							3,243.5
Operating profit	234.5	21.2			40.2	66.4		14.3	376.6
Share of profit from jv	18.0	(21.2)	29.2	6.3	(38.5)	6.2			–
Investment income	1.7				(1.7)				–
Net finance costs	(29.6)		(29.2)						(58.8)
Profit before tax	224.6	–	–	6.3	–	72.6	–	14.3	317.8
Tax	(28.3)			(6.3)		(17.4)	(1.2)	(2.7)	(55.9)
Profit after tax	196.3	–	–	–	–	55.2	(1.2)	11.6	261.9
31 March 2012									
Revenue	2,848.4	222.0							3,070.4
Operating profit	202.0	11.0			27.8	77.3		10.9	329.0
Share of profit from jv	4.3	(11.0)	19.4	6.7	(25.6)	6.2			–
Investment income	2.2				(2.2)				–
Net finance costs	(35.5)		(19.4)						(54.9)
Profit before tax	173.0	–	–	6.7	–	83.5	–	10.9	274.1
Tax	(15.8)			(6.7)		(21.7)	(3.4)	(2.8)	(50.4)
Profit after tax	157.2	–	–	–	–	61.8	(3.4)	8.1	223.7

Overview

2012/13 marks over ten consecutive years of growth for Babcock. The Group's major contract wins in the final quarter 2011/12 helped to deliver growth in revenue of 6% and in underlying operating profit of 14%. Babcock's unique commercial offering has meant that our focus on cost reduction for our customers' operations, as well as our own overheads, has delivered a Group operating margin of over 11%. We are entering 2013/14 with an order book of £12 billion and a bid pipeline of £15.5 billion which will be the drivers of growth for the next few years. The Group continues to have a secure financial base which is key to supporting organic growth as well as providing flexibility to make acquisitions when opportunities arise. Throughout the year the Group has maintained its strong track record of cash generation and it is therefore pleasing to report another year in which debt has been reduced still further to only 1.5 times EBITDA (earnings before interest, tax, depreciation and amortisation) from 1.8 times at 31 March 2012.

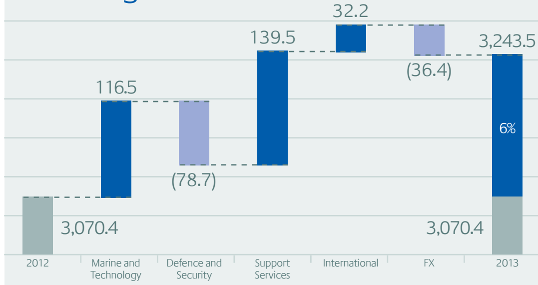
Income statement – continuing operations

Total revenue for the year was £3,243.5 million (2012: £3,070.4 million) which represents growth of 6% (2012: 14%) ◀ KPI: page 34. Adjusting for movements in foreign exchange and acquisitions during the year growth was 7% (2012: 6%).

Marine and Technology saw growth of 11% driven by increased activity levels in the submarine and warship support programmes, the Queen Elizabeth aircraft carrier programme and continued growth in international activities. As anticipated revenue for the Defence and Security division declined by 9% to £820.2 million which was related principally to reductions in naval training activities and the timing of completion of construction and ITS (into service) milestones on the Airtanker joint venture and at the Royal School of Military Engineering. New contracts won across the Support Services division, in particular in the Nuclear, Education and Training and Mobile Assets business units have driven revenue growth of 17%. In the International division, growth in South Africa in local currency was 12% with the equipment and power markets remaining buoyant. The effect of movement in foreign exchange rates, principally the South African Rand, saw revenue on a like-for-like basis decline by 1%.

Bridging analysis revenue growth

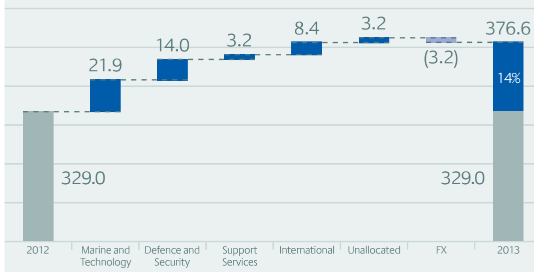
£m



Underlying operating profit increased by 14% to £376.6 million (2012: £329.0 million) which gave a Group operating return on revenue of 11.6% (2012: 10.7%) ◀ KPI: page 35. Excluding the effect of foreign exchange movements, growth in operating profit was 15% (2012: 15%). Margins improved in all divisions except Support Services. The Marine and Technology margin at 13.1% (2012: 12.5%) was boosted by international activities and the additional gainshare earned of £26 million due on achievement of stretch targets under the Terms of Business Agreement for naval support activities. Income arising from the Future Strategic Tanker Aircraft (FSTA) joint venture increased margins within the Defence and Security division to 13.7% (2012: 10.9%). As previously highlighted, margins in the Support Services division reduced to 9.7% (2012: 10.9%) as a result of long-term contracts mobilising at the beginning of the year combined with significant expenditure on major bids. Margins in the International division increased to 8.9% (2012: 6.9%) benefiting from strong market conditions in the equipment and crane hire operations in South Africa.

Bridging analysis operating profit growth

£m



Financial review (continued)

Charges to exceptional items were £14.3 million (2012: £10.9 million) and comprised the following items

	2012/13 £m	2011/12 £m
Reorganisation costs	14.5	12.8
Profit on disposal of subsidiaries	(0.2)	(1.9)
Total	14.3	10.9

Reorganisation costs represent the costs of combining IT networks, rationalisation of property and redundancy costs following the acquisition of VT in 2010/11. The final cumulative expenditure on integration was £38 million out of an estimated total of £45 million, delivering in excess of £50 million of synergy savings per annum. No further VT related integration costs will be incurred.

Amortisation of acquired intangibles of £72.6 million (2012: £83.5 million) represents the amortisation of the value attributed on business acquisitions to order books and customer relationships (both contractual and non-contractual). The value is amortised over its estimated useful life, which does not exceed ten years, by reference to the duration of contracts in hand at the time of acquisition and for non-contractual customer relationships, the risk adjusted value of potential future orders from existing customers with an average estimated duration. Details of the basis of amortisation of acquired intangible assets is set out in note 14 to the Group financial statements.

Net finance costs were £58.8 million (2012: £54.9 million) and included the Group's share of joint venture net interest expense of £29.2 million (2012: £19.4 million). Joint venture finance costs are primarily related to financing structures on the FSTA and UK Military Flying Training System (MFTS) Private Finance Initiative (PFI) contracts and will increase as the PFI continues to deliver assets into service for the customer. 2012/13 saw three tanker aircraft delivered, with the related non-recourse debt drawn down under the PFI facilities. We expect further aircraft to be constructed and delivered over the coming year and this element of net finance costs will increase. Finance costs on the Group's own facilities decreased to £29.6 million (2012: £35.5 million) in line with the decrease in the amount drawn on the Group's revolving credit facility and improved finance terms.

Profit before tax before amortisation of acquired intangibles and exceptional charges increased by 16% to £317.8 million (2012: £274.1 million). The associated tax charge, including the Group's share of joint venture tax of £7.8 million (2012: £8.3 million), totalled £55.9 million (2012: £50.4 million) representing an effective rate of tax of 18% (2012: 19%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation and exceptional charges.

Continuing underlying earnings per share for the year was 71.3 pence (2012: 61.5 pence) an increase of 16%. Basic earnings per share as defined by IAS 33 was 53.0 pence (2012: 42.9 pence) per share.

Dividend

The Board is recommending an increase in the total dividend per share of 3.6 pence to 26.3 pence (2012: 22.7 pence) an increase of 16%, representing dividend cover on underlying eps of 2.71 times (2012: 2.71 times). The final dividend per share for 2011/12 would therefore be 20.0 pence per share (2011: 17.0 pence).

Acquisitions and disposals

For continuing operations, the Marine and Technology division acquired LGE Process at the end of December 2012 for cash consideration of £21 million. LGE, based in Edinburgh, designs and builds plants for the processing, storage and handling of liquid gases and is a market leader in the supply of these solutions to the marine and onshore liquid gas sectors. In the International division, South Africa acquired Target Cranes in June 2012. In the Support Services division, the UKAEA Pension Administration business was sold in December 2012 for £6.5 million, including £4.2 million deferred into 2014, for a profit of £0.2 million.

For discontinued operations, the sale of the VT US business was completed in July 2012 and a further loss on disposal of £18.2 million was realised. As anticipated, following the VT acquisition, the Support Services division sold the Waste business in January 2013 for a cash consideration of £10.2 million yielding a profit of £9.3 million

Discontinued operations

A total of £17.1 million was charged to discontinued operations. This comprises a loss on disposal of £18.2 million arising on financial completion of the sale of the VT US business in July 2012 net of the profit on the sale of Waste and an increase in the provision for an onerous lease on a previously discontinued business.

Cash flow and net debt

	2012/13 £m	2011/12 £m
Cash generated from operations	293.4	260.7
Capital expenditure (net)	(53.7)	(46.0)
Interest paid (net)	(30.5)	(37.1)
Taxation	(45.8)	(28.0)
Free cash flow	163.4	149.6
Acquisitions and disposals net of cash/debt acquired	40.8	4.2
Investments in joint ventures	(30.2)	(2.7)
Movement in own shares	(2.2)	0.6
Dividends received from joint ventures and associates	7.1	6.6
Dividends paid	(86.7)	(73.5)
Exchange difference	(1.7)	3.1
Net cash inflow	90.5	87.9
Opening net debt	(641.1)	(729.0)
Closing net debt	(550.6)	(641.1)

2012/13 has been another successful year for cash generation and the pay down of debt and at 31 March 2013 net debt had reduced to £550.6 million from £641.1 million at the previous year end.

Cash generated from operations was £293.4 million (2012: £260.7 million) and represents a conversion rate ◀ KPI: page 34 of 117% (2012: 111%). Capital expenditure at £53.7 million (2012: £46.0 million) was primarily focused on the upgrade of dockyard facilities in Marine and Technology, which will continue in to the new financial year, and the purchase of equipment in the South African crane hire business. The programme of expenditure on the integration and upgrading of IT infrastructure concluded during the year and the focus has now turned to the upgrading of cyber security systems and enterprise software. Further investment in Marine and Technology, IT and facilities to support recent contract wins is expected to result in capital expenditure in 2013/14 of c 1.5 times annual depreciation.

Working capital cash flows were flat in the year with increased activity increasing debtors offset by increased payments in advance of revenue included in creditors.

Net cash interest paid excluding that paid by joint ventures was £30.5 million (2012: £37.1 million) and benefited from the further reduction in drawn debt and improved terms on the Group banking facility.

After taxation payments of £45.8 million (2012: £28 million) free cash flow was £163.4 million (2012: £149.6 million) representing a free cash flow yield on 31 March 2013 of 4% (2012: 5%), the reduction being driven entirely by the increase in share price over the year.

Acquisitions and disposals principally comprise the completion of the sale of the VT US business for £56 million, the purchase of LGE Process in December 2012 for £25.2 million and the sale of the waste management business for £10 million.

Dividends received from joint ventures during the period totalled £7.1 million (2012: £6.6 million). Cash dividends paid out in the year totalled £86.7 million (2012: £73.5 million).

Group net cash inflow was £90.5 million (2012: £87.9 million) reducing total net debt to £550.6 million.

Return on invested capital (ROIC) ◀ KPI: page 34

We define ROIC as earnings before financing and tax excluding exceptional charges divided by equity, excluding retirement benefit deficits plus debt. For the year 2012/13, ROIC was 21.2% (2012: 18.0%). Measured against the current weighted average pre-tax cost of capital of c 8%, the track record of performance demonstrates the Group's ability to generate value enhancing rates of return today and in the long-term.

Financial review (continued)

Available financial capital

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

Objective

To ensure an appropriate level of AFC to

i provide operational flexibility and meet financial obligations.

ii fund the Group's organic and acquisitive growth.

iii maintain sufficient headroom to cover the peaks and troughs in the Group's working capital cycle.

iv provide sufficient liquidity to see the Group through any periods of tightened liquidity in the market.

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of carry whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate.

The Group, in considering its capital structure and financial capital, views net debt to EBITDA at below two times as being steady state and sustainable in the current market and against the current economic backdrop. This is not to rule out acquisition spikes above two times, as reported following acquisitions in the past, but only if the Group can see a clear path to reducing net debt to EBITDA ◀ KPI: page 34 back below two times within a reasonable time frame.

Performance

The Group's gearing and debt cover ratios ◀ KPI: page 34, used by the Group to evaluate AFC, have continued to improve year-on-year, both in the pay down of debt and through increased profits attributable to shareholders.

		Covenant	2012/13	2011/12
Debt service cover	EBITDA/net interest	>4	12.7x	10.3x
Debt cover	Net debt/ EBITDA	<3.5	1.5x	1.8x
Gearing	Net debt/ shareholders' funds	n/a	45%	54%

Debt ratios are well below covenanted levels and gearing is at a level where the cost of capital is optimal. As such we believe capital markets remain readily accessible when required.

Treasury

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The Group's treasury policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

Debt

Objective

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

Policy

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance is sufficient to meet its stated objective. Current committed facilities and headroom are thought to be sufficient to meet the Group's ongoing commitments, following the issuance of the US$ 650 million US private placement notes in March 2011 and the refinancing of the £500 million Revolving Credit Facility (RCF) in June 2011, with a term of five years, three months. The two aforementioned debt raisings along with the £100 million of loan notes issued in January 2010, provide the Group with total committed banking facilities and loan notes of £1 billion.

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

Interest rates

Objective

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

Policy

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

Performance

As at 31 March 2013, the Group had 55% fixed rate debt (31 March 2012: 45%) and 45% floating rate debt (March 2012: 55%) based on gross debt of £647.7 million (March 2012: £741.3 million).

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

Liquidity

Objective

i to maintain adequate undrawn committed borrowing facilities.

ii to monitor and manage bank credit risk, and credit capacity utilisation.

iii to diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Policy

i all the Group's material borrowings are arranged by the treasury department and funds raised are lent onwards to operating subsidiaries as required.

ii to ensure that the Group has sufficient cash on hand and that its committed RCF is appropriately sized and has sufficient term to meet the Group's general corporate funding requirements. Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a KPI.

iii the Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counterparty credit risk is monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance

i the Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance were sufficient to meet its stated objective. No new material corporate debt was raised in the financial year ending March 2013.

ii the Group had cash and cash equivalents as at 31 March 2013 of £97.1 million (2012: £100.3 million).

iii for further information see note 2 to the Group financial statements.

Foreign exchange

Objective

To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being South African rand.

Policy – Transactional risk

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

Policy – Translational risk

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments

Financial review (continued)

Performance

There was a net foreign exchange gain of £0.8 million in the income statement for the year ending 31 March 2013 (2012: £0.8 million loss).

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

Pensions

The Group provides a number of defined benefit and defined contribution schemes for its employees. The largest schemes are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension scheme whose combined assets of £2.8 billion represent 87% of the total assets of all the Group's defined benefit schemes. All the defined benefit schemes are closed to new members except where such provision is mandated for former public sector employees transferring into the Group in relation to specific contracts.

The Group operates a company-wide defined contribution scheme open to all new employees and to current UK employees who are not members of the defined benefit schemes. This scheme was used to comply with the automatic enrolment legislation from 1 April 2013.

Investment strategy

The Group works constructively with an investment sub-committee which operates across the three largest schemes implemented a consistent investment strategy which will dynamically derisk the schemes as funding levels improve.

A risk budget has been agreed with the trustees of the three schemes within which the investment sub-committee can operate. Over the year, a significant hedging programme was undertaken to substantially reduce the risk of volatility in the schemes funding positions and IAS deficit due to adverse movements in interest rates and expected inflation, thereby resulting in a more stable financial position.

Funding valuations

The valuation dates for the three largest schemes are set such that only one scheme is undertaking an actuarial valuation each year in order to spread the impact of market movements in assets and liabilities. The valuation for Babcock scheme is due as at 31 March 2013 and the Devonport scheme as at 31 March 2014 with any consequent cash requirements expected to be implemented from 1 April 2014 and 1 April 2015 respectively.

An actuarial valuation of the Rosyth scheme as at 31 March 2012 will be completed in June 2013 based on the market value of assets and assumptions for the valuation of liabilities as agreed with the sponsoring company.

Cash contributions

	12/13 £m	11/12 £m
Future service contributions	53.3	60.7
Deficit recovery	39.3	30.5
Longevity swap	5.0	8.0
Pension pre-payments (net)	(20.0)	(10.0)
Total cash contributions – employer	77.6	84.3

The total cash contributions expected to be paid by the Group into the defined benefit pension schemes in 2013/14 are £99 million. £52 million is in respect of the cost of future service accrual of which £32 million in Marine and Technology is recovered via contractual terms. Of the balance, £4 million of the contributions are in respect of the three longevity swaps transacted during 2009/10 to mitigate the financial impact of increasing longevity, leaving £63 million to be funded from other Group contracts.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3.2 billion in comparison to a valuation of the liabilities based on AA corporate bond yields of £3.5 billion representing a 92% funding level.

A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the impact of increasing allowance for longevity.

	Devonport		Babcock		Rosyth	
	12/13	11/12	12/13	11/12	12/13	11/12
Discount rate (%)	4.4	4.9	4.4	4.9	4.4	4.9
Rate of increase in salaries (%)	2.5	2.5	2.5	2.5	2.5	2.5
Rate of increase in pensions in payment (%)	2.4	2.2	3.0	3.2	3.4	3.2
Life expectancy of male currently aged 65 years	21.6	20.9	22.8	22.7	17.7	17.7

The total accounting deficit, pre deferred tax, at 31 March 2013, was £261.1 million (2012: £265.9 million) and the expected IAS 19 service cost in 2013/14 is £50.5 million (2012/13: £44.8 million).

Actions taken during the year to mitigate further volatility of assets and liabilities include the hedging of inflation and interest rate changes and the establishment of flexible defined contribution pension arrangements.

The Group has assessed the impact of IAS 19 Revised. Had the standard applied for the year ended 31 March 2013 the impact on the income statement would have been to reduce operating profit by £31.0 million, increase finance costs by £11.8 million and reduce the taxation charge by £10.3 million, resulting in an overall decrease in earnings per share of 9.1 pence. There would have been no impact on the balance sheet or cash flow statement.

The net pensions charge to the income statement for 2013/14 under IAS 19 Revised, including the service cost of £50.5 million as above and after allowing for interest on liabilities and expected return on assets, is £61.4 million or £47.3 million after tax, which is an estimated decrease in earnings per share of 10.1 pence compared to the eps under the outgoing IAS 19 standard. From 2013/14 the net interest cost element of the pensions charge will be shown under finance costs in the income statement.

Further details on the Group's pension schemes can be found in note 27 to the Group financial statements.

Governance

Professional and effective pension scheme management is paramount to enable members and sponsors to be confident in the trustees' stewardship of the schemes. The Group and the cross scheme Governance Committee have continued to work constructively to improve the effectiveness of the trustee boards of the three largest schemes and their sub-committees as well as enhancing trustees' knowledge through training and decision-making. All trustees are required to sign a charter regarding their duties.

Sustainability

Delivering a sustainable business

"At Babcock we understand that how we take care of our reputation, our customers, our people, the environment and those affected by what we do, as well as how we plan for the future needs of our business is of critical importance to our having a sustainable and ethical business and being able to create long-term value for our shareholders."

Peter Rogers

In the sections below, we discuss the principal ways in which we address business sustainability

1. Strengthening customer relationships

2. Ensuring safety

3. Developing and sustaining talent

4. Managing environmental impact

5. Ethics and governance

1. Strengthening customer relationships

Given the long-term nature of our contracts and the profiles of our major customers, Babcock favours a partnering or collaborative approach and looks to build strong, long-term customer relationships; this is at the heart of our business philosophy. By this collaborative approach we aim to develop an in-depth understanding of our customers, what they value, what matters most to them, their present and future needs and objectives, and how and why they make their procurement decisions so that we can offer and best deliver what they are truly looking for and can anticipate and plan for their future requirements.

So how do we establish strong customer relationships?

Babcock believes that the most enduring relationships are built around seven key elements

- Shared goals and objectives
- Mutual trust
- Being open and honest in all dealings
- Identifying and understanding mutual interests
- Having strong personal relationships
- Taking the long-term view and looking ahead
- Meeting, and wherever possible exceeding, expected outcomes

We understand that one of the critical elements to building a strong business relationship is that both parties understand and are aware of how the other defines 'success' in a way that is both identifiable and measurable. Since this cannot be left to chance, we commission regular reviews of the workings of our business partnering arrangements to assess if they are working well and also to look for the tell-tale signs of where they might encounter problems.

Supply chain management

We need to be confident that the key supply chains on which we depend to perform our customer contracts can meet our required standards for ethical behaviour, health and safety management, security management and other key criteria. Key suppliers and sub-contractors are subject to qualification assessments and where appropriate we will verify this through targeted audits. The content and nature of the assessments and audits are designed to meet standards set by our customers and reflect legislative changes. Processes are in place to report inappropriate behaviours, practices and activities.

We are a signatory to the Prompt Payment Code which encourages and promotes best payment practice between organisations and their suppliers.

2. Ensuring safety

'Home Safe Everyday' is the standard we live by. Our work can involve hazardous situations and the health and safety of our employees and others affected by our work is of paramount importance. We take our responsibilities seriously and work hard to ensure our employees and contractors understand their role in remaining vigilant to risk on a day-to-day basis.

As noted last year, we are rolling out the 'Safety Lens' which is our tool for employees and management designed to help in the continual improvement of our safety culture. The Safety Lens lays down a set of commitments that our managers and employees believe are important and make the biggest difference to our safety performance.

These commitments have three themes

- Trusted to deliver: the commitment that we make to our employees to deliver on safety by providing suitable resources, training and time, and managers who 'walk the talk'.
- We ask each other: the commitment we expect from our employees to one another, to work safely and do the things we should all be doing.
- We share to learn and improve: the commitment we expect from our employees to help us learn from mistakes and improve safety performance based on experience and knowledge.

The Safety Lens is designed as a mechanism to enable our employees to talk about safety; in their teams, to their managers and to customers. It is a way of looking at things from a safety perspective and challenging each other to see if things could be done more safely.

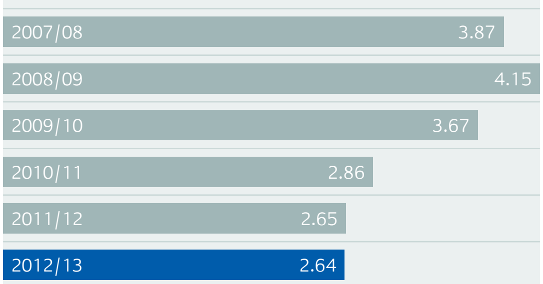
Sustainability (continued)

Performance

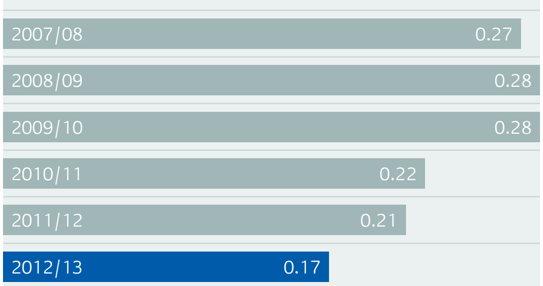
Although the rate of reduction in our total injuries rate has slowed, the increasing use of the Safety Lens and local divisional and business unit initiatives have helped reduce the year-on-year RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) rate by 19% and RIDDOR accidents by 13% during 2012/13 compared to 2011/12.

	2008/9	2009/10	2010/11	2011/12	2012/13
Total number of injuries	2,781	2,530	1,962	1,974	2,010
Fatalities	1	2	0	0	0
Major Injuries	42	28	22	30	30
Over-three-day injuries	148	164	131	123	102
RIDDOR totals	191	194	153	153	132

Total injuries rate per 100,000 hours worked



RIDDOR rate per 100,000 hours worked



During the year the UK Health and Safety Executive changed RIDDOR reporting from time lost through injury from three days to seven days. However we have taken the decision to continue to monitor and report on the lower three day threshold.

3. Developing and sustaining talent

Our business arrangements with our customers require us to deliver services across a complex array of projects and assets. Our people have an impressive range of skills and competencies: engineering, management, technical, commercial, administrative and developmental to name but a few.

1. Defence and Security	26
2. Marine and Technology	37
3. Support Services	31
4. International	5
5. Group	1
Total	c 26,000 employees

As our business expands, the development of our people, present and future, is a critical part of our business development activity. To underpin and sustain our long-term strategic growth, Babcock must ensure that it has the right people to be able and trusted to deliver to customers on technically complex, long-term contracts, both today and in the future. We aim to achieve this by continually improving our comprehensive talent management system. Our Group Director of Organisation and Development co-ordinates this activity across the Group.

Succession planning is a key focus at Board level and throughout the businesses. We have plans in place that identify immediate and/or future potential successors to key senior management posts. We also have individual training and development plans for those so identified. Over 90% of executive positions have identified replacements.

In addition to the training and development provided at divisional and business unit level we have Group-wide management development resources

- This year we are launching the Babcock MBA which will offer a world class MBA programme to 25 high-potential employees each year.
- The Babcock Academy, run in conjunction with Strathclyde University since 2005, continues to provide a structured framework for our managers to improve their managerial skills and strategic awareness.
- We continue to enhance our Emerging Leaders Development programme. In addition to holding Emerging Leaders workshops, we ensure that key divisional managers are able to identify high potential candidates and provide them with the development they need and so retain their skills within the Group. Each division has identified talent pools and reviews their development on a quarterly basis.

Graduates and apprentices

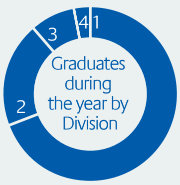
Our graduate and apprenticeship schemes are intended to support business requirements with the aim of securing the skills and expertise we need now and in the future, and we seek to provide as many opportunities as those requirements justify.

With regard to graduates, we reported last year that we were expecting to recruit 122 graduates for the 2012/13 intake. In the event, business requirements were such that we needed to recruit an additional 20 graduates bringing the total for 2012/13 to 142 (2011/12: 97).

There are currently 251 graduates on the graduate programme, 76% of whom are in engineering disciplines and 24% in business support roles. At the date of this report, we expect to recruit 126 graduates for the 2013/14 intake. In addition to our graduate scheme, we recruit many graduates directly to management positions.

At 31 March 2013, there were 551 apprentices across the Group (2012: 522) of whom 174 were recruited during the year (2011/12: 135). The increase in numbers since last year demonstrates the commitment we have to apprenticeship training. Of those completing their training over 88% were appointed into substantive roles within the Group.

Graduate programme



1. Marine and Technology	174
2. Support Services	49
3. Defence and Security	21
4. Group	7
Total	251

Apprentice programme

1. Marine and Technology	362
2. Support Services	99
3. Defence and Security	47
4. International	43
Total	551

Diversity

We are committed to equal opportunities and do not discriminate on the basis of age, race, colour, ethnic origin, gender, marital status, religious beliefs, sexual orientation or disability; but diversity is about more than this. It is about embracing the advantages and richness different experiences, skills and outlooks can bring and learning from that diversity to deliver our best for our customers and safeguard the future of Babcock. Equal opportunities and awareness of diversity are integral to our talent management system. As a business it is imperative that we ensure access to the widest pool of talent available selecting the best candidates based on their ability to do the job.

Babcock operates principally in sectors that have until recently traditionally been regarded as 'male', such as engineering and working with the armed forces. Inevitably, companies with this background will tend to be starting from a level of relatively low female participation, especially in management positions. However we are working hard to change this. As set out on page 63, 21% of our total workforce is female, with 18% female senior executives. Our diversity initiative, 'All together different', is championed by a Diversity Management Group, which co-ordinates the implementation of our equality and diversity policy. We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2013 22.3% of those employed in our graduate scheme were female. Further information on the work we are doing around our diversity can be found on page 63 of this Report.

Community

In many places, we are the largest employer in the area. We seek to engage with the communities around our sites and operations and to provide opportunities for employees to assist with local initiatives and support local charities that are important to them. We have Group-wide guidelines setting out our approach to charitable donations, our commitment to the communities in which we operate and the broader interests of our customers. As well as ensuring financial donations are appropriately targeted, they also encourage active engagement in local community support programmes.

At Group level, we have continued to provide corporate sponsorship for the Soldiers, Sailors, Airmen and Families Association (SSAFA), the forces charity providing support to service families in times of need.

Across the Group, our donations to charitable causes during the year amounted to £351,000 (2012: £272,000).

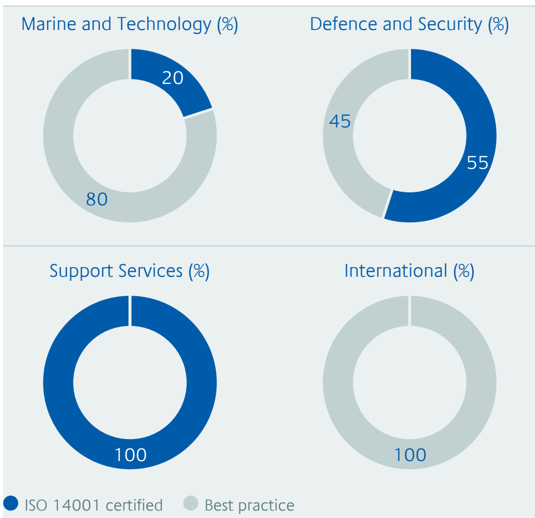
Sustainability (continued)

4. Managing environmental impact

Babcock seeks to achieve the highest standards in its management of environmental matters. We recognise the impact our operations can have on the environment and seek to keep to a minimum or eliminate adverse effects so far as we reasonably can. Although we operate at many sites, some of them are customer-owned or operated sites and our ability to manage environmental matters is restricted by the terms of our contracts or the budgets that our customers are willing to support.

At Babcock, it is recognised that our own business operations are dependent on the use of energy from a number of sources; we therefore collect and report on carbon emissions data relating to each activity. Over the course of the year we have undertaken significant amounts of work to deliver long-term energy savings and efficiencies for both ourselves and our customers in a way that is mindful of environmental impacts.

Based on revenue, 58% (2012: 52%) of the Group's operations have environmental management systems that are ISO 14001 certified and the breakdown by division can be found below. Where our environmental processes are not certified, we seek to ensure that they are in accordance with customer requirements and, where appropriate, we are also working towards ISO 14001 certification.



Best practice refers to our environmental management controls at sites not yet ISO 14001 certified.

The environment and carbon management

Babcock has achieved re-certification to the prestigious Carbon Trust Standard for all of its UK operations and is continuing to work hard to reduce its carbon footprint against a background of significant business growth and further acquisitions. An ongoing programme of rationalising and improving the efficiency of the Group's built estate continues to drive down the Company's own carbon emissions. The Group's absolute carbon footprint showed a modest reduction, but far more significant is the impressive reduction achieved against the revenue benchmark – see table below.

	2009/10	2010/11	2011/12
Absolute footprint (Tonnes CO_2e)	126,287	181,608	172,867
Relative benchmark (Tonnes CO_2e/£m revenue)	71.0	65.4	60.7

The Group has again reported to the Carbon Reduction Commitment – Energy Efficiency Scheme (CRC) and in the final CRC League Table, published in March 2013, the Group improved its position from 2012, ranking among the top 2% of some 3,000 organisations required to report to the scheme – see extract from CRC League Table below.

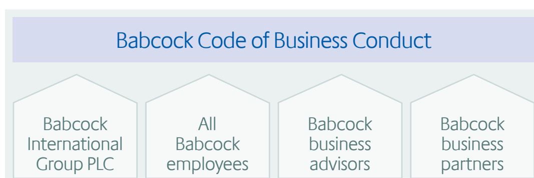
Rank	43
Registration number	CRC5092087
Organisation name	Babcock International Group PLC
Weighted score	1,749.15
Emissions (tonnes of CO_2)	131,461
Early action metric (%)	72.50
Absolute metric (%)	20.24
Growth metric (%)	22.68

Under new regulations introduced in April 2013, from 2014 the Group will also have to include details of its Greenhouse Gas Emissions (GHG) for the entire Company, including overseas operations, as part of its annual report. The regulations arise out of the Rio+20 summit and form part of the UK's Climate Change Act 2008 and require all companies registered on the main market of the London Stock Exchange to measure and report their GHG emissions as part of the drive to meet the carbon reduction target of 50% of 1990 levels by 2025.

5. Ethics and governance

Code of Business Conduct

Babcock aims at all times to act responsibly and ethically when pursuing and awarding business. The Company understands that its reputation and its good name are its greatest assets which could easily be lost by actual or suspected corrupt or unethical behaviour. To protect the Company and reduce these risks the Company has set out its policy in a Babcock Code of Business Conduct and requires employees, business advisors and business partners to comply with that Code (or, in the case of business advisors and partners to have equivalent standards and procedures in their own businesses).



The Babcock Code of Business Conduct is a Group-wide policy that sets out the following principles to ensure that those who work with or within the Company work to the highest of ethical standards

As a company Babcock

- Will respect the dignity and rights of its employees and place the highest priority on ensuring the safety of each other at work and the safety of others who might be affected by our activities
- Will seek to minimise so far as it reasonably can its impact on the environment
- Will comply with the law in the conduct of its business
- Will be honest in our dealings with those with whom we do or seek to do business
- Will strive to avoid even the appearance of wrongdoing or impropriety in the way we go about our business
- Will not bribe or attempt to bribe anyone
- Will be diligent in selecting our business advisors and partners so that we minimise the risk of our reputation being damaged by others
- Will implement and observe appropriate training and procedures designed to ensure that we and others working for us understand what our Code of Business Conduct means for them in practice
- Will treat seriously breaches of our code or its associated guidance

And our employees

- Will avoid (or properly disclose and obtain clearance for) potential conflicts between their interests (or those of their friends and families) and their responsibilities to Babcock or our customers
- Will not take bribes and will report to appropriate management any attempt made to bribe or improperly influence them or another employee in the carrying out of their duties for Babcock
- Will not bribe or attempt to bribe anyone (including by making 'facilitation payments') and will report to appropriate management any request or suggestion that Babcock, or anybody working for or with Babcock, should bribe or attempt to improperly influence someone
- Will seek advice on how to proceed if they are at all unsure whether something complies with our Code of Business Conduct or how to apply its associated guidance
- Will be able to raise (confidentially if they wish), without fear of unfavourable consequences for themselves, any genuine concerns they have that our Code or its associated guidance is not being followed

And our business advisors

- Must agree to comply, and actually comply, with our Code and this guidance, so far as it is relevant to them, as if they were our employees

And our business partners

- Should either be willing to subscribe to our Code and its associated guidance or have equivalent standards and procedures in their own businesses

This policy is supplemented by a detailed manual available on the Group's intranet that contains guidelines, authorisation and other procedures aimed at identifying and reducing corruption and ethical risks, for example: an explanation of the law and how it can apply; 'Red Flags' to look out for; guidelines and authorisation procedures for giving or accepting gifts and hospitality or making charitable or political donations guidelines; due diligence and approval requirements before engaging new business partners; and how to whistleblow concerns. Employees take online training courses in anti-bribery and corruption risks.

Each division and Group function must also have a designated member of its senior management team, who has specific responsibility for ensuring the distribution, communication and implementation of the anti-bribery and corruption guidance, how to apply it, and which employees need to be trained in its content and application. Divisions and Group functions are also required to consider carefully whether they need also to designate business unit level or site specific managers with the same responsibility. Anti-bribery and corruption risks have expressly to be considered each year in business unit risk reviews as an integral part of our risk management arrangements. Internal audit carries out a review of the implementation of the guidance as part of the annual internal audit plan.

Whistleblowing

Babcock has confidential 'whistleblower' hotlines provided by independent third parties who promptly report messages received via the service to central Group senior management. Callers can remain anonymous if they wish. The hotlines are intended for use by employees to report concerns that they feel unable to raise with line management (or where they have raised matters, but they are not satisfied with the response) regarding financial irregularities, concerns about non-compliance with laws, or breaches of our Code of Business Conduct, threats to health and safety, conflicts of interest or improper practices. New employees are made aware of the existence of the hotlines as part of their induction; details of the hotlines are advertised at operating sites.

All calls, letters or emails received regarding whistleblowing cases are initially received by an external third party and logged into a whistleblowing database. They are then passed on to a member of senior management at Group Head Office. The incident is then reviewed and the method of investigation confirmed, which can be by a senior manager, unrelated to the incident, an external agency or by internal audit. Where possible, the caller reporting the incident will be notified of the outcome of the investigation. A report on all whistleblowing calls throughout the Company, the investigations undertaken, the conclusions drawn and the recommendations and actions resulting is given to each meeting of the Audit and Risk Committee.

Principal risks and risk management controls

"A clear, well established and embedded risk management framework is fundamental to the successful operation of the business, allowing strategic objectives to be delivered whilst protecting the Group's assets and minimising the potential for financial or reputational damage."

Bill Tame
Group Finance Director

The key risks and uncertainties shown on pages 52 to 55 are those the Board considers to be of greatest significance to Babcock as it stands today. They have the potential materially and adversely to affect Babcock's business and the delivery of its strategy. For each risk there is a description of the possible impact of the risk on the Group should it occur, and the mitigation and control processes in place to manage the risk.

This list is likely to change over time as different risks take on larger or smaller significance. The size, complexity and spread of Babcock's businesses and the continually changing environment in which the Group operates also means that the list cannot be an exhaustive list of all significant risks that could affect the Group. Risks and uncertainties which affect or are likely to affect businesses in general, and are not specific to the Group, are not set out as key risks, but Babcock, in common with other businesses, faces those risks too.

How Babcock manages risk

Babcock has an established system of risk management and internal control processes which operate through all levels of the Group's business. Throughout the year the Board, through the Audit and Risk Committee, critically evaluates and reviews major risks faced by the Group and the controls and mitigation plans in place intended to manage and reduce their potential impact and ensure that the assets and reputation of the Group are protected.

The Group's risk management and internal control systems can only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk management framework

Board	The Board is ultimately responsible for the Company's risk management and internal control system, which is overseen on its behalf by the Audit and Risk Committee.
Audit and Risk Committee	The Audit and Risk Committee reviews aspects of the risk management and control system at its meetings and at least once a year formally reviews the system's effectiveness on behalf of the Board (see the effectiveness review statement on page 72). It also receives in-depth presentations on individual key risks.
Security Committees	Babcock has two senior level Security Committees which each meet regularly to discuss security and information assurance issues and threats facing the Group. The Committees also provide oversight of the Group's security and information assurance infrastructure and ongoing security projects. The Group Finance Director is Chairman of the Committees and reports on security and information assurance matters to the Board.
Internal Audit and External Auditors	The Audit and Risk Committee receives regular reports from Ernst & Young, the internal audit function provider. It receives external audit reports from PricewaterhouseCoopers. The reports look at internal controls or risk issues.
Internal controls	Operationally, internal control systems are monitored by senior Group management with divisional Chief Executives having responsibility for risk identification and risk management in their businesses.
Group risk management	The Group Risk Manager works with divisional management teams to keep under review and development, and to share best practice in making, the Group's risk assessments and compliance with risk management standards and processes. Risk assessments made at business unit level are subject to regular review and challenge by Group senior management.
Company employees	Employees undertake a selection of compulsory risk management training programmes (for example: security, data protection and anti-bribery and corruption training) appropriate to their roles, in order to increase awareness of potential risks.

Other internal controls include

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

Principal risks and risk management controls (continued)

Key risks, risk mitigation and controls

Risk

Reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions, means we are exposed to political risks, and damage to our reputation can have rapid and serious adverse consequences

Babcock's customers are mainly large, complex organisations, typically central or local government departments, other public sector bodies or commercially owned entities in sectors subject to specific regulation. Many of them rely, to a greater or lesser extent, on public funding. Babcock's contracts are typically intended to last for five to seven years, but many for much longer than that. Inevitably, reliance on a relatively limited number of large customers and contracts carries risks.

National and local government policy changes and public spending constraints are potentially material risks for the Company as they could result in delays in placing work, pressure on pricing or margins, withdrawal of projects, early termination of contracts, lower contract spend than anticipated or adoption of less favourable contracting models. These customers set demanding criteria for eligibility for contracting with them, the cost of compliance with which can be significant.

Damage to Babcock's reputation, whether justified or not, has the potential, given our relatively narrow customer base and the size of contracts at stake, to impact severely our ability to win or retain significant business streams.

Impact

- Failure to obtain or retain the necessary eligible status to contract with such major customers could substantially impact entire business areas.
- The loss of, cancellation or failure to renew any of these large contracts could have a materially adverse effect on the Group's financial results.
- A loss of reputation for any reason, either generally or with a specific major customer, could lead to a significant loss of existing or future business.

Risk mitigation and control process

- The Company has extensive and regular dialogue with key customers, involving as appropriate, the Chief Executive, Divisional Chief Executives and other members of the senior management team.
- The Company actively monitors actual and potential political and other developments that might effect its customers.
- The Company seeks to maintain a clear understanding of customer needs, plans and constraints and to be able to respond to them.
- Customer satisfaction surveys help to identify potential threats to customer relationships so that they can be addressed at an early stage.
- The Company aims to be innovative and responsive in helping customers meet their needs and challenges.
- Senior management at Group and divisional level are keenly aware of reputational risks, which can arrive from many sources. We have risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation.

Risk

Contracts carry strict performance conditions with which Babcock must comply within the tendered price

Contracts entered into by the Group are generally complex and lengthy, and are subject to various performance conditions which must be adhered to throughout the life of the contract. Failure to meet the performance criteria of a contract can lead to compensation arrangements being triggered, or the contract might not be capable of completion within the tendered price or only at a lower margin than anticipated (or even at a loss).

Impact

- Failure to meet performance conditions set out in the contract could result in the cancellation of a contract resulting in claims for loss and reputational damage for the Company.
- Poor performance against a contract will undermine the Company's ability to win any future rebids for work.
- Poor performance may result in significant financial loss or significantly lower returns than expected.

Risk mitigation and control process

- Forward looking management reviews are in operation to ensure contracts are being operated profitably and are being properly accounted for.
- Contractual performance is continually under review. Major contracts have risk identification and management processes in place. Significant risks will be tracked on risk registers. Failure to maintain required contractual performance or contract delivery targets will be highlighted at an early stage.
- A review of contract performance takes place at a business unit, divisional and a senior group executive level as appropriate.

Risk

Failure to realise the pipeline of opportunities and secure rebids

The realisation of the pipeline of opportunities and rebidding for existing contracts can involve a lengthy and costly bidding process. The Group's bid and rebid success rates determine how much of a pipeline of opportunities is realised and turned into profitable business or how much existing business is retained. Bidding for large and complex contracts is time-consuming (it can take many months or even run into years) and is expensive, as can be mobilising on new contract wins. Also, by their nature, large, longer term contracts are irregular and relatively infrequent in coming to market.

Impact

- Unsuccessful major bids or rebids can involve significant wasted bid costs.
- The inability to secure a major new contract can represent a significant missed opportunity for growth.
- Losing rebids can mean the loss of a significant existing revenue and profit stream.
- The loss of a bid or rebid can impact on the Group's strategic objectives.
- Contracting on unacceptable commercial terms in order to secure new business or resecure existing business could undermine future profitability and sustainability of business growth.

Risk mitigation and control process

- The Company has a clear business strategy to target a large bid pipeline and will only tender bids for those contracts with clear alignment with the Group strategy and in which the Company stands a realistic chance of success.
- Group policies and procedures set commercial, financial and legal framework for all bids.
- Senior divisional and group executives will regularly review the Group's performance on major bids, which are subject to multiple 'gating' (evaluation) points for approval to proceed to the next stage.
- Management will target the allocation of resources to areas where the opportunities for winning business or retaining existing business are highest.

Risk

Operations carrying significant health and safety or environmental risks

Many of Babcock's operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties, members of the public or the environment.

Impact

- Serious accidents in the workplace can have a major impact on the lives of those employees involved as well as their families, friends, colleagues and communities.
- In the event that such an incident is caused or perceived to be caused by the negligence of Babcock it could subject the Company to legal claims, resulting in the payment of substantial damages not all of which will be insured.
- Such an incident could have an adverse impact on the reputation of the Group and the potential willingness of customers to deal with Babcock in the future.
- As well as legal claims the Group may be subject to financial loss through fines by regulators, suspension of licences, disqualification from future tenders and adverse media attention and scrutiny.
- A major incident at a Babcock controlled location may restrict the ability of the Company to continue business and fulfil contractual obligations.

Risk mitigation and control process

- Health, safety and environmental performance are absolute priorities for Babcock and receive close and continuous attention and oversight from the senior management team as well as at an operational level.
- There is a specific health, safety and environmental governance structure in place. Employees may report any areas of concern or incidents of non-compliance to a confidential whistleblowing hotline.
- Reports are regularly received on health, safety and environmental performance by divisional boards. The Board and Group Executive Committee receive half-yearly reviews of performance and the regular operational reports submitted at each of their meetings address health, safety and environment incidents on an ongoing basis; the Chief Executive also reports directly and promptly to the Board on any significant matters.
- Health, safety and environmental professionals are employed throughout business divisions. External consultants are utilised to give advice on best practice and help evaluate and design management led improvement initiatives.
- Staff are rigorously and continually educated and trained to ensure the potential for mistakes and accidents is minimised.
- Babcock has insurance policies in place as well as business continuity plans in the event of a major incident.
- Unsatisfactory health, safety or environmental performance can lead to reduction or annulment of executive bonuses.

Principal risks and risk management controls (continued)

Risk

Need for experienced management resource and skilled employees, who can sometimes be in short supply

The Group needs, now and in the future, strong, experienced management and business development teams who are capable of delivering its strategic development plans. In addition, some of the Group's core engineering, technology and project management businesses are complex and demand skilled, suitably qualified personnel to deliver them operationally. The continuing success of the Group relies on Babcock's ability to plan for management succession and to attract, train and retain qualified and experienced management and business development executives and other specialist professionals, technicians, engineers and project management staff. The number of suitable candidates is limited and the market for them competitive.

Impact

- Failure to plan properly for succession at senior and other management levels could damage the prospects for or performance of the Group by not being able to replace departing skilled and experienced managers swiftly and smoothly with suitable replacements, which may be destabilising or disruptive of performance.
- The inability to attract and recruit the required number of skilled professionals in a competitive market may result in resourcing issues leading to a failure to fulfil contractual obligations or the inability to pursue business in new areas.
- Failure to fulfil contractual obligations due to resourcing issues could lead to a loss of reputation, financial loss and impact on the ability to attract future business and restrict growth.
- Insufficient experienced business development or bidding resources can impair the ability of the Group to achieve its strategic aims and financial targets.

Risk mitigation and control process

- High priority and significant resources are given to recruiting skilled professionals, training and development, succession planning and talent management generally.
- The Group Organisation and Development Director reports regularly to the Board and Group Executive Committee on succession planning, executive management/talent training and development and on graduate recruitment.
- The Nominations Committee and Board, as appropriate, debate management succession issues on a regular basis and also use external advice where appropriate.
- Apprentice and graduate recruitment programmes are run throughout the business units.

Risk

IT and security

Like any business, Babcock depends on having reliable and secure IT systems and cyber-security is an increasing threat for all businesses. However, for Babcock, given the nature of its customer base, this is also a critical reputational issue and is increasingly a focus of attention for those customers.

Impact

- The ability of Babcock to be able to deliver secure IT and other information assurance systems is a key factor for its customer base. If Babcock is unable to demonstrate continuing compliance with customer requirements in this area it could have a substantial impact on major business sectors and also the ability to win future contracts.
- Failure to combat cyber-security risks could lead to incidents that disrupt business operations resulting in the inability to meet contractual demands and fulfil the Group's own needs.

Risk mitigation and control process

- Babcock has made, and will continue to maintain, a significant investment in enhancing IT security and security and information awareness generally.
- There is a formal security and information assurance governance structure in place to oversee and manage cyber-security and similar risks.
- Senior group and divisional level security committees meet on a regular basis to discuss areas of concern throughout the Group and security related projects in light of perceived threats.
- The Chief Financial Officer (who is the Group's Senior Information Risk Officer) reports to the Board at least quarterly regarding Group security and information assurance matters generally, and will make ad hoc reports in the interim should any significant incident occur.

Risk

The Group has significant defined benefit pension schemes

Defined benefit schemes provide for a specified level of pension benefit to members, the cost of which is met from both member and employer contributions paid into the pension scheme and the investment returns achieved by the schemes over time. The level of contributions required to meet the pension obligations is actuarially determined every three years based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation etc. If, based on the assumptions being used at any time, the assets in the pension scheme are judged to be insufficient to meet the calculated cost of the pension obligations there will be a shortfall, which may be significant. The scheme's trustees may require this to be made up by increased contributions from employers over a time period agreed with the sponsoring employer and/or guarantees or other security to be provided by employers. The most significant impact can occur due to differences between the actual and assumed investment returns and changes in the assumption for life expectancy.

Also, the Group must comply with IAS 19 when accounting for its defined benefit schemes. IAS 19 requires corporate bond related discount rates to be used to value the pension liabilities. This is likely to lead to variations from year-to-year due to a mismatch with the investments held in the pension schemes and because of variations in the yields available on corporate bonds and inflationary expectations. This in turn can materially affect the pensions charge in the income statement in the Group's accounts from year-to-year as well as the value of the difference between the assets and the liabilities shown on the Group's balance sheet, leading to significant accounting volatility. Future accounting, regulatory and legislative changes may also adversely impact on valuations and costs.

Impact

- Should the assets in the pension scheme be judged insufficient to meet liabilities the employer may be liable for increased contributions. This may reduce the cash available to meet the Group's other obligations or business needs, and may restrict the future growth of the business.
- Accounting standards for pensions related liabilities can lead to significant accounting volatility from year-to-year due to the need to take account of macroeconomic circumstances beyond the control of the Company.

Risk mitigation and control process

- There is continuous strategic monitoring and evaluation by Group senior management of both the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.
- The Group Pensions Manager, reporting to the Group Finance Director, keeps strategic pension matters under close review and reports regularly to the Executive Committee and/or the Board.
- The Company seeks to have a constructive and open relationship with the schemes' trustees with a view to working together to mitigate and manage these long-term risks.
- A long-term investment strategy and risk framework has been agreed with the trustees of the largest schemes intended to reduce the impact of the schemes' exposure to changes in inflation and interest rates. Longevity swaps are used to reduce the impact of the schemes' exposure to increasing life expectancy.

Board Directors and Company Secretary

The business of Babcock International is managed by our Board of Directors. Biographical details of the Directors and the Company Secretary as at 13 May are as follows:

Chairman

Mike Turner CBE
Chairman of the Board and Nominations Committee

Period of service on the Board: 4 years 11 months

Experience
Mike Turner was appointed to the Board as a Non-Executive Director on 1 June 2008 and as Chairman of the Board on 1 November 2008. Since 3 May 2012 he has also been Chairman of GKN plc, where he was previously Senior Independent Director. He is a former Chief Executive of BAE Systems plc and a former Chairman of the UK Defence Industries Council (DIC). He is a member of the UK Government's Apprenticeship Ambassadors Network and is a Non-Executive Director of Lazard Limited.

Executive Directors

Peter Rogers CBE
Chief Executive

Period of service on the Board: 10 years 11 months

Experience
Peter Rogers joined the Board as Chief Operating Officer in June 2002 and became Chief Executive in August 2003. He is a Non-Executive Director of Galliford Try PLC and a former Director of Courtaulds PLC and Acordis BV. He has also served as a President of ADS (Aerospace Defence Security).

Bill Tame
Group Finance Director

Period of service on the Board: 11 years 3 months

Experience
Bill Tame joined the Board as Group Finance Director in January 2002. He is a former Finance Director of Scapa Group PLC. He is a Non-Executive Director of Carclo PLC.

Non-Executive Directors

Sir David Omand GCB
Senior Independent Director

Member of the Audit and Risk, Remuneration and Nominations Committees

Period of service on the Board: 4 years 1 month

Experience
Sir David joined the Board as a Non-Executive Director on 1 April 2009, and became Senior Independent Director on 1 January 2012. He is a Non-Executive Director of Finmecannica UK Limited and is a visiting professor in the department of War Studies, King's College London. He left UK Government service in 2006, having served in various senior roles, including as UK Government Security and Intelligence Co-ordinator, 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.

Justin Crookenden
Independent Non-Executive Director

Chairman of the Remuneration Committee

Member of the Audit and Risk and Nominations Committees

Period of service on the Board: 7 years 5 months

Experience
Justin Crookenden joined the Board as a Non-Executive Director in December 2005. He qualified as a Chartered Accountant and is a former investment banker, having worked at UBS, Barclays de Zoete Wedd and Credit Suisse First Boston – where he was Managing Director, UK Investment Banking.

Ian Duncan
Independent Non-Executive Director

Chairman of the Audit and Risk Committee

Member of the Remuneration and Nominations Committees

Period of service on the Board: 2 years 6 months

Experience
Ian Duncan joined the Board as a Non-Executive Director on 10 November 2010. He is a Chartered Accountant and is a former Group Finance Director of Royal Mail Holdings PLC. He has also been Corporate Finance Director at British Nuclear Fuels plc and Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA. Ian is currently a Non-Executive Director and Chairman of the Audit Committees of Fiberweb plc, WANdisco plc and Mouchel Group.

Kevin Thomas
Chief Executive, Support Services

Period of service on the Board: 3 years

Experience
Kevin Thomas became a Director on 1 May 2010. He joined the Group in June 2002. Before joining Babcock, he spent 12 years in facilities management, including seven years with Serco Group PLC and 15 years in local government with Merton, Surrey and Southwark Councils. Kevin is a Fellow of the Royal Institute of Chartered Surveyors and a Freeman of the City of London.

Archie Bethel CBE
Chief Executive, Marine and Technology

Period of service on the Board: 3 years

Experience
Archie Bethel became a Director on 1 May 2010. He joined the Group in January 2004. He is a Chartered Engineer and a Fellow of the Royal Academy of Engineering. He is also President of the Society of Maritime Industries, Vice President of the Institution of Mechanical Engineers and is a Lay Member of the Court of the University of Strathclyde.

John Davies
Chief Executive, Defence and Security

Period of service on the Board: 4 months

Experience
John Davies joined Babcock in 2010, following the acquisition of VT Group. He was appointed Divisional Chief Executive, Defence and Security in 2010 and joined the Group Board on 1 January 2013. John is a lawyer by background and a graduate of the University of Manchester and Chester Law College. He has worked extensively across the Support Services and Defence sectors within Bombardier, BAE Systems and VT Group.

Kate Swann
Independent Non-Executive Director

Member of the Audit and Risk, Remuneration and Nominations Committees

Period of service on the Board: 1 year 11 months

Experience
Kate Swann joined the Board as a Non-Executive Director on 1 June 2011. Kate is currently Group Chief Executive of WH Smith PLC until 30 June 2013 when she will step down. She is a former Managing Director of Argos, and a former Managing Director of Homebase Ltd.

Anna Stewart
Independent Non-Executive Director

Member of the Audit and Risk, Remuneration and Nominations Committees

Period of service on the Board: 6 months

Experience
Anna Stewart became a Non-Executive Director of the Company on 1 November 2012. Anna is Chief Executive of Laing O'Rourke Corporation. She was previously Group Finance and Commercial Director. Anna is a Chartered Surveyor.

Company Secretary

Albert Dungate
Group Company Secretary and General Counsel

Experience
Albert Dungate is a Solicitor. He has been Group Company Secretary and General Counsel since February 2002. He is Secretary to the Board and to the Audit and Risk, Remuneration and Nominations Committees.

Governance statement

Dear Shareholder

Your Board is fully committed to maintaining the highest standards of corporate governance at Board level and throughout the Group as a whole, I am therefore pleased to be able to confirm that the Company believes it has fully complied with the UK Corporate Governance Code for the year ended 31 March 2013. It is the Board's belief that fostering a culture of good governance, integrity and business ethics from the top down is critical to maintaining shareholder and customer confidence in the work that we do, and creates a strong base for the Group's continued growth and success for the future. With this in mind I ensure that time is spent at Board and Board Committee meetings discussing any important governance issues, and that this focus is applied throughout the Group by the executive management. I firmly believe that this drive for good governance underpins a better and more responsible business.

I, along with the Nominations Committee, have been and will continue to be focused on the key issue of succession planning. We want to ensure that the skills, experience and leadership we have available on the Board and at senior management level both now and in the future are those required to continue Babcock's impressive track record. This will enable us to drive the business still further forward at the same time maintaining our focus on delivering long-term, sustainable value to our shareholders. As I discussed on page 5, Sir Nigel Essenhigh retired as a Non-Executive Director during the year, and we welcomed Anna Stewart and John Davies to the Board. Both Anna and John bring with them a wealth of valuable and relevant experience and I look forward to their continuing contributions to the Board.

As a Board we understand the importance of the continued assessment of our performance in order to identify and address areas where improvements may be made. One way we achieve this is by talking to and receiving feedback from investors. A list of meetings we held with our shareholders during the year can be found on page 64. In addition to this investor feedback we also use internal and external board reviews. This year our annual performance evaluation was conducted internally. We discuss the results of this review, and what we are doing to address the matters raised on page 62. We had an external review last year and will do so again in the 2013/14 financial year.

As explained in more detail on page 63, the Board is firm in its aspiration and intent to foster and encourage greater diversity, including gender diversity, at all levels in our organisation, as part of our 'best for the job' approach.

In summary, I am pleased with the progress we have made on our governance agenda during the year. Our corporate governance policies, practices and procedures have continued to evolve as the business continues to grow targeting the highest standards of best practice.
We highlight these areas and describe our corporate governance framework in more detail on the following pages.

Mike Turner

Mike Turner CBE
Chairman

The reports of the Nominations, Audit and Risk and Remuneration Committees and the information contained or referred to in the section 'Other statutory and regulatory information and Directors' responsibility statement' on pages 68 to 73 also form part of our Governance statement.

Board governance

Governance Code Compliance

Babcock International Group PLC is required to report on how it has complied for the year under review with the UK Corporate Governance Code, published in June 2010 ('the Code'). The Code sets out the main principles and specific provisions on how companies should be directed and controlled in order to follow good governance practice.

The Board of Directors of Babcock International Group PLC ('the Board') considers that the Company complied with all the principles and provisions of the Code throughout the year to 31 March 2013.

Board of Directors

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

The current Directors' biographies are set out on pages 56 and 57. 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 Directors are set out in the Company's Articles of Association (the 'Articles'), which may be amended by way of a special resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles and in accordance with the Companies Act 2006, and other applicable legislation. The Articles are available for inspection online at www.babcockinternational.com and can also be seen at the Company's registered office.

Board 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 the respective Committee's 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 of 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 (through 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. Key Committee terms of reference are available to view on our website: www.babcockinternational.com

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

There is also a Group Finance Committee consisting of any two Directors, one of whom is the Group Finance Director, to approve borrowing, guarantees, treasury and related matters within its terms of reference.

Governance statement (continued)

Key areas of focus during the year

During the year some of the key areas the Board focused on included

Strategy

- Special Board meetings dedicated to strategy (two meetings)
- Review of acquisitions/potential acquisitions
- Business unit strategy updates and presentations
- Financial planning including budgets and dividend policy
- Business development and pipeline review
- Succession planning

Risk

- Review of security policies and procedures
- Review of internal controls and risk management (through the Audit and Risk Committee)
- Legal updates and litigation reports
- Insurance

Shareholder relations

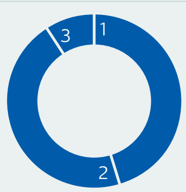
- Annual Report and Accounts
- Annual General Meeting
- Independent investor relations surveys and feedback reports
- Monthly investor relations and shareholder engagement reports
- Review of analyst reports

Governance

- Review of Board effectiveness
- Health and safety review
- Anti-bribery and corruption and risk management update
- Review of terms of reference of Board Committees
- Tax affairs

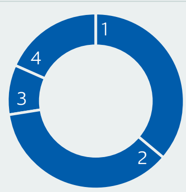
Composition of the Board

The Board comprises the Chairman, five Executive Directors and five independent Non-Executive Directors, which is in accordance with Code provision B1.2. The Board believes that this balance allows for the promotion of high-quality discussion and consideration of key issues affecting the Group, including 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. The composition of the Board is kept under review to ensure that the skill, knowledge and experience of its members is suitable to meet the needs of the business and its strategic development plans; this is the primary focus of the Nominations Committee.



Composition of the Board

1. Executive Directors	5
2. Independent Non-Executive Directors	5
3. Chairman	1



Period of service on the Board*

1. Under 3 years	4
2. 3–6 years	4
3. 6–9 years	1
4. 9 years+	2

* As at 13 May 2013

The following changes were made to the Board during the year

New Directors	Date of appointment
Anna Stewart	1 November 2012
John Davies	1 January 2013

Directors who retired	Date of retirement
Sir Nigel Essenhigh	31 December 2012

Election of Directors

The Board has established a formal, rigorous and transparent process for the selection and subsequent appointment of new Directors to the Board. This process is described in the Nominations Committee section on page 65 of this Report. 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 Annual General Meeting (AGM) following their appointment.

Executive Directors are entitled to not less than 12 months' notice of termination of their service agreements. Non-Executive Directors, including the Chairman, have letters of appointment which can be terminated at will.

Anna Stewart and John Davies, as Directors newly appointed during the year, will seek election to the Board at the 2013 AGM. In addition, in compliance with Code provision B.7.1, all existing Directors will be seeking re-election at the 2013 AGM. The names and biographical details of each of the Directors are set out on pages 56 and 57.

The Chairman and Chief Executive

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

Role of the Chairman

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

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

Role of the Chief Executive

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

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

The 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.

The Non-Executive Directors

The independent Non-Executive Directors bring external perspectives and insight to the Board and its Committees' deliberations, providing a wide range of knowledge and business experience from other sectors and businesses (see their biographies on pages 56 and 57). 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.

The Code recommends that there should be a balance between Executive and Non-Executive Directors (particularly independent Directors) and that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. For the year ending 31 March 2013 the Board considers the balance of independent Non-Executive Directors and Executive Directors (as set out on page 60) was in accordance with the requirements of the Code.

Non-Executive Directors are appointed for an initial three year term, subject to their annual re-election by shareholders at the AGM, commencing with their election by shareholders at the first AGM following their appointment by the Board. Reappointment after the expiry of their three year terms is subject to review by the Nominations Committee. The Board considers the independence of each Non-Executive Director against criteria specified in the Code and determines whether it considers each to be independent in character and judgement (which the Board currently does). The terms and conditions of appointment of the Non-Executive Directors, together with the service contracts for Executive Directors, are available for inspection at the Company's registered office during normal business hours, and at the AGM. During the year, the Non-Executive Directors, including the Chairman, met independently of management on several occasions.

The Company Secretary

The Company Secretary is responsible, under direction from the Chairman, for ensuring the appropriate information flows to the Board and its Committees to facilitate their discussions and allow fully informed decisions to be made. The Company Secretary also ensures the Non-Executive Directors have access to the senior management where required, as well as ensuring an appropriate induction process and ongoing training is in place for Executive and Non-Executive Directors. The Company Secretary advises the Board and its Committees on governance matters.

Governance statement (continued)

The Group Executive Committee

The Group Executive Committee is not a formal Board Committee and has no delegated powers as such. It is made up of the Chief Executive, the Group Finance Director, Divisional Chief Executives, the Company Secretary and General Counsel and the Group Director of Organisation and Development. It is also attended by the heads of the principal overseas operations. It meets ten times a year and reviews and discusses all matters of material significance to the Group's management, operational and financial performance as well as strategic development. Minutes of its meetings are circulated to Board members.

Board Meetings for the year ending 31 March 2013

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

Board Meeting attendance

Name	Attendance at Board meetings
Chairman	
Mike Turner	12 of 12
Executive Directors	
Peter Rogers	12 of 12
Bill Tame	12 of 12
Kevin Thomas	12 of 12
Archie Bethel[1]	11 of 12
John Davies[2]	3 of 3
Non-Executive Directors	
Sir David Omand	12 of 12
Justin Crookenden	12 of 12
Ian Duncan	12 of 12
Kate Swann	12 of 12
Anna Stewart[3]	6 of 6
Sir Nigel Essenhigh[4]	9 of 9

1. Absence due to personal reasons
2. John Davies was appointed as a Director on 1 January 2013
3. Anna Stewart was appointed as a Director on 1 November 2012
4. Sir Nigel Essenhigh resigned as a Director on 31 December 2012

Board evaluation

The Board commissions an external independent review of its effectiveness and that of its Committees and members at least every other year, with an internally-led review in the alternate years.

2011/12 Review

For the financial year to 31 March 2012 the Board evaluation was facilitated externally by Professor Stuart Timperley, a former professor at the London Business School with considerable experience of working on and with boards and as an advisor on growth, transition and capability issues.

2012/13 Review

The review for the financial year ending 31 March 2013 was facilitated internally by the Company Secretary, and also involved one-on-one discussions between the Chairman and each Director.

The Board will undergo an independent external review for the financial year beginning 1 April 2013.

Neither Professor Timperley's evaluation in 2011/12, nor the internal review in 2012/13, found immediate or short-term issues relating to the effectiveness of the Board, its members or its Committees that required urgent attention. The noted areas of focus for the Board were the same for both years and are set out in the table below, which also shows how the Board is addressing these matters

1. Planning for and managing the impact of succession and changes at the Executive Director level and in the senior management team below that
   - Major area of focus
   - In depth, externally assisted reviews of candidates and development needs; personalised development plans; enhanced training opportunities
2. Ensuring the Board has credibility in relation to any new business areas it might be considering
   - Continued refreshing of and succession planning for the Board with strategy in mind
3. Maintaining the momentum of a growth strategy, in particular the ramifications and demands of any international expansion
   - Area of close focus at divisional and Group strategy meetings
   - Additional resource for business development functions
4. Overseeing and running a much larger and changing organisation and the ensuing pressures on governance, management resource and structural issues
   - Ongoing recruitment of skilled resource
   - Development of training programmes and initiatives to enhance skills and cross-business working and practice sharing
   - Management restructurings between and within divisions to improve focus and respond to changing needs and challenges

Diversity

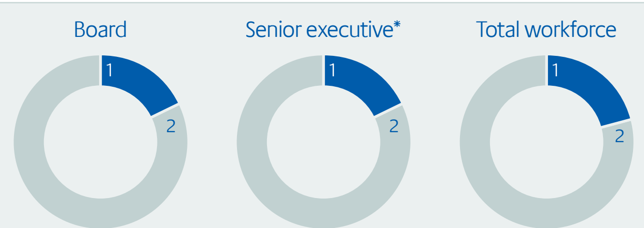
Babcock recognises that in making decisions regarding succession planning, recruitment, promotion and training there needs to be an active consideration of the benefits of diversity, including gender diversity, and the Board is clear that its aspiration and intent is to see an increasing number of women in senior executive management roles and throughout the workforce as a whole to be achieved consistently with Babcock's 'best for the job' philosophy.

In considering the issues around gender diversity we can report that Babcock has

- two female Directors (currently representing 18% of the whole Board and 40% of the independent Non-Executives). In making future appointments the Board will ensure that due thought is paid to the issues of diversity when compiling a shortlist of suitable candidates
- a 'Diversity Awareness Campaign', across the whole Group led by the Chief Executive
- a Diversity Committee, meeting several times a year
- run diversity workshops within business units
- taken the decision to focus its graduate recruitment programme, particularly of engineering graduates, on those universities that have a richer undergraduate gender mix so as to improve the diversity of the pool of talent from which we recruit our engineers and managers of the future – this is already bearing fruit and female graduates now make up close to 20% of the annual intake, with the numbers rising each year
- a 'Talented Futures' conference to be run internally during the coming year, which will discuss issues around diversity

Babcock is also actively considering how to make management roles more attractive and amenable to female candidates.

A breakdown of gender diversity throughout the Company is given in the illustration below



Board		Senior executive*		Total workforce	
1. Female	18%	1. Female	18%	1. Female	21%
2. Male	82%	2. Male	82%	2. Male	79%

* Senior executive refers to all Divisional business unit managing directors and their direct reports

Information and training for Directors

All new Non-Executive Directors undertake a structured induction process on joining the Board, facilitated by the Company Secretary, to ensure they have a full understanding of the business, our customers and the markets in which we operate. As part of this induction new Non-Executive Directors will receive detailed business briefings on the Group's operations from Divisional Chief Executive's and the heads of key Group functions. Induction visits to important operational sites are arranged and, where necessary, the new Non-Executive Director will be given a full briefing on their legal duties as a Director by an external legal advisor.

Training for new Directors and ongoing general Director training is arranged as necessary or as requested. The Company Secretary briefs Board members about significant changes in the law or governance codes affecting their duties as Directors.

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

Non-Executive Directors receive copies of all minutes of meetings of the Group Executive Committee and of the principal divisional boards, together with copies of monthly divisional operating reports.

Non-Executive Directors are invited to attend the Group's senior management conferences.

Relations with shareholders

The Board believes it is important to maintain open and constructive relationships with all of its shareholders – large and small, institutional and private. The Chief Executive, Group Finance Director and Head of Investor Relations undertake a programme of meetings, conference calls and presentations to discuss the Group's strategy and financial performance with investors, brokers, sales teams and analysts. During the year the Company met over 175 separate institutions in 178 meetings in the UK, USA and Europe. The Company offers meetings with the Chief Executive and Group Finance Director to its top 20 shareholders at least twice a year, and in the year to 31 March a total of 42 meetings were held with our top 20 shareholders. In addition, the Chairman wrote to our largest 15 shareholders inviting them to meet with him to discuss strategy, performance and corporate governance matters. 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 they believe their matter has not been adequately resolved.

Governance statement (continued)

How we communicate

Results and trading updates available as audio casts at www.babcockinternational.com/investors	When
Full year and half year results: announcement and presentation	May and November 2012
Interim management statements and pre-close trading statements and conference call with CFO	July and September 2012, January and March 2013

Other presentations	When
By Group Finance Director, Divisional Chief Executives and Head of Investor Relations at broker organised conferences	September and November 2012 and March 2013

Dealings with shareholders, investors and analysts Resolutions of AGM available at www.babcockinternational.com/investors	When
178 meetings with shareholders and potential investors	Throughout
22 meetings with sell side analysts and brokers sales teams	Throughout
Letter from the Group Chairman to leading shareholders	July 2012
Roadshow in London and Edinburgh	May and November 2012
Roadshow in Paris	May 2012
Annual General Meeting	July 2012
Roadshow in USA	September 2012
Roadshow in Frankfurt	December 2012
Roadshow in Copenhagen and Stockholm	January 2013

Over 60% of Babcock's shareholder register is based in the UK and over 75% of all 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. To assist our private and international shareholders, the investor relations team makes sure that all price-sensitive information is released to all shareholders at the same time, in accordance with the applicable legal and regulatory requirements. All announcements and major presentations given to institutional shareholders, along with annual reports, shareholder circulars, shareholder services information, other stock exchange releases and share price information, are made available to all shareholders through the Babcock website (www.babcockinternational.com/investors).

The Company ensures that the Board has an up to date perspective on the views and opinions of shareholders and the investment market. An investor relations report summarising share price performance compared to the market, changes to the shareholder register and feedback from shareholders is produced for each Board meeting. The Company also commissioned Clare Williams Associates to undertake study of perceptions of the Group amongst some of its major shareholders, accounting for 30% by value of the shareholder register, and also of some non-holding institutions. The results were formally presented to the Board in September 2012.

Significant shareholdings

As at 31 March 2013, the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following major interests in voting rights attached to its ordinary shares (which represent interests in 3% or more of its issued ordinary share capital).

Name	Number of 60p ordinary shares on date of notification	% of issued share capital at 31 March 2013
Blackrock, Inc.	18,147,899	5.01
Cantillon Capital LLC	17,938,977	4.95
Standard Life Investments Limited	17,928,896	4.95
FMR LLC	17,700,915	4.89
The Capital Group Companies Inc.	14,719,045	4.06
Legal & General Group Plc	14,325,920	3.96
JP Morgan Chase & Co.	11,376,214	3.13
Ameriprise Financial Inc.	11,330,063	3.13

There had been no further notifications between the 31 March 2013 and the date of this report.

Annual General Meeting

The 2013 AGM will be held at 11:00 am on 11 July 2013 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, Nomination and Remuneration Committees, and the Senior Independent Director. At these meetings a poll is conducted on each resolution; shareholders also have the opportunity to cast their votes by proxy, either electronically or by post. Directors also make themselves available before and after the formal general meeting to talk informally to shareholders.

Following each general meeting, the results of the poll are published on the Company's website and released to the London Stock Exchange.

Report of the Nominations Committee

"I, along with the Nominations Committee, have been and will continue to be focused on the key issue of succession planning both at Board level and below. We want to ensure that the skills, experience and leadership we have available on the Board and at senior management level both now and in the future are those required to continue Babcock's impressive track record. This will enable us to drive the business still further forward at the same time maintaining our focus delivering long-term, sustainable value to our shareholders."

Mike Turner
Chairman

Membership of the Committee

The Nominations Committee is appointed by the Board and, in accordance with Code provision B.2.1, is made up of Non-Executive Directors (with a requirement for there to be a majority of independent directors). It is chaired by the Chairman of the Board. Other Directors are invited to attend meetings of the Committee, if appropriate. The current membership of the Committee, and its membership during the year to 31 March 2013, as well as attendance at Committee meetings, is shown below. The Company Secretary is Secretary to the Committee.

Committee attendance

Member	Number of meetings attended/ Number of meetings possible
Mike Turner (Chairman)	3 of 3
Ian Duncan	3 of 3
Sir David Omand	3 of 3
Justin Crookenden	3 of 3
Kate Swann	3 of 3
Sir Nigel Essenhigh[1]	2 of 2
Anna Stewart[2]	2 of 2

1. Sir Nigel Essenhigh left the Committee on 31 December 2012
2. Anna Stewart joined the Committee on 1 November 2012

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 is also to assist the Board in discharging its responsibilities in respect of

- regularly reviewing and evaluating the Board's size, structure and composition (including the balance of skills, diversity, knowledge and experience) of the Board and making recommendations to the Board with regards 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
- keeping under review 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
- reviewing the time required from Non-Executive Directors for the performance of their duties to the Company

When considering recommendations on the 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. With the assistance of an external search consultant, where required, the Nominations Committee agrees objective criteria against which candidates can be assessed.

Many of the matters within the Committee's remit are addressed with all Board members present or taken as specific items at full Board meetings.

Activities undertaken by the Committee during the year

During the year ended 31 March 2013, the Committee

- oversaw and made recommendations on the selection and appointment of Anna Stewart as a new Non-Executive Director to the Board
- recommended the appointment of John Davies as a new Executive Director to the Board
- reviewed succession planning at Board and senior management level
- considered and recommended the extension of the term of appointment of Ian Duncan as a Non-Executive Director of the Company at the expiry of his initial term

Mike Turner CBE
Committee Chairman
13 May 2013

Report of the Audit and Risk Committee

"I am pleased to present the report of the Audit and Risk Committee, my second as Chairman of the Committee. During the year the Committee has focused on the risk profiles of our business units and risk mitigation to ensure risks fall within an acceptable business appetite. The Committee has provided oversight and reassurance to the Board with regard to the Company's risk management and internal control policies, financial reporting and accounting policies and governance framework."

Ian Duncan
Chairman

Membership of the Committee

The Audit and Risk Committee is appointed by the Board on the recommendation of the Nominations Committee and is and was during the year made up entirely of the independent Non-Executive Directors listed below

Member	Number of meetings attended/ Number of meetings possible
Ian Duncan (Chairman)	4 of 4
Sir David Omand	4 of 4
Justin Crookenden	4 of 4
Kate Swann	4 of 4
Anna Stewart[1]	2 of 2

1. Anna Stewart joined the Committee on 1 November 2012

The Board is satisfied that Ian Duncan, who became Chairman of the Committee in July 2011, has recent and relevant financial experience and that the Committee complies with Code provision C3.1. Ian was until June 2010 Finance Director of Royal Mail Holdings PLC. He is a Chartered Accountant who is currently also Chairman of the Audit Committees of Fiberweb plc, WANdisco plc and Mouchel Group, and his former roles have included the position of Corporate Finance Director at British Nuclear Fuels and Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA.

Role of the Committee

The purpose of the Audit and Risk Committee is to assist the Board in discharging its responsibilities in respect of

- monitoring the integrity and accuracy of the Group's financial statements, including annual, half year and interim management statements, and any formal announcement relating to the Company's financial performance
- reviewing significant reporting issues, the consistency of accounting policies and disclosures, and any decisions requiring a major element of judgement
- having an effective system of internal control, compliance procedures, and risk management systems
- approving the internal and external audit programmes and making any necessary recommendations to the Board
- considering the role and independence of the external auditor, and making the appropriate recommendation to the Board on the appointment or the reappointment of the Group's external auditors
- reviewing the Group's processes for detecting and addressing fraud, bribery, misconduct and control weaknesses and considering reports on any such occurrence

Who attends Committee meetings?

Only the members of the Committee have the right to attend Committee meetings; however, the Committee invites the Group Chairman, Chief Executive, Group Finance Director and Group Financial Controller to attend its meetings. Divisional Chief Executives are also invited to attend its meetings and do so on a regular basis. The Group Risk Manager attends Committee meetings for discussion of Group risk reports and related items. Ernst & Young LLP provides internal audit services to the Company. PricewaterhouseCoopers LLP is the Group's external auditor. Both auditors usually attend the Committee's meetings. The Committee Chairman also meets PricewaterhouseCoopers LLP and Ernst & Young LLP in the absence of executive management, and other Committee members have the opportunity to do so. The auditors are also invited to address the Committee without executives present at least once a year.

The Committee undertakes its duties in accordance with its terms of reference which were reviewed during the year to ensure that they remained fit for purpose and in line with best practice guidelines. The terms of reference are available on the Company's website.

Activities undertaken by the Committee during the year

During the year to 31 March 2013 the Committee met four times; attendance at these meetings is set out on page 66. The agenda for each meeting is approved by the Committee Chairman in conjunction with the Committee Secretary and other members of the Committee as appropriate. During the year ended 31 March 2013, the Committee's deliberations included the following key matters

Financial results
- Full and half year financial statements and related results announcements
- Reports and reviews from external auditors
- Matters that required the exercise of a significant element of management judgement

Internal controls
- An annual review of the Company's system of internal controls and their effectiveness

Cyber Security
- An assessment of cyber-security maturity in the Group's operations

Audit plans
- Internal and external audit plans for the year or particular audits

Internal Audit
- At each meeting, internal audit reports on findings from audit visits to business units, including 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
- Review of key risks and internal control processes detailed on pages 50 to 55
- Regular detailed reports identifying areas of risk at business unit, divisional and Group level assessing and prioritising potential impact, risk mitigation steps in place and the pre- and post-mitigation risk levels
- Divisional and Group reviews of the Group risk standard
- Focused reviews of selected major risk areas: political risk, bidding risk and critical suppliers exposures

Fraud
- Reports to each meeting on fraud risk, covering any suspected incidents of fraud, their investigation and remedial or preventive action

Whistleblowing
- Regular reports of calls to the Group's external independent whistleblowing services and how these have been investigated and concluded

Audit/Non-Audit Fees and Auditor independence
- Audit and non-audit fees for the external and internal auditors were reviewed by the Committee and considered as to their effect on auditor independence

Internal controls and risk management

The risk management framework, risk mitigation and control processes and other internal controls are detailed on pages 50 to 55.

Internal audit

Ernst & Young LLP has provided an internal audit service to the Group since 2003. During the year the Committee confirmed that it was still appropriate to have an internal audit service provided by an external advisor; however it agreed that this would be kept under review. The Committee continues to be satisfied with the service provided by and the independence of Ernst & Young LLP acting as internal auditor.

External audit

PricewaterhouseCoopers LLP (PwC) has been the external auditor of the Group since 2002. The Committee manages the relationship with the external auditor on behalf of the Board and monitors their independence and objectivity along with the effectiveness of the external audit on an annual basis. Audit fees are re-evaluated periodically.

PwC has expressed its willingness to be reappointed as auditors of the Company. The Committee does not consider it necessary to re-tender for the audit work at this time and is satisfied with the effectiveness, objectivity and independence of the external auditors. Therefore it has recommended to the Board that PwC be reappointed as the Company's auditors for a further year. The Board has accepted this recommendation and will be proposing a resolution to shareholders at the 2013 AGM for the reappointment of PwC as auditors.

The external auditors are required to rotate the audit partners responsible for the Group audit every five years. The current lead partner has been in place for one year. The Company has not entered into a limitation of liability agreement with its auditors. There are no contractual obligations that restrict the Company's choice of auditors.

Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the auditors for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. If their use would lead to non-audit fees in the year exceeding 20% of their audit fee, the Committee Chairman's approval is required. Having considered the non-audit services provided by the auditor during the year ended 31 March 2013, 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 2013, the Committee approved fees of £1.6 million to PwC, for audit services. In addition, the Committee approved fees of £0.2 million to PwC for non-audit related work. Non-audit related work accounted for 11% of the total audit and audit related fees paid to the external auditor during the year. A breakdown of fees paid to the auditor is set out in note 5 on page 117.

Other statutory and regulatory information, including Directors' responsibility statement

Principal activities

The Company is the holding company for the Babcock International Group of companies whose principal activities are described in the business review on pages 14 to 33 of this Report.

Directors

Biographies of the current Directors of the Company are to be found on pages 56 and 57.

The table on page 62 shows the Directors who served during the year to 31 March 2013.

Directors' interests in contracts

At the date of this Report, there is no contract or arrangement with the Company or any of its subsidiaries that is significant in relation to the business of the Group as a whole in which a Director of the Company is materially interested.

Results and dividends

The profit attributable to the owners of the parent Company for the financial year was £175.2 million (2012: £100.8 million). An interim dividend of 6.3p per 60p ordinary share was declared in the year (2012: 5.7p). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 20.0p (2012: 17.0p) on each of the ordinary shares of 60p to be paid on 8 August 2013, to those shareholders on the register at the close of business on 5 July 2013.

Employee share schemes and plans

The Company has all-employee share ownership plans for UK employees as described below

Name of Plan	Who it covers	Performance related?	Summary description	Source of shares
The Babcock Approved Employee Share Ownership Plan	Open to all UK employees (including Executive Directors) who meet necessary service criteria	No	Employees can buy Company shares (partnership shares) in the market out of pre-tax income The Plan allows for the Company to award free and/or matching shares to participants, though the Company has not yet done so Shares are bought on behalf of the employee via a tax-approved employee trust which holds them on behalf of the individual participants. The shares must generally be kept in trust for at least three years to obtain any tax advantages, and for five years to obtain maximum tax advantages	Purchased in the market
VT Group Share Incentive Plan	UK employees of VT Group at the time of its acquisition by the Company in July 2010, who held shares in VT Group plc and accepted Company shares wholly or partly in exchange for such shares under the terms of the acquisition	No	As above for the Babcock shares acquired on the acquisition	The Company issued and allotted new shares to the Trustee under the terms of the acquisition by the Company of VT Group PLC

Employees of the Group (who are not directors of the Company) also hold outstanding share options under the discretionary schemes described in the table below. As these schemes have expired no further awards are to be made under them.

Name of Plan	Who it covers	Performance related?	Summary description	Source of shares
The Babcock 1999 Approved Executive Share Option Scheme	UK employees who met necessary service criteria	Yes	Expired 2009 HM Revenue and Customs approved performance-linked share awards in the form of options to acquire shares in the Company at market price at the time of the award	Market purchase or fresh issue
Babcock 1999 Unapproved Executive Share Option Scheme	Employees selected by the Remuneration Committee	Yes	Expired 2009 Options to acquire shares (at their market price on the date of grant) subject to achievement of performance targets measured over a three-year performance period	Market purchase or fresh issue

Already vested awards are also held by Directors and senior employees under the following plan (which since 2009 is no longer being operated)

Name of Plan	Who it covers	Performance related?	Summary description	Source of shares
2003 Long Term Incentive Plan	Directors and employees selected by the Remuneration Committee	Yes	Nil cost options to acquire shares, subject to achievement of performance conditions over a three year performance period	Market purchase or fresh issue

Currently active shareplans namely, The Performance Share Plan, The Company Share Option Plan, The Deferred Bonus Plan and the Deferred Bonus Matching Plan, are described in the Directors' Remuneration Report on pages 91 to 92.

Share awards outstanding under all plans are as follows

	Number of shares covered by Outstanding Awards	
Scheme	Yet to Vest	Vested
Performance Share Plan	4,491,503	503,349
Company Share Option Plan	238,356	113,719
The Babcock 1999 Approved Executive Share Option Scheme	–	21,665
The Babcock 1999 Unapproved Executive Share Option Scheme	–	33,393
Long Term Incentive Plan	–	246,794
Deferred Bonus Plan	383,963	167,085
Deferred Bonus Matching Plan	490,116	–

Shares intended to be used towards satisfying existing share awards and options are held by the trustees of the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The trustees of these Schemes have no present intention of exercising the voting rights attached to the shares held by them. As at 13 May 2013, the total number of ordinary shares in the trusts was 3,035,585 which represented 0.84% of the Company's issued share capital. Shares are also held by the trustees of the Approved Employee Share Ownership Plan. The trustees of that plan exercise voting rights attached to those shares in accordance with directions from the employees on whose behalf they are held.

The trustees of the Babcock Employee Share Trust effectively waive dividends on shares held by them – see note 25 on pages 135 and 136.

Authority to purchase own shares

At the Annual General Meeting in July 2012, members authorised the Company to make market purchases of up to 35,915,405 of its own ordinary shares of 60p each. That authority expires at the forthcoming Annual General Meeting in July 2013 when a resolution will be put to renew it so as to allow purchases of up to a maximum of no more than 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 5 July 2012 (the date the current authority was granted) to the date of this Report. The Company currently does not hold any treasury shares.

Details of issues and purchases of the Company's shares made in the year to 31 March 2013, or since then to the date of this Report, by the Babcock Employee Share Trust and the Peterhouse Employee Share Trust are to be found in note 25 on pages 135 and 136.

Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Charitable and political donations

During the year the Group donated £351,000 (2012: £272,000) to charitable organisations. Donations were typically of relatively small individual amounts made to a range of local and national charitable organisations or events, for example: schools and other educational or training institutions or charities; hospital, hospice or medical charities; charities helping serving and/or former servicemen and women; sporting events or charities; and charities intended to benefit children and young adults. No donations were made during the year for political purposes.

Supplier payments

The Group's policy is to pay suppliers in accordance with practices or arrangements agreed with them. The Company itself had £14,000 in trade creditors at 31 March 2013 (representing 10 creditor days) and £18,000 in trade creditors at 31 March 2012 (representing two creditor days).

The Company is a signatory to the Prompt Payment Code which encourages and promotes best payment practice between organisations and their suppliers.

Other statutory and regulatory information, including Directors' responsibility statement (continued)

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its current Directors, and Sir Nigel Essenhigh who retired as a Director on 31 December 2012, which are qualifying third-party indemnity provisions for the purpose of the Companies Act 2006 in respect of their directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

There are also qualifying third-party indemnity provisions entered into between the Company and Archie Bethel and Kevin Thomas in their capacity as Directors of International Nuclear Solutions PLC (a former subsidiary of the Company) which were in force at the date of approval of this Report.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Persons with contractual or other arrangements with the Group which are essential to the business of the Group

The majority of the Group's revenue comes from the United Kingdom Ministry of Defence through various contracts across different businesses, which together are essential to the business of the Group as a whole, as are its borrowing facilities with banks and other lenders.

Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which can in many cases be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be significant.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Marine

Partnering Agreement dated 29 August 2002 between (1) The Secretary of State for Defence (2) Babcock Marine (Clyde) Limited ('Clyde') (formerly Babcock Naval Services Limited) and (3) Babcock International Group PLC.

Under the Partnering Agreement (as subsequently amended), Babcock Marine (Clyde) Limited provides services to the Ministry of Defence ('MoD') in relation to the operation of HM Naval Base Clyde. The period of the Agreement expires in 2014. In the event of a change of majority control of Babcock International Group PLC, the MoD may request information regarding the new controlling entity and in certain circumstances, including if it is not satisfied as regards the financial affairs and standing of the new entity, serve a 'Change in Circumstance' notice, and thereafter can elect to terminate the Agreement. The Agreement can also be terminated if the MoD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over Clyde and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the Company, though such a situation is not of itself such a circumstance unless the MoD in the given situation considers it to be so. Any level of ownership by particular foreign or domestic persons may, on the facts of the case, be so treated.

Articles of Association of Devonport Royal Dockyard Limited and Rosyth Royal Dockyard Limited

The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MoD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned.

The circumstances when such rights might arise include where the MoD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the company, though such a situation is not of itself such a circumstance unless the MoD in the given situation considers it to be so. Any level of ownership by particular foreign or domestic persons may, on the facts of the case, be so treated.

The Company believes that RRDL presently has the right under its Articles of Association to request that the special share held by the MoD in RRDL be redeemed.

Terms of Business Agreement ('ToBA') dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Babcock Marine (Rosyth) Limited

The ToBA confirms Babcock as the MoD's key support partner in the maritime sector and covers the 15-year period from 2010 to 2025. The MoD may terminate the ToBA in the event of a 'Change in Control' of the Company in circumstances where, acting on the grounds of national security, the MoD considers that it is inappropriate for the new owners of the Company to become involved or interested in the Marine division. 'Change in Control' occurs where a person or group of persons that control the Company ceases to do so or if another person or group of persons acquires control of the Company.

Nuclear

Dounreay Site Restoration Limited

On 26 March 2012, BNS Nuclear Services Limited, a wholly-owned subsidiary of the Company, ('BNS') entered into a shareholders' agreement with CH2M Hill International Nuclear Services Limited and URS International Holdings (UK) Limited ('the Shareholders' Agreement'). The purpose of the Shareholders' Agreement was to prepare and submit a bid as Babcock Dounreay Partnership Limited ('BDPL') for the competition conducted by the Nuclear Decommissioning Authority ('the NDA') to hold the shares in Dounreay Site Restoration Limited ('DSRL'). DSRL is the nuclear site licence holder which manages and operates the Dounreay nuclear site under an agreement with the NDA ('the SLC Agreement').

The NDA selected BDPL to hold the shares in, and to act as the parent body organisation in respect of, DSRL. On 29 March 2012, the NDA entered into the parent body organisation agreement ('the PBO Agreement') with BDPL.

In the event of a change of control in the Company, under the Shareholders' Agreement, BNS, under its new ownership, would be subject to a one-year 'probationary period'. If during that period either of the other BDPL shareholders reasonably believes that the change of control has materially adversely affected BDPL's or the other shareholders' ability to perform the PBO Agreement or the SLC Agreement, either of the other BDPL shareholders may ask BNS to withdraw from the joint venture.

Under the PBO Agreement, in the event of a change of control affecting BNS, the NDA may elect to terminate the PBO Agreement with BDPL with immediate effect.

Group

Borrowing facilities

£500 million facility agreement dated 17 June 2011 between the Company and Australia and New Zealand Banking Group Limited, BoA Netherlands Cooperatiev U.A., Barclays Corporate, HSBC Bank plc, J.P. Morgan Limited, Lloyds TSB Bank plc and the Royal Bank of Scotland plc as mandated lead arrangers and the Royal Bank of Scotland plc as facility agent.

The facility provides funds for general corporate and working capital purposes. The facility agreement provides that in the event of a change of control of the Company, the lenders may, within a certain period, call for the prepayment of any outstanding loans and cancel the credit facility.

Multi-Currency Loan Notes

On 21 January 2010, the Company issued two series of loan notes to Prudential Investment Management Inc. (and certain of its affiliates): (a) £60 million 4.995% Series A Shelf Notes due 21 January 2017 (the 'Series A Shelf Notes'); and (b) £40 million 5.405% Series B Shelf Notes due 21 January 2020 (the 'Series B Shelf Notes') (together, the 'Multi-Currency Loan Notes'). Each series is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. Unless previously redeemed or purchased and cancelled, the Company will redeem the Series A Shelf Notes on 21 January 2017 and the Series B Shelf Notes on 21 January 2020, respectively at their principal amount. In the event of a change of control of the Company before then, the Company must offer to pre-pay the Multi-Currency Loan Notes together with a make whole premium.

US Dollar Loan Notes

On 17 March 2012, the Company issued to 21 financial institutions (i) US$150 million aggregate principal amount of 4.94% Series A Senior Notes due 19 March 2018 and (ii) US$500 million aggregate principal amount of its 5.64% Series B Senior Notes due 17 March 2021. Each series is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. In the event of a change of control of the Company before then, the Company must offer to pre-pay the Notes.

Share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on page 81. One senior employee, who is not a Director of the Company, has an agreement providing for payment of 12 months' salary plus 40% in lieu of all benefits in the event of a dismissal (including constructive dismissal) by the Company within 12 months following a change of control.

Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek annual authority from shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy-back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

Other statutory and regulatory information, including Directors' responsibility statement (continued)

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this Report 362,071,802 ordinary shares of 60p each have been issued and are fully paid up and are quoted on the London Stock Exchange.

Directors' duty to avoid conflicts of interest

The Company has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' conflicts of interest and potential conflicts of interest in accordance with the provisions of the Companies Act 2006.

The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any actual or potential conflict of interest with their duties to the Company or of any material change in existing actual or potential conflicts that may have been authorised by the Board. Notified actual or potential conflicts will be reviewed by the Board as soon as possible. The Board will consider whether a conflict or potential conflict does, in fact, exist and, if so, whether it is in the interest of the Company that it be authorised and, if so, on what terms. In making their judgement on this, the other Directors must have regard to their general duties to the Company. A register is maintained for the Board of all such disclosures and the terms of any such authorisation.

Authorisations may be revoked, or the terms on which they were given varied, at any time. Cleared conflicts will in any event be reviewed annually by the Board. In the event of any actual conflict arising in respect of any matter, mitigating action would also be considered (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him of relevant papers.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal controls

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 March 2013 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review, and data for consolidation into the Group's financial statements are reviewed by management to ensure that they reflect a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Board considers the system to be effective and in accordance with Internal Controls: Guidance for Directors on the Combined Code ('the Turnbull Guidance'). Further information on the principal internal controls in use in the Company is to be found on pages 50 and 51.

Auditors

PricewaterhouseCoopers LLP is willing to continue in office as independent auditor of the Company, and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Disclosure of relevant audit information

So far as the Directors who are in office at the time of the approval of this Report are aware, there is no relevant audit information (namely, information needed by the Company's auditors in connection with the preparation of their auditors' report) of which the auditors are unaware. Each such Director has taken all steps that he or she ought to have taken as a Director in order to make him- or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Approval of report

The Directors' report for the year ended 31 March 2013, from pages 1 to 73 of this Annual Report document, has been approved by the Board of Directors on 13 May 2013 and signed on its behalf by:

Albert Dungate
Company Secretary
13 May 2013

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration report and the Group's and the Company's financial statements in accordance with applicable law.

Company law requires the Directors to prepare financial statements for each financial year. In accordance with that law, the Directors have prepared the Group's financial statements in accordance with International Financial Reporting Standards (IFRS) (as adopted in the European Union), and the Company's financial statements and the Directors' Remuneration report in accordance with applicable law and UK Generally Accepted Accounting Practice (UK GAAP). The Group's and the Company's financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit and loss of the Group for that year. In preparing those financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether IFRSs, as adopted by the European Union and applicable UK Accounting Standards, have been followed, subject to any material departures disclosed and explained in the Group's and Company's financial statements respectively
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Group's financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and that the Company's financial statements and the Directors' Remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors listed below (being the Board of Directors at the date of this Annual Report and these financial statements) confirms that to the best of his or her knowledge

- the Group financial statements (set out on pages 102 to 148) which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole
- the Business review contained on pages 2 to 55 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Mike Turner	Chairman
Peter Rogers	Chief Executive
Bill Tame	Group Finance Director
Archie Bethel	CEO, Marine and Technology
Kevin Thomas	CEO, Support Services
John Davies	CEO, Defence and Security
Justin Crookenden	Non-Executive Director
Sir David Omand	Non-Executive Director
Ian Duncan	Non-Executive Director
Kate Swann	Non-Executive Director
Anna Stewart	Non-Executive Director

On behalf of the Board

Mike Turner CBE
Chairman
13 May 2013

Remuneration report

Summary statement

Letter from Justin Crookenden, Committee Chairman

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration report for the year to 31 March 2013. In the following pages you will find the formal disclosures we are required to make in the report and additional detail to help our shareholders better understand how we link remuneration to the performance of the Company, its strategic objectives and risk management.

We have made a number of changes in recent years to the structure of the pay packages for our Executive Directors and other senior executives, most recently last year introducing a new share plan – the Deferred Bonus Matching Plan – and increasing the limit for Performance Share Plan awards in the ordinary course. We made these changes to ensure that our Directors, who have, in our view, delivered consistent, strong share price growth for shareholders over many years, are appropriately rewarded for delivering that performance and incentivised to continue it. We are not this year proposing any changes to our overall remuneration structure or to our existing remuneration policy.

That policy, as explained in the Committee's report last year, and which was overwhelmingly approved by shareholders, is to provide remuneration arrangements that

- are fair (both to executives and shareholders)
- are weighted towards variable performance-related pay
- do not require base pay to be at median or above
- are capable of delivering upper quartile rewards for upper quartile performance and
- are consistent with and supportive of the Board's focus on the strategic development of the Group and risk management.

The Committee has carried out a detailed review as to whether the remuneration packages for its Executive Directors are currently implementing that policy successfully. In that review the Committee identified that the considerable growth of the Company over the last few years has meant the executive team's base pay has fallen significantly below market rates (c 20%–25% below median for the Company's size).

This being so, the Committee concluded that the implementation of remuneration policy was not being fully achieved in that base salaries at this level were no longer considered fair and, importantly, when taken together with the variable performance related pay structures, might not be capable of appropriately rewarding upper quartile performance if such performance is achieved. Moreover, the Committee was concerned that maintaining base pay at these levels would pose a real risk for the Board's strategic development and succession planning agenda by making more difficult than need be the recruitment and retention of senior executives essential to the delivery of that strategy and the mitigation of succession risk. The Committee has shared these concerns with some of the Company's leading shareholders and has taken the decision to increase base pay for Directors by 9%, effective 1 April 2013. These increases leave base pay below median, in line with the stated policy. Further details about these changes can be found in the policy implementation section on pages 84 and 85.

The Committee also reviewed the performance targets that it intends to apply to the 2013 PSP, CSOP and DBMP matching awards to ensure they remain challenging but appropriate in the economic climate at the time of grant. Details of these targets were shared with our leading shareholders, and are also provided within the implementation report on page 90.

We have no hesitation as a Committee in commending these changes to shareholders, not only based on the need to deliver on our policy, but also in the light of the performance of the senior executive team in developing the business, both organically and by successful acquisitions, which has delivered excellent returns for shareholders on a sustained basis over many years. By way of putting that in context the following table shows the performance and growth of your Company over the last five to ten years:

		Babcock	FTSE 350
10 year Total Shareholder Return[1]		1470%	177%
5 year Total Shareholder Return[1]		118%	40%
1 year Total Shareholder Return[1]		40%	17%
Market Capitalisation[2]	31 March 2013	£3,772m	n/a
	31 March 2012	£2,690m	
	31 March 2008	£1,282m	
	31 March 2003	£144m	

1. Year to 31 March 2013
2. 3-month average

Whilst the new regulations governing shareholder approval of and reporting of executive rewards do not apply to the Company until 2014, we have incorporated a number of the changes to the Remuneration report this year, where practical to do so, whilst still remaining compliant with the current Regulations. In summary, this report is now divided into two sections; the first section outlines Babcock's forward looking remuneration policy, sets out components of pay, how they are linked to the business strategy, and reward opportunities for the Executive Directors. The second section reviews how the policy was implemented in the year to 31 March 2013, and includes a table showing a single figure of total remuneration for Executive Directors. This single figure (shown on page 84) relates to remuneration earned in relation to performance periods ending on 31 March 2013 and includes the value of long-term incentives that will vest in July 2013, being three years from the date of grant. This table has been prepared in accordance with the latest draft guidelines from the Department for Business, Innovation and Skills (BIS). The current Regulations that govern this report require us to present an emoluments table (as shown on page 99) which provides the same information for fixed and short-term pay but which excludes the value of any long-term incentives. As in previous years, and in accordance with the current Regulations, the details of all outstanding long-term incentives are included in the detailed tables in pages 95 to 98.

Justin Crookenden
Committee Chairman

Glossary of terms

As used in this Remuneration report

CSOP	means the 2009 Babcock Company Share Option Plan
DBP	means the 2009 Babcock Deferred Bonus Plan
DBMP	means the 2012 Babcock Deferred Bonus Matching Plan
LTIP	means the 2003 Babcock Long Term Incentive Plan (a plan replaced by the PSP in 2009)
PSP	means the 2009 Babcock Performance Share Plan

Remuneration report (continued)

i) Policy report

Remuneration Committee

Terms of reference for the Remuneration Committee have been approved by the Board. Duties of the Committee include the determination of the policy for the remuneration of the Executive Directors and the Chairman, as well as their specific remuneration packages, including pension rights and, where applicable, any compensation payments. In determining the remuneration policy, the Remuneration 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 Remuneration Committee and its terms of reference comply with the provisions of the Corporate Governance Code. The terms of reference are available for inspection on the Company's website.

Compliance statement

This report covers the reporting period from 1 April 2012 to 31 March 2013 and provides details of the Remuneration Committee and remuneration policy for the Company. This report has been prepared by the Committee based on the proposed new remuneration disclosure and reporting regulations put forward by the Department of Business, Innovation and Skills (BIS) in July 2012 to the extent that the Committee considers it appropriate or useful to do so ahead of the finalisation of the new regulations. The Government intends the reforms to be enacted by October 2013, so to the extent that this report is prepared in the BIS style it is on a voluntary basis.

The Board considers that in all its activities the Remuneration Committee has adopted the principles of good governance as set out in the UK Corporate Governance Code 2010 and complies with the Listing Rules of the Financial Services Authority, the relevant schedules of the Companies Act and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations'). 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. In accordance with section 439 of the Companies Act, an advisory resolution to approve this report will be proposed at the Annual General Meeting of the Company to be held on 11 July 2013.

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[1], 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.

Base pay: We don't chase the median

Our policy is not to chase a median for base pay. We are comfortable with base pay for our Executive Directors being below market median provided the total remuneration package is fair and capable of delivering total actual remuneration that appropriately rewards superior performance, primarily through the mechanism of long-term incentives linked to strategy and shareholder investment returns. We have to ensure that base pay, when working with the variable performance-related elements of the package, is capable of delivering on this policy. We also have to keep in mind that we compete in a market to recruit and retain the best executives to ensure Babcock's continuing success and therefore need to consider whether the various elements of remuneration, including base pay will be seen as fair. The Committee reviews the market positioning of total remuneration from time to time to ensure that base salaries are fair, and are sufficiently competitive to achieve our stated remuneration policy.

What it means in practice

After the increase in base pay of 9% that took effect on 1 April 2013, on a fair value basis around 60% of a Babcock Executive Director's package is performance-related. Base pay for the Chief Executive and Group Finance Director will still be lower quartile and for the other Executive Directors between lower quartile and median, with the total remuneration package, on a fair value basis, for each Executive Director being below market median[1].

1. When assessing remuneration packages for fairness and relativity, we compare Babcock to a peer group comprising a blend of companies of a similar size to Babcock and companies operating in the same sector. The Committee is confident that utilising this blend of comparators is the correct approach. The "fair value" of remuneration packages is described in the note beneath the comparison table on page 85 below.

Summary of Babcock's remuneration policy for Executive Directors

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013/14
Fixed pay				
Base salary 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. Ranges of salary increases applying across the Group, and investor sentiment, are also borne in mind.	Fixed remuneration need not be at median but in combination with variable performance-related elements of remuneration, needs to be fair and able to deliver actual total remuneration consistent with the Committee's general policy. Base salary increases are applied in line with the outcome of the review.	Business and individual performance are considerations in setting base salary.	No policy changes. Latest salary increases were agreed in May 2013 following discussions with leading shareholders, and are effective 1 April 2013. These are set out in the implementation report on page 85.
Pension To provide retirement benefits.	Cash supplement in lieu of pension benefits for ongoing service.	25% of base pay if in lieu of all pension benefits for future service. For Directors who receive pension benefits up to a scheme earnings cap, an individualised rate in lieu of pension benefits on salary above that cap.	Not performance related.	No policy changes.
Benefits Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.	Benefits include, where applicable, car and fuel allowances; home to work travel 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.	Benefits values vary by role and personal situation and are reviewed periodically.	Not performance related.	No policy changes.

Remuneration report (continued)

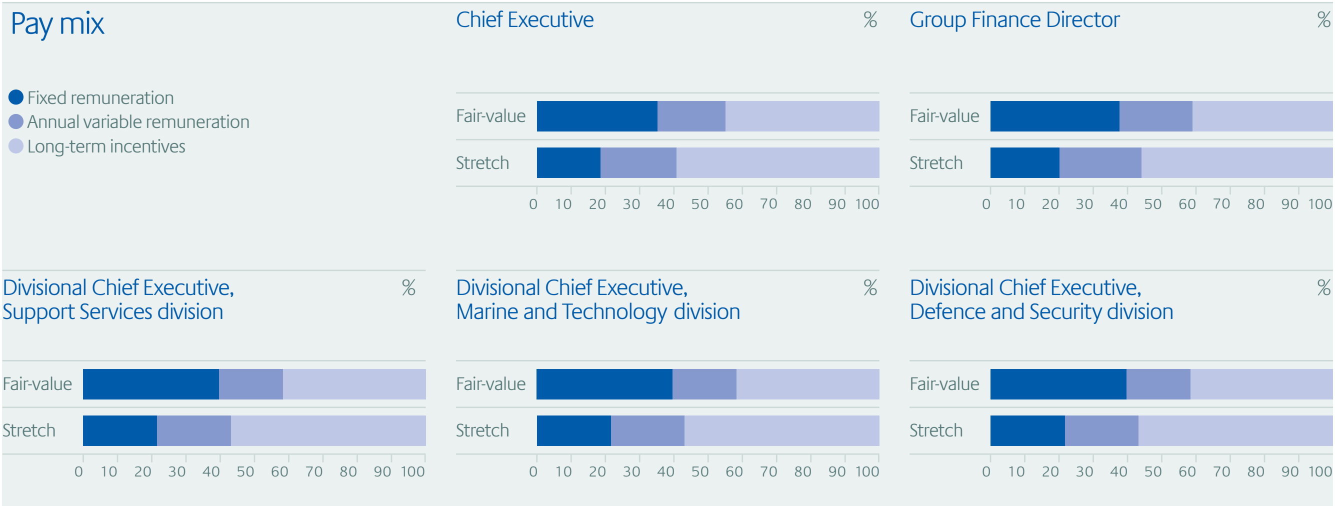
Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013/14
Variable pay				
Annual bonus To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer term risks to the Company. When operating with base pay and long-term incentives, annual bonus should be capable of meeting the general policy objective (see above). To retain the link to long-term sustainable growth through the requirement to defer a substantial part of bonus exposing it (and any voluntary self-investment and matching share awards) to the potential longer term risks inherent in current year decision-making.	Performance targets are set at the start of the year and are set to reflect the responsibilities of the executive. At the end of the year, the Remuneration Committee determines the extent to which these have been achieved. The Remuneration Committee has the ability to exercise discretion to adjust for unforeseen events, factors outside reasonable management control, changes to business priorities or operational arrangements. At least 40% of annual bonus payments for Executive Directors must now be deferred into Company shares for three years for awards under the DBMP (before 2012 it was two years under the DBP). Mandatory deferred bonus awards ('Basic Awards') are subject to potential forfeiture if the holder leaves before the awards vest. The number of shares covered by a Basic Award may later be reduced if the accounts used to determine the bonus level have to be materially corrected or the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed or will have material adverse impacts in future years.	Maximum bonus opportunity for Group Chief Executive and Group Finance Director is150% of salary; for other Executive Directors it is 125% of base salary.	Performance measures and their respective weightings may vary each year depending on strategic priorities. Measures used for the 2011/2012 annual bonus and proposed for 2012/2013 are set out in the implementation report on pages 87 and 88.	No policy changes.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes for 2013/14
Variable pay				
Deferred bonus matching plan (DBMP) To ensure that a substantial part of the Directors' short-term incentive rewards is exposed to the longer-term impact of decision-making and to further align their interests with shareholders.	The Committee may grant performance-related matching awards to Directors on deferred bonuses. Participants can make an additional voluntary investment (including by voluntary extra deferral of bonus) of up to 40% of salary, regardless of any annual bonus earned. This means that the maximum investment opportunity for the Chief Executive and Group Finance Director is 100% of salary (assuming maximum bonus payment and full take-up of the voluntary investment opportunity) and for other Executive Directors is 90% of salary. Dividends accrue on basic, voluntary deferral and matching awards over the vesting period, and are paid on shares that vest.	The maximum match would be 2 for 1 on any shares held under the deferred bonus matching plan.	The vesting of Basic and matching awards is usually subject to: • continued employment • for matching awards, the Company's performance over a three year performance period. The performance measures to be applied on grant to DBMP matching awards are reviewed from time to time to ensure they remain appropriate and aligned with shareholder interests. Measures used for 2012 DBMP awards, and proposed for 2013 DBMP awards, are set out in the Implementation report on pages 89 and 90.	No policy changes. Targets for awards in 2013 are explained on page 90.
Performance share plan (PSP) To incentivise delivery of top quartile shareholder returns and earnings growth over the longer term. Long-term measures guard against short-term steps being taken to maximise annual rewards at the expense of future performance. (Company Share Ownership Plan (CSOP): Options granted under this HMRC approved option scheme have an exercise price based on market price at the date of the award and can be linked to PSP awards as explained further on page 97 below, but are otherwise the same as for PSP awards.)	The Remuneration Committee has the ability to grant performance shares or nil-cost options under the PSP. To date, the Remuneration Committee has only awarded nil-cost options to executives. The award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate. Dividends accrue on shares under the PSP over the vesting period, and are paid on shares that vest.	Maximum annual awards of up to 200% of base pay (though currently only the Chief Executive receives awards at this level).	The vesting of awards is usually subject to: • continued employment • the Company's performance over a three year performance period. The performance measures to be applied on grant to PSP awards are reviewed from time to time to ensure they remain appropriate and aligned with shareholder interests. Measures used for 2012 PSP and CSOP awards and proposed for the 2013 awards, are set out in the Implementation report on pages 88 and 90.	No policy changes. Targets for awards in 2013 are explained on page 90.

Remuneration report (continued)

Balance of remuneration for Executive Directors

The chart below shows the relative proportions of each element of the Executive Directors' total remuneration for the year to 31 March 2014.



The chart assumes that PSP awards over shares have a value on grant equal to 150% of the Director's base salary (200% for Peter Rogers). For the 'fair-value' scenario, the chart is based on the following assumptions: annual bonus fair values (including the mandatorily deferred share element) of 71% of salary for Peter Rogers and Bill Tame (who have a 150% maximum bonus opportunity) and 59% of salary for Archie Bethel, Kevin Thomas and John Davies (who have a 125% maximum bonus opportunity); the maximum self-investment opportunity is taken-up under the DBMP, with a fair value of the matching award of 67% of salary for Peter Rogers and Bill Tame and 62% of salary for Archie Bethel, Kevin Thomas and John Davies; and PSP fair values of 70% of salary for the Directors other than Peter Rogers, and 93% of salary for Peter Rogers (reflecting his higher 200% award). The fair value of an incentive is its long-run average outcome. This takes into account the difficulty of achieving the associated performance conditions. It also takes account of factors such as volatility, time value of money, risk of forfeiture, correlation between the value of a share and the performance conditions. The 'stretch' scenario assumes maximum bonus, the maximum self-investment opportunity is taken-up under the DBMP and full vesting of awards under both the PSP and the DBMP.

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 Director's annual base salary. The guidelines also state that normally (and subject to the Committee's discretion to allow a dispensation) 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 other than John Davies currently meet these guidelines, as shown in the table on page 95. John Davies only became subject to the two times salary guideline on his appointment as a Director on 1 January 2013. Prior to that date the guideline shareholding for an executive at his level was one times base salary, with which he was complying.

Remuneration of senior executives below the Board

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 participate in the same long-term incentives as the Executive Directors with the same performance measures applied.

Details of Directors' service contracts and exit payments

The following table summarises the key terms (excluding remuneration) of the Directors' service contracts or terms of appointment:

Executive Directors

Name	Date of service contract	Notice period
Peter Rogers (Chief Executive)	31 July 2003 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director
Bill Tame (Group Finance Director)	1 October 2001 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director
Archie Bethel (Chief Executive, Marine and Technology)	21 April 2010	12 months from Company, 6 months from Director
Kevin Thomas (Chief Executive, Support Services)	20 April 2010	12 months from Company, 6 months from Director
John Davies (Chief Executive, Defence and Security)	20 December 2012	12 months from Company, 12 months from Director

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. Each of the Directors' service contracts entitles the Company to terminate their employment by making a payment of pay in lieu of notice. In the case of Executive Directors other than John Davies such a payment, if this right is exercised by the Company, would be by way of a lump sum payment on termination. In the case of John Davies, his contract allows the Company in these circumstances to choose to make the payment in lieu by monthly instalments. If it does, he would be obliged to seek alternative sources of income in a comparable role during what would have been his notice period. If he fails to use, in the Committee's reasonable opinion, reasonable efforts to secure such an alternative source of income, the Committee may decide to reduce or discontinue further instalments. If he does secure such alternative remuneration the Committee may reduce the instalments by the amount of the alternative income being received.

If the Company terminates a Director's service contract, the Company will, to the extent it is free to do so, have regard to all the circumstances in determining the amount of compensation, including as to the scope for mitigation, if any, payable to him in connection with that termination.

The agreements for Peter Rogers and Bill Tame (but not the agreements for Archie Bethel, Kevin Thomas and John Davies) contain provisions which provide that within 90 days of the occurrence of the change of control, each may terminate his employment forthwith. If he exercises this right, he is entitled, for a 12-month period, to be paid (on a monthly basis) his base salary plus 40% (compared to a maximum entitlement under the annual bonus scheme of 150%) in lieu of bonus and all other contractual entitlements. From this there is to be deducted any amount that the Director receives by way of income, if it exceeds 10% of his Babcock salary, from other sources that he would not have been able to earn had he continued in employment with the Company.

The agreements for Peter Rogers and Bill Tame (but not the agreements for Kevin Thomas, Archie Bethel and John Davies) also provide that if the Company terminates their appointment within 12 months of a change of control, they would be entitled to a termination payment equal to 100% of annual salary (plus 40% in lieu of bonus and all other benefits).

For leavers, the Committee has the discretion to determine the level of PSP, CSOP, DBP and DBMP (Basic and Matching) award vesting. A 'good leaver' as determined under the relevant rules will, as regards performance-based awards under the PSP, CSOP and DBMP (matching awards) as a minimum be entitled to retain a time pro-rated proportion, which remains subject to outstanding performance conditions. In the event of a change of control of the Company, PSP, CSOP, DBP and DBMP awards will generally vest immediately, and, for performance-related awards, will as a minimum be pro-rated for time and remain subject to performance conditions.

The Committee has discretion to allow awards held by leavers to vest immediately and/or in full or for a 'good leaver' or on a change of control at a higher proportion than strict time-apportionment if it considers this to be appropriate. In deciding whether and how to exercise its discretion the Committee will take account of all the circumstances arising including, in the case of a leaver, the reasons for and circumstances of the termination of employment, the leaver's length of service, level of responsibility and business impact, individual performance during their tenure, exceptional contribution to the business and the extent to which that contribution is expected to still have an impact during the remainder of the applicable performance period. The Committee may also make any favourable exercise of its discretion subject to conditions.

An individual would generally be considered a 'good leaver' if they leave the Group's employment by reason of injury, ill-health, disability, redundancy or retirement (in each case evidenced to the Committee's satisfaction). The treatment of share awards held by Directors who leave on other grounds is entirely at the discretion of the Committee and in deciding whether (and the extent to which) it would be appropriate to exercise that discretion the Committee will have regard to all the circumstances.

Remuneration report (continued)

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)[1]
Mike Turner (Chairman)	1 June 2008	14 April 2011	AGM for 2014
Justin Crookenden	1 December 2005	14 April 2011	AGM for 2014
David Omand	1 April 2009	31 May 2012	AGM for 2015
Ian Duncan	10 November 2010	5 March 2013	AGM for 2016
Kate Swann	1 June 2011	18 April 2011	AGM for 2014
Anna Stewart	1 November 2012	19 June 2012	AGM for 2015

1. The Company's policy is for Non-Executive Directors to have written terms of appointment 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.

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.

External appointments of Executive Directors

Before taking up any new outside appointment, an Executive Director must first seek the approval of the Chairman. Any fees for outside appointments are retained by the Director. Peter Rogers is a Non-Executive Director of Galliford Try plc. During the year to 31 March 2013 he received £40,000 by way of fees for that role. Bill Tame is a Non-Executive Director of Carclo PLC. During the year to 31 March 2013 his fees in that role were £32,500.

Consideration of employee views

When reviewing Executive Director pay the Committee is aware of the proposals for review of remuneration of all employees. The Committee receives regular updates on salary increases, bonus and share awards made to employees throughout the Group. These matters are considered when conducting the annual review of executive remuneration. Going forward, the Company intends formally to present a summary of its policy for remuneration arrangements for Executive Directors to the Babcock Employee Forum, which is attended by representatives from across the UK business operations, and will consider any feedback from that Forum.

Consideration of shareholder views

The Committee has in the last few years, in accordance with its policy, consulted leading shareholders on proposed changes of significance in the remuneration arrangements for Executive Directors.

ii) Implementation report

Remuneration Committee membership in 2012/13

The members of the Remuneration Committee are appointed by the Board on the recommendation of the Nomination Committee and, in accordance with provision D 2.1 of the UK Corporate Governance Code, the Committee is made up of the Independent Non-Executive Directors listed below. The current membership of the Committee, and its membership during the year to 31 March 2013 as well as attendance at Committee meetings, is shown below. The Company Secretary is Secretary to the Committee.

Committee attendance

Member	Number of Meetings attended/ Number of meetings possible
Justin Crookenden (Chairman)	8 of 8
Sir David Omand	8 of 8
Ian Duncan[1]	7 of 8
Kate Swann	8 of 8
Anna Stewart[2]	4 of 4

1. Ian Duncan missed one meeting due to a previously made engagement.
2. Anna Stewart joined the Committee on 1 November 2012.

The Group Chairman and the Chief Executive normally attend meetings by invitation, but are not present when their own remuneration is being decided. The Company Secretary attends meetings as secretary to the Committee. The Group Director of Organisation and Development also attends meetings.

Advisers

Kepler Associates ('Kepler') was appointed by the Committee in late 2008 to provide it with 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. Kepler reports directly to the Committee Chairman. A representative from Kepler typically attends Committee meetings. Kepler provides no other services to the Company. Kepler is a signatory to the Remuneration Consultants Group Code of Conduct. The fees paid to Kepler in respect of work carried out in the year under review totalled £135,000 (including VAT).

How often it met

In total there were eight meetings in the year to 31 March 2013. Details of each member's attendance at these meetings are set out on the table on page 82. The Committee plans to meet at least six times in the current financial year.

Principal areas of focus for the Committee during the year to 31 March 2013

Performance measures and targets for annual bonus and long-term incentive schemes

The Committee considered at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards for 2012/13 and for 2013/14 and the financial targets to attach to share awards in those years to ensure they continue to be: (i) relevant to our strategic objectives and aligned with shareholders' interests mindful of risk management; and (ii) fair by being suitably stretching whilst realistic. Further details on the measures we propose to use for the 2013/14 annual bonus schemes and for performance-related share awards to be made in 2013 are set out in the following pages of this report.

Other matters

The Committee also considered other matters during the year, including:

- The Committee's terms of reference;
- Executive remuneration policy and philosophy and any changes that might be needed;
- The making of share awards under the Company's share plans;
- The level of vesting of PSP and CSOP share awards granted in 2009;
- The vesting of DBP awards made in 2010;
- The level of annual bonuses for the year to 31 March 2012;
- Annual pay reviews for Executive Directors and other senior executives for the year to 31 March 2014;
- The level of take up of all-employee share plans and how it might be improved;
- A review of the Chairman's fee;
- Trends in executive remuneration, remuneration governance and investor views;
- The Committee's approach to payments on termination of employment and the consequences of termination for share awards;
- The extension of matching awards under the DBMP to executives below Board level;
- Policy on the effect of share disposals and the granting of matching awards under the DBMP; and
- The performance and continued appointment of the Committee's remuneration consultants.

Internal relativity

As noted above, 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 increases for employees generally for the year to 31 March 2014 is expected to be in the order of 3% (with individual increases significantly above this amount in some cases) dependent on business and personal performance and local market conditions.

Remuneration report (continued)

*Single total figure of remuneration**

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ending 31 March 2013

	Peter Rogers (£k)	Bill Tame (£k)	Archie Bethel (£k)	Kevin Thomas (£k)
1 Salary	561	355	309	309
2 Benefits in kind and cash	20	36	9	1
3 Pension	140	89	77	77
4 Cash annual bonus	500	317	229	229
5 DBMP (basic awards)	334	211	153	153
6 DBMP (matching awards)	0	0	0	0
7 PSP	993	636	546	546
8 Dividends	64	41	36	36
Total	2,612	1,685	1,359	1,351

* Prepared on the basis of the latest draft regulations issued by the Department for Business Innovation and Skills. For statutory information see the table on page 99. See also the reference to this table in the Summary Statement on page 75.

John Davies is not included in the above as he has only been a Director since 1 January 2013.

The figures have been calculated as follows:

3. Salary: basic salary amount earned for the year;
4. Benefits in kind and cash: the value of benefits and salary supplements (other than those in lieu of pensions) received in the year;
5. Pension: for Defined Contribution pension or cash supplements, value of employer contribution or the cash supplement; for Defined Benefit pension benefits – 20 times the increase in the value of their accrued benefit over the year, less Directors' contributions, plus the value of any Company's contribution;
6. Cash annual bonus: this is the total cash bonus (i.e. the part of the annual bonus not required to be mandatorily deferred into shares under the DBP or DBMP) earned for performance during the year;
7. DBMP basic awards: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years;
8. DBMP (matching awards): no DBMP awards vested on performance to 31 March 2013;
9. PSP: the market value of awards that vest on performance to 31 March 2013: based on vesting as to 58.8% of the total award to Peter Rogers and 78.4% of the awards to other Executive Directors and an average share price in the three months to 31 March 2013 of 1,047p;
10. Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory deferral of bonus awards under the DBP) vesting on performance to 31 March 2013, payable in cash on exercise of the award.

Summary of the structure of Executive Directors' remuneration

Based on the Committee's policy, the principal elements of the remuneration arrangements (other than pension benefits or supplements in lieu of pension benefits) for Executive Directors in the year to 31 March 2013 and for the year to 31 March 2014 are summarised in the table below. Further details on the annual bonus schemes, share awards, and pension schemes (and pension benefits) are to be found in the following pages of this Remuneration report.

	2013/14				2012/13			
Director	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Maximum Matching Share opportunity under DBMP[1] (% of salary)	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Maximum Matching Share opportunity under DBMP[1] (% of salary)
Peter Rogers	611,871	150%	200%	200%	561,350	150%	200%	200%[1]
Bill Tame	387,331	150%	150%	200%	355,350	150%	150%	200%
Archie Bethel	336,810	125%	150%	180%	309,000	125%	150%	180%
Kevin Thomas	336,810	125%	150%	180%	309,000	125%	150%	180%
John Davies	321,810	125%	150%	180%	–	–	–	–

1. Assumes maximum bonus and maximum self-investment and 2 for 1 share match.
2. John Davies was appointed as a Director on 1 January 2013. Salary reflects that he receives car and fuel benefits.

Base salary

Executive Directors' base salaries and benefits are reviewed each year with any changes usually taking effect from 1 April. The Committee believes that a key driver of Babcock's performance has been the Company's effective use of variable remuneration to focus and incentivise its staff and senior management on delivering value for shareholders. Towards the end of the financial year, the Committee conducted a detailed review of the Company's remuneration policy and practice, and concluded that whilst the policy and structure of remuneration are appropriate, the considerable growth of the Company over the last few years has meant the executive team's base pay has fallen significantly below market rates (c 20%–25% below median). Whilst the Company's policy is not to chase a median, the Committee is keen to ensure that salaries remain sufficiently attractive to allow us to attract and retain top talent and capable of working with variable pay elements to deliver superior rewards for superior performance. The Committee felt that this disparity was not consistent with its policy and objectives and, as a result, approached its leading shareholders with proposals to address this.

As part of its evaluation, information on market pay data is considered by the Committee. Market data for pay benchmarking is based on two reference groups for the CEO and FD: (i) companies of similar size (market cap) to Babcock, and (ii) companies operating in a similar sector to Babcock, for the Divisional Chief Executives total remuneration was benchmarked against FTSE350 companies with Divisional or regional heads on the Board. With respect to the sector peers, and the peer group for the Divisional Chief Executives, pay data takes into account the disparity in size of the peer companies, some of whom are significantly bigger, or significantly smaller, than Babcock. A summary of the market pay data is provided below:

Summary of fair value benchmarking

Director	CEO		FD		Divisional Chief Executives	
	Salary (£k)	Fair Value of Total remuneration (£k)	Salary (£k)	Fair Value of Total remuneration (£k)	Salary (£k)	Fair Value of Total remuneration (£k)
Benchmark median	730	2,240	440	1,270	380	1,050
Benchmark lower quartile	650	1,940	410	1,180	310	800
Babcock 2012/13	561	1,926	355	1,136	309	937
Compa ratio to median	77%	86%	81%	89%	81%	89%

The 'fair value' of total remuneration at Babcock and the comparator companies is taken as actual base pay, allowance in lieu of pension and/or pension benefits as applicable, target bonus with long-term incentives valued based on long-run average outcome taking into account the difficulty of achieving the associated performance conditions, and factors such as volatility, time value of money, risk of forfeiture, and the correlation between the value of a share and the performance conditions. For matching plans, the valuation assumes a two-thirds take-up of any voluntary investment opportunity.

As discussed in the Summary Statement on page 74, the Committee has decided to award the following basic salary increases for the year to 31 March 2014:

Director	Salary 2012/13 £	Salary 2013/14 £	% increase
Peter Rogers	561,350	611,871	9%
Bill Tame	355,350	387,331	9%
Archie Bethel	309,000	336,810	9%
Kevin Thomas	309,000	336,810	9%
John Davies[1]	n/a	321,810	n/a

1. John Davies was appointed as a Director with effect from 1 January 2013. The difference in salary between him and the other Divisional Chief Executives, Kevin Thomas and Archie Bethel, reflects that he receives car and fuel benefits, in lieu of an element of salary.

The salary increases outlined above would result in the Executive Director salaries remaining below market but would move the fair value of total remuneration within 15% of median, and would help support the remuneration policy of allowing for the possibility of upper quartile rewards for upper quartile performance. It also assists the Company in retaining and attracting the necessary executive talent to continue to deliver strong performance for shareholders. It is not anticipated that a further significant salary increase will be required in the near future.

Remuneration report (continued)

Pensions (audited)

The Executive Directors, other than John Davies, did not participate in a Group pension scheme or otherwise receive pension benefits from the Group for service during the year to 31 March 2013. These Executive Directors received a cash supplement equal to 25% of their base salary in lieu of pension benefits.

John Davies is a member of the Babcock International Group Pension Scheme. During the year to 31 March 2013, he received a cash supplement equal to £36,000 in lieu of pension benefits on that part of his base salary as exceeded the applicable scheme earnings cap.

Supplements paid in lieu of pension do not count for pension, share award or bonus purposes.

Babcock International Group Pension Scheme ('the Scheme') (audited)

Bill Tame was a member of the senior executive tier of the Scheme until 30 September 2011. Archie Bethel and Kevin Thomas were members of the executive tier of the Scheme until 31 March 2012. All three Directors are no longer active members of the Scheme. Whilst still members of the Scheme, Bill Tame accrued benefits at the rate of one-thirtieth, and for Archie Bethel and Kevin Thomas at the rate of one-forty-fifth, of pensionable salary for each year of service.

John Davies is a member of the VT Upper Section Ex-Short Brothers section of the Scheme. He accrues benefits on earnings up to the Scheme earnings cap (currently £137,400) at the rate of one-sixtieth of pensionable salary for each year of service.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2013 are set out in the following table:

Director	Accrued pension at 31 March 2013 £ p.a.	Increase in accrued benefits excluding inflation during the year ended 31 March 2013 £	Change in accrued benefits after allowing for inflation £	Transfer value at 1 April 2012 £	Transfer value at 31 March 2013 £	Transfer value of increase in accrued benefits less Director's contributions £	Increase in transfer value less Director's contribution £
Bill Tame	42,548	1,239	–	1,089,821	1,233,636	–	143,815
Archie Bethel	34,798	1,014	–	575,617	644,892	–	69,275
Kevin Thomas	58,730	1,711	–	932,467	1,048,940	–	116,473
John Davies	46,681	4,810	3,889	425,117	538,993	44,999	101,510

1. Transfer values do not represent amounts that a Director is entitled to receive, they are an actuarial calculation of the cost of providing for the potential benefits. Changes in transfer values reflect both additional pension earned and changes in valuation factors such as stock market performance, bond values and discount rates.
2. Inflation has been taken as 3% for Bill Tame, Archie Bethel and Kevin Thomas and 2.2% for John Davies the purposes of calculating increases in transfer values and pension earned (reflecting the relevant deferred revaluation rates).
3. The transfer value of the increase in pension accrued is calculated in accordance with regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) regulations 1996, and is stated after deducting members' contributions.
4. The figures in the above table make no allowance for the cost of death in service benefits under the Scheme.
5. The figures in the above table make no allowance for any benefits in respect of earnings in excess of the earnings cap.
6. In calculating the above figures no account has been taken of any retained benefits that he may have from previous employments.
7. No payments have been made to retired Directors in excess of the retirement benefit to which they were entitled on the date the benefits first became payable or, if later, 31 March 1997.

Directors also benefit from life assurance cover of 4 times base salary. The cost of providing that life assurance cover was:

Director	2013 £'000	2012 £'000
Bill Tame	3	3
Archie Bethel	2	2
Kevin Thomas	2	2
John Davies (appointed 1 January 2013)	0.5	–

Other pension arrangements (audited)

Before 1 April 2006, the Company provided a Funded Unapproved Retirement Benefit Scheme (FURBS) for Bill Tame in respect of his salary in excess of the earnings cap. The Company contributed to the FURBS an amount equal to 20% of the excess (including employer's national insurance contributions), with him making contributions into the Company's pension scheme on his full uncapped salary.

Annual Bonus Scheme

2012/13 Annual bonus

For our Executive Directors' annual bonus schemes in 2012/13, as in previous years, a mix of financial and non-financial measures was used. The non-financial measures were principally based on the key themes that are of central importance to the continued success of the Company, including: reputation protection; setting the building blocks for developing and underpinning future growth; executive succession and talent management planning and gaining wider employee engagement in the Company's success. Maintaining a satisfactory health and safety and environmental performance is always an overriding bonus objective. The financial measures were focused on delivery of budget profitability, cash management and growth in earnings.

The table below sets out the annual bonus schemes in place for the Executive Directors and the outturn under them in 2012/13.

	Peter Rogers		Bill Tame		Archie Bethel		Kevin Thomas		John Davies	
Bonus element	Maximum potential % of salary	Outturn	Maximum potential % of salary	Outturn	Maximum potential % of salary	Outturn	Maximum potential % of salary	Outturn	Maximum potential % of salary	Outturn
EPS[1] performance	90%	90%	90%	90%	70%	70%	70%	70%	70%	70%
Stretching targets, with a sliding scale between threshold and maximum										
Achieving budgeted Group cash flow	15%	15%	15%	15%						
Achieving budgeted Group PBT[1]	15%	15%	15%	15%						
Achieving budgeted Divisional PBIT[1]					15%	15%	15%	15%	15%	15%
Achieving budgeted Divisional cash flow					15%	15%	15%	15%		15%
Non-financial objectives[2]	30%	28.5%	30%	28.5%	25%	23.8%	25%	23.8%	25%	23.8%
Total (maximum potential)	150%	148.5%	150%	148.5%	125%	123.8%	125%	123.8%	125%	123.8%

1. Before amortisation of acquired intangibles. The treatment of exceptional items is at the discretion of the Committee.
2. These included raising the profile of our Mobile Assets, Emergency Services and Training businesses, enhancement of existing and development of new senior level customer and regulator relationships, progress in identifying and developing international business opportunities, efforts to improve bid win rates, executive talent development and succession planning progress, the implementation of a major cyber-security and information assurance enhancement and training programme and securing customer accreditation for the same.

Remuneration report (continued)

2013/14 Annual bonus

For our annual bonus schemes for 2013/14 we are continuing to use the approach and structure adopted in 2012/13 as set out in the table above.

The weighting of the elements of bonus is kept under review and, in particular, the weighting for non-financial objectives for the annual bonus scheme for 2014/15 and future years is a matter the Committee will be considering during the current financial year.

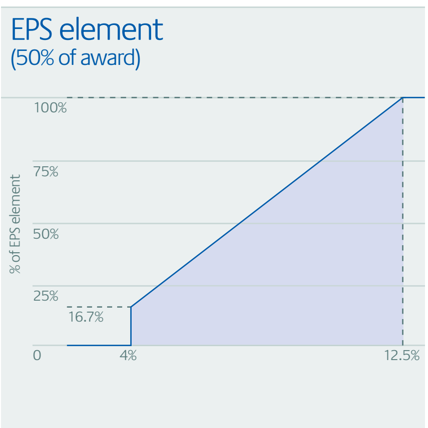
Annual bonus deferral into shares

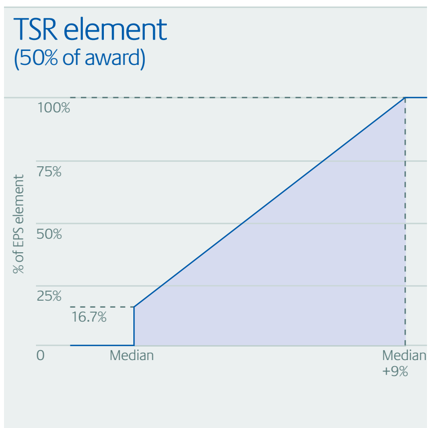
To ensure that a substantial part of the Director's annual bonus is exposed to the longer term impact of decision-making and to further align their interests with shareholders, 40% of any annual bonus earned by Executive Directors (and other senior executives) must be deferred into Babcock shares. Under the Deferred Bonus Plan (applicable to deferred bonus awards made to Directors before 2012) the deferral period was two years. From 2012 deferred awards have been made to Directors under the Deferred Bonus Matching Plan. In addition to mandatory deferral of 40% of bonus the DBMP allows for Directors to be invited to make a voluntary additional investment (including by way of accepting deferral of extra amounts of bonus) of an amount equal to up to 40% of salary. Both mandatorily deferred and voluntary investments are eligible for matching share awards of up to a 2 for 1 match. The DBMP has a deferral period for both mandatory and voluntary deferral of bonus awards of three years. The Committee granted performance-related matching awards under the DBMP to Directors on the amount of bonus for 2011/12 mandatorily or voluntarily deferred into shares under that scheme. The performance conditions relating to matching awards made in 2012 and those proposed for matching awards to be made in 2013 are shown on pages 89 and 90. Bonuses mandatorily deferred into shares in 2010 and 2011 did not have any associated matching share awards.

Long-term incentive schemes (PSP and DBMP)

PSP awards made in 2012

In 2012, PSP awards were made to each of the Executive Directors. Awards were made over shares having a total value on grant equal to 200% of basic salary for Peter Rogers and 150% of salary for the other Executive Directors. The performance targets attached to those awards – split equally between TSR performance relative to the peer group and real EPS growth – are illustrated in the charts below:





Note: real EPS growth is that in excess of the change in the retail prices index. TSR comparators are the companies comprised in the FTSE 350 (excluding investment trusts and financial services companies).

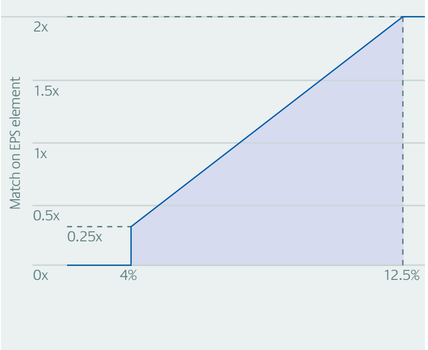
Threshold vesting (16.7% of this element) for the EPS element was set at real growth of 4% per annum and maximum vesting at real growth of 12.5% per annum. We believe that real growth of 12.5% would represent exceptional performance. For the comparative TSR element, threshold vesting of that element (16.7% of this element) would be for performance in line with the median of the FTSE 350 (excluding investment trusts and financial companies) and maximum vesting would be for 9% p.a. outperformance of the median, representing upper quartile performance.

Deferred Bonus Matching Plan awards made in 2012

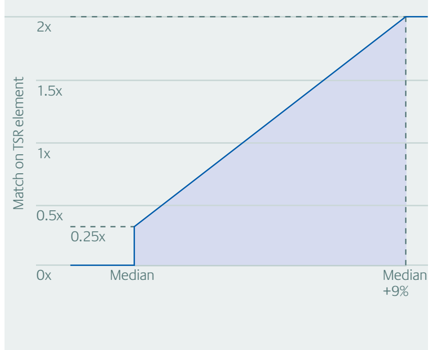
Following approval of the DBMP at the Annual General Meeting in July 2012, matching awards were made to Executive Directors in respect of their deferred annual bonus awards and voluntary investment (by way of extra voluntary deferral of bonus) under the DBMP.

The DBMP allows the Committee to make matching share awards of up to 2 times the deferred bonus shares (40% of bonus) and any additional shares or extra bonus deferral self-invested under the scheme by the Director (of an amount equal to up to 40% of salary). The matching share award is performance-related and only vests to the extent that the performance criteria are met in respect of the three-year performance period. For the 2012 cycle, the performance period runs from 1 April 2012 to 31 March 2015, the same as for PSP awards made in 2012. The performance targets attached to those awards – split equally between TSR performance relative to the peer group, real EPS growth, and average return on capital employed (ROCE) over the period – are illustrated in the charts below:

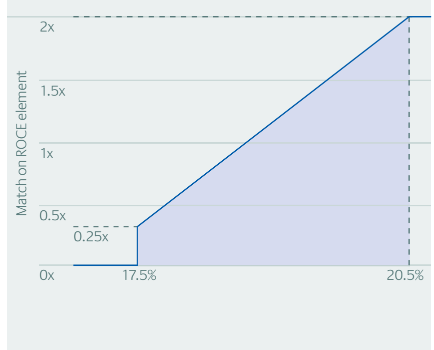
EPS element
(33% of award)



TSR element
(33% of award)



ROCE element
(33% of award)



The target for maximum vesting is ROCE of 20.5% and for threshold vesting it is 17.5%. The maximum match is 2 for 1 on any shares held under the deferred bonus plan; 0.25 matching shares would be released for each such share at threshold vesting. Therefore for each measure, threshold vesting would be a (0.25/3) for 1 match (4.2% of maximum) and maximum vesting would be a (2/3) for 1 match (33% of maximum).

For 2012 Executive Directors received awards in lieu of mandatorily and voluntarily deferred bonus and matching awards as follows:

Director	Basic Awards (mandatorily deferred bonus) no of shares	Voluntarily Deferral Awards (no of shares)	Total shares invested in the DBMP	Potential maximum number of matching shares
Peter Rogers	37,433	25,963	63,396	126,792
Bill Tame	23,696	Nil	23,696	47,392
Archie Bethel	17,344	14,292	31,636	63,272
Kevin Thomas	17,344	14,292	31,636	63,272
John Davies	13,008	Nil	13,008	26,016

Remuneration report (continued)

Performance measure selection for long-term incentives

The Committee believes that TSR, EPS and ROCE continue to be effective measures of long-term performance for Babcock, 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 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 focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals.

ROCE reinforces the focus on returns for shareholders and encourages capital discipline. It also provides good line of sight for management.

The Remuneration Committee reviews the performance conditions to be attached to share awards prior to the start of each cycle to ensure they remain appropriate. No material reduction in targets would be made without prior consultation with shareholders.

PSP and DBMP awards for 2013

The Committee intends to grant awards under the PSP and DBMP with the same maximum opportunities as in 2012.

As referenced in the Summary Statement on page 74, the Committee has discussed three-year performance targets with the Company's major shareholders, and intends to amend the EPS performance targets for the 2013 PSP awards, and the EPS and ROCE performance targets for the 2013 DBMP matching awards to ensure they remain stretching but achievable, and remain appropriate and challenging in the economic climate at the time of grant. The changes are:

(i) to reduce the top-end EPS target for the 2013 PSP and DBMP awards from RPI +12.5% p.a. over three years to RPI +11% p.a. over three years.

(ii) to increase the three-year average ROCE targets for the 2013 DBMP from 17.5% to 21.5% at threshold, and from 20.5% to 23.5% for full vesting.

The performance period for the awards will be the three years to 31 March 2016.

Sourcing of shares

Shares needed to satisfy share awards for Directors are either fresh issue shares issued to the Group's employee share trusts to meet share awards or shares purchased in the market by 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 to be in the best interests of the Company at the time, and what is permissible within available headroom and dilution limits.

Outstanding Share awards summaries: grants made up to and in 2012

The following tables summarise the performance targets (if applicable) and other information about the schemes relevant to currently outstanding share awards held by Directors (i.e. those awards yet to vest) and those that vested during the year to 31 March 2013 (the awards made in 2009 under the PSP and the CSOP and the DBP awards made in 2010).

Scheme	Performance Share Plan (nil price options) and Company Share Option Plan (market price options) – 2009–2012 awards
Performance period	For the 2009 awards: 1 April 2009 to 31 March 2012. (Note: vested in July 2012 as to 57.8%) For the 2010 awards: 1 April 2010 to 31 March 2013. (Expected to vest in July 2013 as to 58.8% for Peter Rogers and 78.4% for other Executive Directors) For the 2011 awards: 1 April 2011 to 31 March 2014. For the 2012 awards: 1 April 2012 to 31 March 2015.

General performance target	EPS growth test	Comparative TSR test	Proportion of total award that can vest
Maximum	Real compound annual growth of 11% (2009)/12.5% (2010–2012) or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	50%
Threshold	Real compound annual growth of 4%	TSR performance equivalent to the median for the peer group as a whole	8.3%
	Intermediate growth between the above points	Intermediate ranking between the above points	Straight-line basis between 8.3% and 50%
	Real compound annual growth of less than 4%	Performance less than equivalent to median for the whole peer group	0%

Chief Executive's additional award in 2011 over shares equal to a further 50% of salary	If comparative TSR performance exceeds median TSR performance for the peer group taken as a whole by more than 9% per annum further shares vest. This will affect the relative proportion of the award vesting in his case.
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.
Other information	The awards are not subject to re-testing. Participants will be entitled to a vesting of shares under the TSR element only to the extent the Remuneration 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 after exceptional items. Real EPS growth is that in excess of the change in the retail prices index. The awards carry the right to receive on vesting any dividends in the period between grant and vesting but this right applies only to the shares that actually vest under the award. CSOP and PSP awards are linked so that in aggregate the holder cannot get more value from them than a standalone PSP award of shares equal to the relevant award multiple of the Director's base salary. Exercise periods commence not less than three years from actual or nominal award grant date. Subject to the rules of the plan, an earlier release of shares under unvested awards may be allowed by the Remuneration Committee (for example, in the event of a cessation of employment or a change in control), but of not more than a time-apportioned proportion and then only having regard to the Company's performance, though the Committee has discretion to allow a greater proportion to be released.

Remuneration report (continued)

Scheme	Deferred Bonus Plan awards (nil price options) 2010 and 2011; Deferred Bonus Matching Plan basic and voluntary deferral awards (nil price options) 2012
Performance period	Not applicable: these awards represent amounts of annual bonus mandatorily (DBP) and/or mandatorily and voluntarily deferred into awards under the DBMP. Awards under the DBP vest and become exercisable two years, those under the DBMP three years, after the date of grant. The DBP awards made in 2010 vested in July 2012 and those made in July 2011 will vest in July 2013.
Other information	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). The number of shares into which bonus has been mandatorily deferred may be reduced by the Committee if the accounts by reference to which the bonus was calculated have to be materially corrected or if, in the opinion of the Committee, there is evidence that performance against performance conditions in the bonus year or the impact of that performance on the Group in respect of future financial years was or will be materially worse than was believed to be the case at the time of the original assessment. The shares carry the right to dividends in the period of deferral, but payable only when the shares are released.

Scheme	Deferred Bonus Matching Plan (nil price options) 2012 matching awards			
Performance period	For the 2012 awards: 1 April 2012 to 31 March 2015.			
General performance target	EPS growth test	Comparative TSR test	ROCE test	Match that can vest under each measure
Maximum	Real compound annual growth of 11% (2009)/12.5% (2010–2012) or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	ROCE of 20.5% or more	2/3 times (33% of maximum)
Threshold	Real compound annual growth of 4%	TSR performance equivalent to the median for the peer group as a whole	ROCE of 17.5%	0.25/3 times (4.2% of maximum)
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight-line basis between 0.25/3 times and 2/3 times
	Real compound annual growth of less than 4%	Performance less than equivalent to median for the whole peer group	ROCE of less than 4%	0 times
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.			
Other information	Matching awards are not subject to re-testing. Participants will be entitled to a vesting of shares under the TSR element only to the extent the Remuneration 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 after exceptional items. Real EPS growth is that in excess of the change in the retail prices index. ROCE is underlying Earnings Before Interest and Tax ('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 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 Performance Period. Matching awards carry the right to receive on vesting any dividends that 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. Subject to the rules of the plan, an earlier release of shares under unvested awards may be allowed by the Remuneration Committee (for example, in the event of a cessation of employment or a change in control), but of not more than a time-apportioned proportion and then only having regard to the Company's performance, though the Committee has discretion to allow a greater proportion to be released.			

Linkage of remuneration to strategic objectives, risk management and its 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 (both financial and non-financial) it uses in the annual bonus and long-term incentive schemes. Examples include the following:

Strategic Objective (SO)/Risk (R)	Annual bonus scheme metric	Long-term incentive metric
SO/R: Delivering superior and sustainable value for our shareholders, whilst balancing risk and reward.	Financial measures focused on annual delivery of sustainable earnings and/or profits with stretch targets, whilst maintaining strict control of cash.	Incentivising delivery of top quartile shareholder returns and earnings growth over the longer term. Long-term measures and deferral of significant part of annual bonus to guard against short-term steps being taken to maximise annual rewards at the expense of future performance.
SO: Growth.	Setting challenging budgets and stretch targets, as well as non-financial measures specifically aimed at: • laying the foundations for sustainable growth in specific geographical and existing and new business markets; • winning key bids and rebids; • fostering strategically important partnering arrangements.	
SO: Developing and maintaining leading market positions in the UK and selected overseas markets.	Specific non-financial objectives for: • progressing plans for entry into or expansion in targeted domestic and overseas markets; • securing key business development milestones.	
SO: Building and maintaining customer-focused, long-term relationships with strategically important customers. R: Loss of business reputation, poor contract performance.	Objectives linked to: • customer satisfaction; • continuing improvement of management processes; • meeting and planning for existing and future customer expectations on capability and compliance, for example, in the field of security and information assurance.	
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 talent development and succession planning, and fostering employee engagement. Retentive nature of the requirement for deferral into shares of 40% of annual bonuses earned by senior executives.	Retentive nature of the long-term schemes.
SO/R: Maintenance of an excellent health, safety and environmental record.	Overriding health, safety and environmental performance criterion in annual bonus schemes.	

Remuneration report (continued)

Exit payments made in year

No exit payments were made to Executive Directors during the year under review.

Non-Executive Directors (including the Chairman)

The Chairman and Non-Executive Directors receive fixed fees. These fees are reviewed against market practice from time to time (by the Chairman and the Executive Directors in the case of the Non-Executive Director fees and by the Remuneration Committee in respect of the fees payable to the Chairman). The fees were last reviewed as of 1 April 2013. Prior to that review, they were last reviewed for April 2011, but no changes were then made to the Chairman's fee or the fee for Chairmanship of the Remuneration Committee: those fees were last increased in 2009.

Annual rate of fees	Year to 31 March 2014 £	Year to 31 March 2013 £
Chairman	295,000	255,000
Senior Independent Director (inclusive of basic fee)	65,000	60,000
Basic Non-Executive Director's fee	55,000	50,000
Chairmanship of Audit and Risk Committee[1]	12,500	12,500
Chairmanship of Remuneration Committee[1]	12,500	7,500

1. Committee chairmanship fees are paid in addition to the basic applicable Non-Executive Directors' fee. No additional fees are paid for membership of committees.

Directors' share ownership

Directors' interests in shares

The table below shows the holdings of fully paid ordinary shares of 60p by each of the Directors (including family interests) who served in the year to 31 March 2013 or who hold office at the date of this Report in the issued share capital of the Company. The interests were beneficial interests of the Director and/or their spouse.

Director	At 31 March 2013[1]	At 1 April 2012[2]
Chairman and Executive Directors		
Mike Turner	40,000	40,000
Peter Rogers	710,535	710,535
Bill Tame	362,927	362,927
Archie Bethel	124,304	124,304
Kevin Thomas	84,149	84,149
John Davies (appointed 1 January 2013)	18,962	–
Non-Executive Directors		
Nigel Essenhigh (retired 31 December 2012)	–	–
Justin Crookenden	11,647	11,647
David Omand	–	–
Ian Duncan	–	–
Kate Swann (appointed 1 June 2011)	5,000	5,000
Anna Stewart (appointed 1 November 2012)	–	–

1. There were no changes in these interests between 31 March 2013 and 13 May 2013. For Nigel Essenhigh, the interest in shares shown is the interest in shares on the date he resigned as a Director.
2. For Anna Stewart and John Davies the figure is as at the date of their appointments as a Director.

Current Compliance with Shareholding Guidelines

Director	Level of Shareholding as % of Salary for Guidelines Purposes[1] (2 x salary target)[1]
Peter Rogers	1,515%
Bill Tame	1,194%
Archie Bethel	588%
Kevin Thomas	502%
John Davies[2]	111%

1. As a % of base salary applying from 1 April 2013. Calculated as at 9 May 2013 at a share price of 1071p in accordance with our guidelines. These included shares held under the Deferred Bonus Plan, shares held as basic or voluntary deferral (but not matching) awards under the Deferred Bonus Matching Plan, shares subject to vested but unexercised performance-related share awards (less in each case that number as would need to be sold to meet tax and national insurance obligations on exercise), but do not include shares covered by performance-related awards that are not yet vested.
2. John Davies only became subject to a 2 times holding requirement on his appointment to the Board on 1 January 2013. Prior to his appointment as a Director he complied with the relevant applicable guidelines

Directors' share-based rewards and options (audited)

The table below shows the various share awards held by Directors under the Company's various share schemes. There were no changes between 31 March 2013 and 13May 2013. The Company's mid-market share price at close of business on 28 March 2013 was 1088p. The highest and lowest mid-market share prices in the year ended 31 March 2013 were 1106.5p and 792.75p, respectively.

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2012	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2013	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Peter Rogers	L-TIP 2008	65,596				65,596		594.33	May 2011	Jun 2018
	PSP 2009	132,053[6]			(55,726)	76,327		544.67	Jul 2012	Jul 2014
	PSP (A) 2010[5,6]	156,494				156,494		619.83	Jul 2013	Jul 2014
	PSP(B) 2010[5,5A,6]	4,840				4,840		619.83	Jul 2013	Jul 2014
	CSOP 2010[5,6]	4,840				4,840	619.83	619.83	Jul 2013	Jul 2020
	DBP 2010	45,023				45,023		619.83	Jul 2012	Jul 2014
	PSP 2011	157,971				157,971		690.00	Jun 2014	Jun 2015
	DBP 2011	42,609				42,609		690.00	Jun 2013	Jun 2014
	PSP 2012		32,454			32,454		864.83	Jul 2015	Jul 2016
	PSP 2012		95,975			95,975		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)		37,433			37,433		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)		74,866			74,866		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)		25,963			25,963		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)		51,926			51,926		864.83	Jul 2015	Jul 2016

Remuneration report (continued)

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2012	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2013	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Bill Tame	PSP 2009	85,924[6]			(36,260)	49,664		544.67	Jul 2012	Jul 2014
	PSP (A) 2010[5]	76,182				76,182		619.83	Jul 2013	Jul 2014
	PSP (B)[5, 5A] 2010	1,258				1,258		619.83	Jul 2013	Jul 2014
	CSOP 2010[5, 6]	1,258				1,258	619.83	619.83	Jul 2013	Jul 2020
	DBP 2010	29,598				29,598		619.83	Jul 2012	Jul 2014
	PSP (A) 2011[5]	71,782				71,782		690.00	Jun 2014	Jun 2015
	PSP (B) 2011[5, 5A]	3,217				3,217		690.00	Jun2014	Jul 2015
	CSOP 2011[5]	3,217				3,217	690.00	690.00	Jun 2014	Jun 2021
	DBP 2011	27,270				27,270		690.00	Jun 2013	Jun 2014
	PSP 2012		60,755			60,755		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)		23,696			23,696		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)		47,392			47,392		864.83	Jul 2015	Jul 2016
Archie Bethel	PSP (A) 2009[5]	62,515[6]			28,705	33,810		544.67	Jul 2012	Jul 2014
	PSP (B) 2009[5, 5A]	5,507			See Notes 5, 5A	See Notes 5, 5A		544.67	Jul 2012	Jul 2014
	CSOP 2009[5]	5,507[6]				5,507	544.67	544.67	Sep 2012	Sep 2019
	PSP 2010	66,550				66,550		619.83	Jul 2013	Jul 2014
	DBP 2010	19,128				19,128		619.83	Jul 2012	Jul 2014
	PSP 2011	65,217				65,217		690.00	Jun 2014	Jun 2015
	DBP 2011	18,939				18,939		690.00	Jun 2013	Jun 2014
	PSP 2012		52,831			52,831		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)		17,344			17,344		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)		34,688			34,688		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)		14,292			14,292		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)		28,584			28,584		864.83	Jul 2015	Jul 2016

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2012	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2013	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Kevin Thomas	L-TIP 2008	31,786				31,786		594.33	May 2011	Jun 2018
	PSP (A)[5] 2009	61,662			(27,021)	34,641		544.67	Jul 2012	Jul 2014
	PSP (B)[5, 5A] 2009	2,368			See Notes 5, 5A	See Notes 5, 5A		544.67	Jul 2012	Jul 2014
	CSOP 2009	2,368[6]				2,368	544.67	544.67	Sep 2012	Sep 2019
	PSP 2010	66,550				66,550		619.83	Jul 2013	Jul 2014
	DBP 2010	17,825				17,825		619.83	Jul 2012	Jul 2014
	PSP 2011	65,217				65,217		690.00	Jun 2014	Jun 2015
	DBP 2011	18,939				18,939		690.00	Jun 2013	Jun 2014
	PSP (A) 2012[5]		50,881			50,881		877.33	Jun 2015	Jun 2016
	PSP (B) 2012[5, 5A]		1,949			1.949		877.33	Jun 2015	Jun2016
	CSOP 2012		1,949			1,949	877.33	877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)		17,344			17,344		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)		34,688			34,688		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)		14,292			14,292		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)		28,584			28,584		864.83	Jul 2015	Jul 2016
John Davies[7]	PSP (A) 2010[5]	45,980				45,980		619.83	Jul 2013	Jul 2014
	PSP(B) 2010[5, 5A]	4,840				4,840		619.83	Jul 2013	Jul2014
	CSOP 2010	4,840				4,840		619.83	Jul 2013	Jul 2020
	PSP 2011	48,913				48,913		690.00	Jun 2014	July 2015
	DBP 2011	14,463				14,463		690.00	Jun 2013	Jun 2014
	PSP 2012	42,743				42,743		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)		13,008			13,008		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching awards)		26,016			26,016		864.83	Jul 2015	Jul 2016

1. L-TIP = 2003 Long-Term Incentive Plan; PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBP = 2009 Deferred Bonus Plan. DBMP = 2012 Deferred Bonus Matching Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 88 to 92 above.
2. The PSP, DBP, DBMP and L-TIP awards are structured as nil priced options. DBP awards and 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 scheme concerned, including as to meeting performance targets for PSP, LTIP, CSOP and DBMP Matching Awards.
4. Where this date is less than ten years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
5. The vesting of the CSOP award is subject to performance measures that are identical to those for the PSP award granted on the same date. When a CSOP award is granted at the same time as a PSP award, the PSP award has two parts. The CSOP and PSP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of the two awards is limited to that number of shares that had a market value on the date of the awards (and after deducting any exercise price payable on exercise of the CSOP award) equal to the relevant grant multiple of the Director's base salary at the date of the awards (the 'Limit'). This is achieved by making the level of vesting of Part B of the PSP Award accord to the level of vesting of the linked CSOP award; the actual number of vested Part B award shares that can be exercised is then limited according to the exercise price on the day of exercise such that the total value of Part B PSP award shares so exercisable does not then exceed the exercise price payable on exercise of the vested CSOP award. If there is less than full vesting, it is possible for the Director to choose to exercise the CSOP to its fullest extent within the Limit and then to exercise the PSP award to the extent of any balance left within the Limit.

5A. The actual number of shares capable of being exercised under Part B of the PSP award can only be determined on the exercise date as explained in note 5 above.

6. The PSP awards and any associated CSOP awards made to the Directors in 2010 are expected to vest overall in July 2013 as to 78.4% based on the performance measures attached to them in the case of Directors other than Peter Rogers and as to 58.8% overall for him.
7. All awards shown in the table for John Davies were made prior to his appointment as a Director, which took effect on 1 January 2013.

Remuneration report (continued)

During the year to 31 March 2013 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) £
Peter Rogers	PSP 2009	76,327	16 July 2012	415,730	662,900	–
	DBP 2010	45,023	13 July 2012	279,066	388,774	–
Bill Tame	PSP 2009	49,664	16 July 2012	270,505	431,332	–
	DBP 2010	29,598	13 July 2012	183,457	255,579	–
Archie Bethel	PSP 2009	33,810 (Part A) plus Part (B) £30k worth	16 July 2012	214,153	323,640	–
	CSOP 2009	5,507	11 September 2012	30,000	50,664	30,000
	DBP 2010	19,128	13 July 2012	118,561	165,170	–
Kevin Thomas	PSP 2009	34,641 (Part A), plus Part (B) £12,898 worth	16 July 2012	201,577	330,857	–
	CSOP 2009	2,368	11 September 2012	12,898	21,786	12,898
	DBP 2010	17,825	13 July 2012	110,485	153,919	–

Notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 70.1p per vested share had accrued on the PSP 2009 awards and of 42.1p per vested share on the DBP 2010 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. NB: the DBP awards represented, on award, the gross amount of annual bonus compulsorily deferred into shares out of the annual bonus awards in respect of the financial year 2009/10.
3. Closing Share Price on Vesting dates was for PSP 2009 awards 874.5p (16 July 2012), for CSOP 2009 awards 918.5p (11 September 2012) and for the DBP 2010 awards 868p (13 July 2012).

None of the Directors exercised share awards during the year to 31 March 2013.

Directors' emoluments and compensation (audited)

Director	Salary or fee year ending 31 March 2013[1] £'000	Cash allowances in lieu of pension benefits[2] £'000	Other cash allowances[3] £'000	Annual bonus[4] £'000	Benefits in kind[5] £'000	Total year ended 31 March 2013[1] £'000	Total year ended 31 March 2012 £'000
Chairman and Executive Directors							
Mike Turner (Chairman)	255					255	255
Peter Rogers (Chief Executive)	561	140		834	20	1,555	1,464
Bill Tame (Group Finance Director)	355	89	23	528	13	1,008	946
Archie Bethel	309	77	4	382	5	777	710
Kevin Thomas	309	77		382	1	769	690
John Davies (appointed 1 January 2013)	76	9		97	3	185	–
Non-Executive Directors							
Justin Crookenden	58					58	58
David Omand	60					60	53
Ian Duncan	63					63	59
Kate Swann (appointed 1 June 2011)	50					50	42
Anna Stewart (appointed 1 November 2012)	21					21	–
Former Directors							
Nigel Essenhigh (retired 31 December 2012)	38					38	50
John Rennocks (retired 31 December 2011)	–					–	48
Total	2,155	392	27	2,223	42	4,839	4,375

Notes:

1. Emoluments for John Davies and Anna Stewart for the year to 31 March 2013 are for the period from their appointment as Directors. Emoluments for that year for Sir Nigel Essenhigh are for the period from 1 April 2012 until his retirement on 31 December 2012. Emoluments for the year ended 31 March 2012 for Kate Swann were for the period from the date of her appointment.
2. For Peter Rogers, Bill Tame, Archie Bethel and Kevin Thomas the cash allowance for the year to 31 March 2013 was pay in lieu of all pension benefits for the entire year. For the year to 31 March 2012: (i) the allowance for Peter Rogers was in lieu of all pension benefits for that whole year; (ii) for Archie Bethel and Kevin Thomas the allowance was in lieu of pension benefits on base salary in that year in excess of the scheme cap applicable to them; and (iii) for Bill Tame the allowance was, for the period from 1 April 2011 to 30 September 2011 on that part of his base salary as exceeded the scheme applicable earnings cap and from 1 October 2011 to 31 March 2012 was in lieu of all pension benefits. For John Davies the allowance for the year to 31 March 2013 was in lieu of pension benefits on that part of his salary as exceeded the earnings cap applicable to him under the pension scheme. See also pages 86 and 87.
3. For Bill Tame, allowance in respect of costs connected with accommodation and home to work travel benefits and for Archie Bethel costs connected with accommodation benefits.
4. This is the gross bonus number. Of this amount 40% is to be deferred into Company shares under the Deferred Bonus Matching Plan. In addition, the Directors may opt to take more of the bonus by way of a voluntary deferral award under the DBMP of an extra amount not exceeding 40% of basic salary.
5. For Bill Tame, in both the years to 31 March 2012 and 31 March 2013 benefits comprised medical insurance, home to work travel expenses and accommodation benefits. For Peter Rogers in the year to 31 March 2012 they comprised medical insurance and in the year to 31 March 2013 medical insurance and home to work travel benefits incurred at the request of the Company. For Kevin Thomas, they comprised medical insurance in both the years to 31 March 2012 and 31 March 2013. For Archie Bethel, they comprised medical insurance, car fuel benefit and accommodation benefits for both the years to 31 March 2012 and 31 March 2013. For John Davies in both the years to 31 March 2012 and 31 March 2013 they comprised car and fuel benefits.

The emoluments disclosed above do not include any amounts for the value of options or other share-based rewards.

Details of share-based awards held by the Directors are to be found on pages 95 to 98.

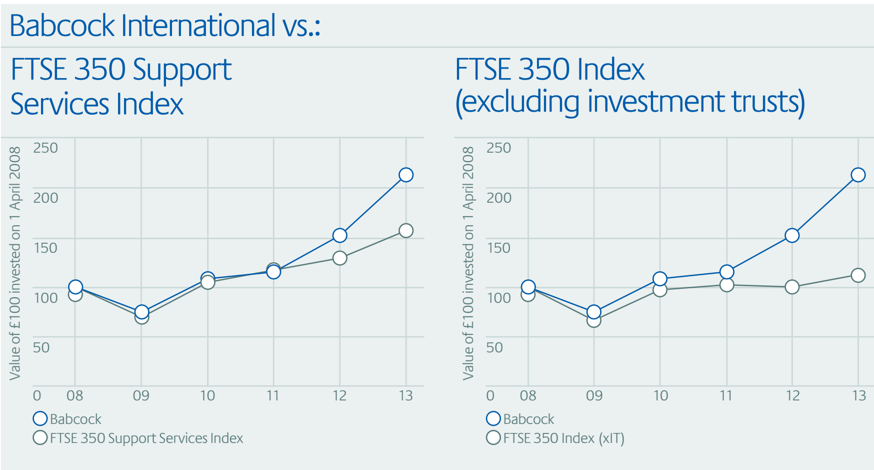
The fees for Ian Duncan reflected his role as Audit and Risk Committee Chairman throughout the year to 31 March 2013 and in the year to 31 March 2012 for the period from 7 July 2011. The fees for Sir David Omand reflected his role as Senior Independent Director throughout the year to 31 March 2013 and in the year to 31 March 2012 for the period from 1 January 2012. Justin Crookenden's fees reflected his additional duties as Chairman of the Remuneration Committee throughout both years.

Cash allowances, bonus payments and benefits in kind paid to Directors are not pensionable and do not count for share award or bonus purposes.

Remuneration report (continued)

Performance graphs

The graphs below were prepared by Kepler Associates. They show the total shareholder return for a holding in the Company's shares for the period from 1 April 2008 to 31 March 2013 relative to a holding of shares representing respectively the FTSE 350 Index (excluding investment trusts) and the FTSE 350 Support Services sector. The calculation of the return assumes dividends are reinvested to purchase additional equity. This FTSE 350 Index (excluding investment trusts) is a broad index that allows comparison of the Company's performance against the performance of the stock market as a whole; Support Services is the sector in which the Company's share price is reported. Over the five-year period, the Company has significantly outperformed both indices. An investment of £100 in the Company on 1 April 2008 would have been worth (assuming the dividends were reinvested in further Company shares) £212.80 at 31 March 2013. This compares to an investment in each of the indices of £100 which, on the same basis and over the same period, would have been worth £156.69 (FTSE 350 Support Services Index) and £112.38 (FTSE 350 Index excluding Investment Trusts).



This Remuneration report was approved on behalf of the Board by a Committee of the Board on 13 May 2013 and signed on its behalf by:

Justin Crookenden
Chairman of the Remuneration Committee
13 May 2013

Independent auditors' report to the members of Babcock International Group PLC

We have audited the Group financial statements of Babcock International Group PLC for the year ended 31 March 2013 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group balance sheet, the Group cash flow statement, and the Notes to the Group financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibility statement on page 73, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 72, in relation to going concern;
- the part of the Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent Company financial statements of Babcock International Group PLC for the year ended 31 March 2013 and on the information in the Remuneration report that is described as having been audited.

John Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

13 May 2013

Group income statement

For the year ended 31 March 2013	Note	2013 £m	2013 Total £m	2012 £m	2012 Total £m
Total revenue			3,243.5		3,070.4
Less: joint ventures and associates revenue			214.1		222.0
Group revenue	3		3,029.4		2,848.4
Group					
Operating profit before amortisation of acquired intangibles and exceptional items	3, 4, 5	315.2		290.2	
Amortisation of acquired intangibles	3, 6	(66.4)		(77.3)	
Exceptional items	6	(14.3)		(10.9)	
Group operating profit	3		234.5		202.0
Joint ventures and associates					
Share of operating profit	3	21.2		11.0	
Investment income	3	38.5		25.6	
Amortisation of acquired intangibles	3, 6	(6.2)		(6.2)	
Finance costs	3	(29.2)		(19.4)	
Income tax expense	3	(6.3)		(6.7)	
Share of results of joint ventures and associates			18.0		4.3
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		336.4		301.2	
Investment income		40.2		27.8	
Underlying operating profit*		376.6		329.0	
Amortisation of acquired intangibles		(72.6)		(83.5)	
Exceptional items		(14.3)		(10.9)	
Group investment income		(1.7)		(2.2)	
Joint ventures and associates finance costs		(29.2)		(19.4)	
Joint ventures and associates income tax expense		(6.3)		(6.7)	
Group operating profit plus share of joint ventures and associates			252.5		206.3
Finance costs					
Investment income	3	1.7		2.2	
Finance costs	7	(38.7)		(46.0)	
Finance income	7	9.1		10.5	
			(27.9)		(33.3)
Profit before tax			224.6		173.0
Income tax expense	9		(28.3)		(15.8)
Profit for the year from continuing operations			196.3		157.2
Discontinued operations					
Loss for the year from discontinued operations attributable to owners of the parent	10		(15.2)		(53.1)
Profit for the year			181.1		104.1
Attributable to:					
Owners of the parent			175.2		100.8
Non-controlling interest			5.9		3.3
			181.1		104.1
Earnings per share from continuing operations	12				
Basic			53.0p		42.9p
Diluted			52.4p		42.8p
Earnings per share from continuing and discontinued operations	12				
Basic			48.8p		28.1p
Diluted			48.2p		28.0p

* Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

Group statement of comprehensive income

For the year ended 31 March 2013	Note	2013 £m	2012 £m
Profit for the year		181.1	104.1
Other comprehensive income			
Currency translation differences		(0.6)	(6.2)
Fair value adjustment of interest rate and foreign exchange hedges		1.2	4.3
Tax on fair value adjustment of interest rate and foreign exchange hedges		(0.3)	0.5
Fair value adjustment of joint venture and associates derivatives	16	(23.0)	(65.1)
Tax on fair value adjustment of joint venture and associates derivatives	16	5.5	16.9
Net actuarial loss in respect of pensions	27	(59.0)	(106.9)
Tax on net actuarial loss in respect of pensions		14.2	27.8
Impact of change in UK tax rates		(3.1)	(5.7)
Other comprehensive loss net of tax		(65.3)	(134.4)
Total comprehensive income / (loss)		115.8	(30.3)
Attributable to:			
Owners of the parent		111.0	(33.3)
Non-controlling interest		4.8	3.0
Total comprehensive income / (loss)		115.8	(30.3)

Group statement of changes in equity

For the year ended 31 March 2013	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2011	215.3	872.8	30.6	(109.5)	1.5	1.0	1,011.7	8.9	1,020.6
Total comprehensive (loss) / income	–	–	–	16.0	(43.4)	(5.9)	(33.3)	3.0	(30.3)
Shares issued in the financial year	0.2	0.2	–	–	–	–	0.4	–	0.4
Dividends	–	–	–	(71.4)	–	–	(71.4)	(2.1)	(73.5)
Share-based payments	–	–	–	5.0	–	–	5.0	–	5.0
Tax on shared-based payments	–	–	–	(0.6)	–	–	(0.6)	–	(0.6)
Own shares and other	–	–	–	0.2	–	–	0.2	–	0.2
Non-controlling interest acquired	–	–	–	(0.6)	–	–	(0.6)	(1.2)	(1.8)
Net movement in equity	0.2	0.2	–	(51.4)	(43.4)	(5.9)	(100.3)	(0.3)	(100.6)
At 31 March 2012	215.5	873.0	30.6	(160.9)	(41.9)	(4.9)	911.4	8.6	920.0
At 1 April 2012	215.5	873.0	30.6	(160.9)	(41.9)	(4.9)	911.4	8.6	920.0
Total comprehensive income / (loss)	–	–	–	127.2	(16.6)	0.4	111.0	4.8	115.8
Shares issued in the financial year	1.7	–	–	–	–	–	1.7	–	1.7
Dividends	–	–	–	(83.6)	–	–	(83.6)	(3.1)	(86.7)
Share-based payments	–	–	–	8.6	–	–	8.6	–	8.6
Tax on shared-based payments	–	–	–	6.5	–	–	6.5	–	6.5
Acquisition of non-controlling interest	–	–	–	–	–	–	–	19.8	19.8
Disposal of non-controlling interest	–	–	–	–	–	–	–	0.4	0.4
Transaction with non-controlling interest	–	–		(4.6)	–	–	(4.6)	(8.7)	(13.3)
Own shares and other	–	–	–	(3.9)	–	–	(3.9)	–	(3.9)
Net movement in equity	1.7	–	–	50.2	(16.6)	0.4	35.7	13.2	48.9
At 31 March 2013	217.2	873.0	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9

Group balance sheet

As at 31 March 2013	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Goodwill	13	1,563.0	1,540.9
Other intangible assets	14	299.2	347.2
Property, plant and equipment	15	248.9	213.7
Investment in joint ventures and associates	16	18.6	19.3
Loan to joint ventures and associates	16	51.1	24.9
Retirement benefits	27	10.1	10.2
Trade and other receivables	19	0.5	1.8
IFRIC 12 financial assets		22.2	23.1
Other financial assets	23	45.1	20.1
Deferred tax	17	43.4	31.3
		2,302.1	2,232.5
Current assets			
Inventories	18	73.9	81.6
Trade and other receivables	19	519.0	476.9
Income tax recoverable		8.6	–
Other financial assets	23	3.5	3.3
Cash and cash equivalents	20	97.1	100.3
		702.1	662.1
Assets held for sale	32	–	103.0
Total assets		3,004.2	2,997.6
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	25	217.2	215.5
Share premium		873.0	873.0
Capital redemption and other reserves		(32.4)	(16.2)
Retained earnings		(110.7)	(160.9)
		947.1	911.4
Non-controlling interest		21.8	8.6
Total equity		968.9	920.0
Non-current liabilities			
Bank and other borrowings	22	684.0	757.3
Trade and other payables	21	7.9	8.9
Deferred tax liabilities		4.0	–
Other financial liabilities		10.0	–
Retirement liabilities	27	271.2	276.1
Provisions for other liabilities	24	115.2	117.2
		1,092.3	1,159.5
Current liabilities			
Bank and other borrowings	22	8.8	4.2
Trade and other payables	21	884.4	819.5
Income tax payable		–	10.0
Other financial liabilities	23	7.2	8.2
Provisions for other liabilities	24	42.6	27.8
		943.0	869.7
Liabilities held for sale	32	–	48.4
Total liabilities		2,035.3	2,077.6
Total equity and liabilities		3,004.2	2,997.6

The notes on pages 106 to 148 are an integral part of the consolidated financial statements. The Group financial statements were approved by the Board of Directors on 13 May 2013 and are signed on its behalf by:

P L Rogers
Director

W Tame
Director

Group cash flow statement

For the year ended 31 March 2013	Note	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	28	293.4	260.7
Income tax paid		(45.8)	(28.0)
Interest paid		(38.7)	(47.4)
Interest received		8.2	10.3
Net cash flows from operating activities		217.1	195.6
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	32	68.0	5.7
Dividends received from joint ventures and associates		7.1	6.6
Proceeds on disposal of property, plant and equipment		6.2	2.7
Purchases of property, plant and equipment		(52.7)	(42.7)
Purchases of intangible assets		(6.6)	(6.0)
Investment in, loans to and interest received from joint ventures and associates		(30.2)	(2.7)
Transactions with non-controlling interest		1.3	(1.7)
Acquisition of subsidiaries net of cash acquired	31	(22.2)	0.2
Net cash flows from investing activities		(29.1)	(37.9)
Cash flows from financing activities			
Dividends paid	11	(83.6)	(71.4)
Finance lease principal payments		(3.7)	(2.0)
Loans repaid		(101.1)	(305.6)
Loans raised		–	251.0
Dividends paid to non-controlling interest		(3.1)	(2.1)
Net proceeds on issue of shares		1.7	0.4
Movement on own shares		(3.9)	0.2
Net cash flows from financing activities		(193.7)	(129.5)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(5.7)	28.2
Cash, cash equivalents and bank overdrafts at beginning of year		98.4	72.7
Effects of exchange rate fluctuations		(2.1)	(2.5)
Cash, cash equivalents and bank overdrafts at end of year	30	90.6	98.4

Notes to the Group financial statements

1. Basis of preparation and significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and on a going concern basis. The Company is a public limited company, is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

Principal accounting policies

The principal accounting policies adopted by the Group and applied consistently throughout the year, are disclosed below:

Basis of consolidation

The Group financial statements comprise the Company and all of its subsidiary undertakings made up to 31 March.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. If, however, more than 50% of the voting rights are owned but the Group does not govern the financial and operating policies then this investment is not consolidated as a subsidiary. Acquisitions are included from the date of acquisition and the results of the businesses disposed of or terminated are included in the results for the year up to the date of relinquishing control or closure and analysed as continuing or discontinued operations.

(b) Joint ventures and associates

The Group's interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains and losses on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the joint controlled entities.

The Group's share of joint venture revenue is disclosed after elimination of sales to that joint venture. Loans to joint ventures are valued at amortised cost.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable. As can be seen from note 3 this represents approximately 10% of the business.

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

(c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs, labour hours incurred or earned value of work performed.

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Certain contracts will have pain/gain share arrangements whereby target cost under/over spends are shared with the customer. These sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

1. Basis of preparation and significant accounting policies (continued)

Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the consolidated income statement. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties and businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

Transactions with non-controlling interest

The Group policy is to treat transactions with non-controlling interest as transactions with owners of the parent and therefore result in movements in reserves.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

Goodwill and intangible assets

(a) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

Goodwill relating to acquisitions prior to 1 April 2004 is maintained at its net book value on the date of transition to IFRS. From that date goodwill is not amortised but is reviewed at least annually for impairment.

Annual impairment reviews are performed as outlined in note 13.

(b) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to ten years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years. Relationships are valued on a contract by contract and customer by customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to ten years.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

(d) Computer software

Computer software is shown at cost less amortisation and is amortised over its expected useful lives of between three and five years.

Notes to the Group financial statements (continued)

1. Basis of preparation and significant accounting policies (continued)

Property, Plant and Equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Net debt

Net debt consists of the total of loans, bank overdrafts, cash and cash equivalents and finance leases plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency and interest rate basis of the Company carrying the debt and fair value hedges.

Leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Contract accounting balances

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Taxation

(a) Current income tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

1. Basis of preparation and significant accounting policies (continued)

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of the net investment of a foreign operation.

Exchange differences arising from the translation of the balance sheets and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign subsidiary undertakings are translated using the average exchange rate for the month of the applicable results. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised. Capitalisation of applicable interest commenced in 2009/10.

Employee benefits

(a) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The Group's current and past service cost and imputed interest on the defined benefit schemes' obligations, net of the expected return on the schemes' assets, are charged to operating profit within the income statement. Actuarial gains and losses are recognised directly in equity through the Statement of comprehensive income so that the Group's balance sheet reflects the fair value of the schemes' surpluses or deficits at the balance sheet date.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's ESOP trusts are recognised as a deduction to equity.

(c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Discontinued and held for sale

A significant business stream sold in a prior year or during the year or being actively marketed with an expectation of being sold within a year will be treated as discontinued within the income statement. The prior year comparatives will be restated. If such a business has not been sold at year end the relevant assets and liabilities will be shown as held for sale within the balance sheet.

In addition businesses bought as part of a larger acquisition but identified for sale on purchase will be treated as discontinued.

Notes to the Group financial statements (continued)

1. Basis of preparation and significant accounting policies (continued)

Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. The key areas of estimates and judgements for the Group are contract accounting (see above), the accounting for defined benefit pension schemes (see note 27), impairment of goodwill (see note 13) and income tax recognition.

Fair value adjustments on acquisitions are by nature subject to critical judgements. The size of recent acquisitions do not make them significant in Group terms however any future acquisitions might do so.

Assets and liabilities held for sale are judgemental and reflects management's best estimate of sale proceeds less costs to sell.

Profit recognition on contracts is a key judgement exercised by management on a contract by contract basis. In order to make such a judgement an estimate of contract outturn is made and for all significant contracts both local management and Group review and challenge estimates made.

Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2012 or later periods but which the Group has not early adopted.

(a) Standards, amendments and interpretations effective in 2012 with minimal or no impact on the Group:

- IAS 12 (amendment), 'Income taxes', effective 1 January 2012;
- IFRS 7 (amendment), 'Financial instruments; disclosures', effective 1 July 2011;
- IFRS 1 (amendment), 'First time adoption' on hyperinflation and fixed dates;
- 2011 Annual improvements.

1. Basis of preparation and significant accounting policies (continued)

(b) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group. The impact on the Group's operations is currently being assessed:

- IFRS 7 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2013;
- IAS 32 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2014;
- IFRS 1 (amendment), 'First time adoption' on government loans, effective 1 January 2013;
- 2012 Annual improvements, effective from 1 January 2012.

(c) Interpretations to existing standards that are not yet effective, have not been endorsed by the EU and the impact on the Group's operations is currently being assessed but is not expected to be significant with the exception of IAS 19 (amendment):

- IFRS 9, 'Financial instruments' effective 1 January 2015;
- IFRS 10, 'Consolidated financial statements', effective 1 January 2013;
- IFRS 11, 'Joint arrangements', effective 1 January 2013;
- IFRS 12, 'Disclosure of interests in other entities', effective 1 January 2013;
- IFRS 13, 'Fair value measurement', effective 1 January 2013;
- IAS 19 (amendment), 'Employee benefits', effective 1 January 2013. The Group has assessed the impact of revised IAS 19. The impact on the results for the year ended 31 March 2013 would be to reduce operating profit by £31.0 million, increase finance costs by £11.8 million, and reduce the taxation charge by £10.3 million, resulting in an overall decrease in earnings per share of 9.1 pence. There is no impact on the net retirement liability;
- IAS 27 'Consolidated and separate financial statements', effective 1 January 2013;
- IAS 28 'Investments in associates and joint ventures', effective 1 January 2013.

2. Financial risk management

The Group's treasury and capital policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

Capital availability

The Company defines capital as shareholder equity plus net debt but in addition considers available financial capital which adds committed undrawn facilities to capital as a measure.

Objective on available financial capital

To ensure an appropriate level of capital and available financial capital to maintain operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth. The Group seeks to maintain the necessary headroom to cover the peaks and troughs in its working capital cycle, and sufficient liquidity to see it through any periods of tightened liquidity in the market.

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of carry whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate.

The Group, in considering its capital structure and financial capital, views net debt to EBITDA at below two times as being steady state and sustainable in the current market and against the current economic backdrop. This is not to rule out acquisition spikes above two times, as reported following acquisitions in the past, but only if the Group can see a clear path to reducing net debt to EBITDA back below two times within a reasonable time frame.

Performance

The Group's gearing and debt cover ratios, used by the Group to evaluate capital, have continued to improve year-on-year both in the pay down of debt and through increased profits attributable to shareholders.

		Covenant	2013	2012
Debt service cover	EBITDA/net interest	>4	12.7x	10.3x
Debt cover	Net debt/EBITDA	<3.5	1.5x	1.8x
Gearing	Net debt/shareholders' funds	n/a	45%	54%

Debt ratios are well below covenanted levels and gearing is at a level where the cost of capital is enhanced. As such we believe capital markets remain readily accessible when required.

Overview
Strategy and Business model
Operating review and KPIs
Performance and Risk
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Accounts and other information

2. Financial risk management (continued)

Financial risk management

Financial instruments, in particular forward currency contracts and interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities.

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents. The Group's customers are mainly from government, government backed institutions or blue chip corporations and as such credit risk is considered small.

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The Group's treasury policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

Management of capital

The Group's capital structure is derived from equity and net debt and is overseen by the Board through the Group Finance Committee.

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt divided by earnings before interest, tax, depreciation and amortisation), Gearing ratio (defined as net debt, excluding retirement benefit deficits or surpluses, divided by shareholders' funds), ROIC (defined as net income divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt)) and EBITDA interest cover (defined as profit before interest, tax, depreciation, amortisation and exceptionals divided by net interest payable). These ratios are discussed under the business review.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded, balancing risk and price on the capital markets and to retain sufficient flexibility to fund future organic and acquisitive growth.

Foreign exchange risk

The functional and presentational currency of Babcock International group PLC and its UK subsidiaries is pounds Sterling. The Group has two main areas of currency exposure; firstly, the US$650 million US Private Placements which are swapped into Sterling and secondly, through its activities in South Africa where both translational and transactional exposure exist.

Objective	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the US Dollar, Euro and South African Rand.
Policy – Transactional risk	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IAS 39 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
Policy – Translational risk	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments.
Performance	There have been no material unhedged foreign exchange losses in the year.

A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies expressed in the Group's presentation currency is insignificant with the largest exposure being £1.5 million Sterling to Omani Rials (2012: Sterling to Euro £12.2 million).

The pre-tax effect on profit and equity, increase or (decrease), if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant would in total be £0.1 million (2012: £1.5 million). The reasonable shifts in exchange rates are based on historic volatility and range from 10% for Sterling to Euro and US Dollars to 15% for South African Rand to Euro and 15% Sterling to Omani Rial.

2. Financial risk management (continued)

Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of ±50bp (2012: ±50bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt. All other variables are held constant. The Group believes ±50bp is an appropriate measure of volatility at this time.

	2013		2012	
	£m +50bp	£m –50bp	£m +50bp	£m –50bp
Net results for the year	(1.6)	1.6	(2.1)	2.1
Equity	13.6	(13.6)	14.3	(14.3)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department, and is subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2013, the Group had 55% fixed rate debt (March 2012: 45%) and 45% floating rate debt (March 2012: 55%) based on gross debt including derivatives of £647.7 million (March 2012: £741.3 million). For further information see note 22 to the Group accounts.

Liquidity risk

The key objectives are to ensure that the Group has an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines (see note 22).

The Group's committed Revolving Credit Facility (RCF) of £500 million has an expiry date of September 2016, and is available to meet general corporate funding requirements. At 31 March 2013, £125 million was drawn on this facility.

The Group has US Private Placements with a value of US$650 million maturing between five and eight years.

The Group has two Sterling loan notes with a value of £100 million maturing between four and seven years.

Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a KPI.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with strong financial institutions for short periods, with bank counterparty credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating.

Objective	With debt as a key component of Available Capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. Current committed facilities and headroom are thought to be sufficient to meet the Group's ongoing commitments, following the issuance of the US$650 US Private Placement notes in March 2011 and the refinancing of the £500 million Revolving Credit Facility (RCF) in June 2011, with a term of five years three months, with no new material debt being raised in the financial year ending 31 March 2013. The two aforementioned debt raisings together with the £100 million of loan notes issued in January 2010, provide the Group with total committed banking facilities and loan notes of £1 billion. For further information see note 22 to the Group accounts.

Notes to the Group financial statements (continued)

2. Financial risk management (continued)

The table below analyses the Group's liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contract maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2013				
Bank and other borrowings	37.5	31.6	370.6	456.7
Derivative financial instruments	1.6	0.4	0.5	(33.8)
Trade and other payables*	867.2	1.3	3.1	2.3
At 31 March 2012				
Bank and other borrowings	31.7	29.7	370.4	552.2
Derivative financial instruments	1.1	0.3	0.2	(16.8)
Trade and other payables*	803.9	1.5	4.2	4.6

* Does not include other taxes and social security.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Held for trading contracts are economic hedges and not hedge accounted.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2013				
Forward derivative contracts – hedges:				
– outflow	50.7	21.5	121.4	307.7
– inflow	50.2	21.5	126.5	348.3
Forward derivative contracts – held for trading:				
– outflow	43.1	–	–	–
– inflow	42.5	–	–	–
At 31 March 2012				
Forward derivative contracts – hedges:				
– outflow	25.7	17.5	48.0	400.0
– inflow	25.1	17.6	48.7	420.1
Forward derivative contracts – held for trading:				
– outflow	9.4	–	–	–
– inflow	9.4	–	–	–

3. Segmental information

The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM). The defence infrastructure business, formerly reported under Support Services, has been moved and is now reported under Defence and Security and the comparatives have been restated. The VT US defence business is now under Discontinued operations within International. The analysis of discontinued exceptional items is within note 6 and 32.

3. Segmental information (continued)

2013	Continuing operations Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m	Discontinued operations International/ unallocated £m	Total Group Total £m
Total revenue	1,201.6	820.2	943.7	278.0	–	3,243.5	38.9	3,282.4
Less; joint ventures and associates revenue	7.8	110.8	95.5	–	–	214.1	–	214.1
Group revenue	1,193.8	709.4	848.2	278.0	–	3,029.4	38.9	3,068.3
Operating profit* – Group	156.3	67.0	75.6	24.7	(8.4)	315.2	1.1	316.3
IFRIC 12 investment income – Group	–	1.0	0.7	–	–	1.7	–	1.7
Share of operating profit – joint ventures and associates	0.6	14.3	6.3	–	–	21.2	–	21.2
Share of IFRIC 12 investment income – joint ventures and associates	–	29.9	8.6	–	–	38.5	–	38.5
Underlying operating profit	156.9	112.2	91.2	24.7	(8.4)	376.6	1.1	377.7
Share of finance costs – joint ventures and associates	–	(20.0)	(9.2)	–	–	(29.2)	–	(29.2)
Share of tax – joint ventures and associates	(0.2)	(4.7)	(1.4)	–	–	(6.3)	–	(6.3)
Acquired intangible amortisation – Group	(11.7)	(12.1)	(42.6)	–	–	(66.4)	–	(66.4)
Share of acquired intangible amortisation –joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)	–	(6.2)
Net finance costs – Group	–	–	–	–	(29.6)	(29.6)	–	(29.6)
Exceptional items – Group	–	–	–	–	(14.3)	(14.3)	(18.2)	(32.5)
Group profit before tax	145.0	69.6	37.6	24.7	(52.3)	224.6	(17.1)	207.5

* Before amortisation of acquired intangibles and exceptional items.

2012	Continuing operations Marine and Technology £m	Defence and Security (restated) £m	Support Services (restated) £m	International £m	Unallocated £m	Total continuing operations £m	Discontinued operations International £m	Total Group Total £m
Total revenue	1,084.7	901.1	804.6	280.0	–	3,070.4	202.1	3,272.5
Less: joint ventures and associates revenue	–	167.3	54.7	–	–	222.0	–	222.0
Group revenue	1,084.7	733.8	749.9	280.0	–	2,848.4	202.1	3,050.5
Operating profit* – Group	135.1	69.0	78.5	19.3	(11.7)	290.2	14.7	304.9
IFRIC 12 investment income – Group	–	1.4	0.8	–	–	2.2	–	2.2
Share of operating profit – joint ventures and associates	–	9.5	1.5	–	–	11.0	–	11.0
Share of IFRIC 12 investment income – joint ventures and associates	–	18.4	7.2	–	–	25.6	–	25.6
Underlying operating profit	135.1	98.3	88.0	19.3	(11.7)	329.0	14.7	343.7
Share of finance costs – joint ventures and associates	–	(12.3)	(7.1)	–	–	(19.4)	–	(19.4)
Share of tax – joint ventures and associates	–	(6.5)	(0.2)	–	–	(6.7)	–	(6.7)
Acquired intangible amortisation – Group	(13.0)	(12.6)	(51.7)	–	–	(77.3)	(7.9)	(85.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)	–	(6.2)
Net finance costs – Group	–	–	–	–	(35.5)	(35.5)	–	(35.5)
Exceptional items – Group	–	–	–	–	(10.9)	(10.9)	(58.6)	(69.5)
Group profit before tax	122.1	61.1	28.6	19.3	(58.1)	173.0	(51.8)	121.2

* Before amortisation of acquired intangibles and exceptional items

Notes to the Group financial statements (continued)

3. Segmental information (continued)

Inter divisional revenue is immaterial.

Revenues of £1.9 billion (2012: £2.0 billion) are derived from a single external customer. These revenues are attributable to the Marine and Technology, Defence and Security, and Support Services segments.

The segment assets and liabilities at 31 March 2013 and 31 March 2012 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2013 £m	2012 (restated) £m	2013 £m	2012 (restated) £m	2013 £m	2012 £m
Marine and Technology	784.9	710.7	639.4	535.2	29.0	24.5
Defence and Security	900.5	855.6	239.3	268.3	2.7	1.4
Support Services	941.4	944.0	262.9	263.7	7.7	3.6
International	158.5	155.5	105.9	87.3	11.0	8.1
Unallocated	218.9	331.8	787.8	923.1	9.5	11.1
Group total	3,004.2	2,997.6	2,035.3	2,077.6	59.9	48.7

Capital expenditure represents additions to property, plant and equipment and intangible assets.

All assets and liabilities are allocated to their appropriate segments except for cash, cash equivalents, borrowings, income and deferred tax and discontinued operations which are included in the unallocated segment.

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2013 and 31 March 2012 are as follows:

	Depreciation		Amortisation of intangible assets	
	2013 £m	2012 (restated) £m	2013 £m	2012 (restated) £m
Marine and Technology	19.2	17.2	12.5	14.2
Defence and Security	5.0	4.5	12.3	14.7
Support Services	6.0	5.8	43.4	52.7
International	4.3	3.6	0.2	0.3
Unallocated	2.9	1.5	5.2	0.3
Total continuing operations	37.4	32.6	73.6	82.2
Discontinued operations	–	1.0	–	8.2
Group total	37.4	33.6	73.6	90.4

	Revenue		Assets		Capital expenditure	
Geographic analysis	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
United Kingdom	2,542.0	2,423.2	2,731.0	2,502.0	45.7	38.6
Africa	272.1	264.1	169.0	159.3	11.0	6.9
North America	129.9	93.7	62.0	289.7	1.8	1.7
Rest of World	85.4	67.4	42.2	46.6	1.4	1.5
Group total	3,029.4	2,848.4	3,004.2	2,997.6	59.9	48.7

	Continuing operations		Discontinued operations		Group total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Sales of goods	268.3	295.2	–	–	268.3	295.2
Sales of services	2,740.7	2,550.0	38.9	202.1	2,779.6	2,752.1
Rental income	20.4	3.2	–	–	20.4	3.2
	3,029.4	2,848.4	38.9	202.1	3,068.3	3,050.5

4. Operating expenses

	Continuing operations		Discontinued operations		Group total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Cost of sales	2,631.9	2,507.4	37.8	184.3	2,669.7	2,691.7
Distribution expenses	11.2	9.3	–	–	11.2	9.3
Administration expenses	151.8	129.7	18.2	69.6	170.0	199.3
	2,794.9	2,646.4	56.0	253.9	2,850.9	2,900.3

5. Operating profit for the year

The following items have been included in arriving at operating profit for the year.

	Continuing operations		Discontinued operations		Group total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Employee costs (note 8)	1,033.9	986.0	17.7	89.7	1,051.6	1,075.7
Inventories						
– cost of inventories recognised as an expense	322.3	290.8	–	0.6	322.3	291.4
– increase in inventory provisions	1.9	1.5	–	–	1.9	1.5
Depreciation of Property, Plant and Equipment (PPE)						
– owned assets	36.5	31.8	–	0.9	36.5	32.7
– under finance leases	0.9	0.9	–	–	0.9	0.9
	37.4	32.7	–	0.9	37.4	33.6
Amortisation of intangible assets						
– acquired intangibles	66.4	77.3	–	7.9	66.4	85.2
– other	7.2	4.9	–	0.2	7.2	5.1
	73.6	82.2	–	8.1	73.6	90.3
(Profit)/loss on disposal of PPE	(4.1)	(0.3)	–	(0.5)	(4.1)	(0.8)
Loss on disposal of intangibles	1.1	0.2	–	–	1.1	0.2
Operating lease rentals payable						
– property	19.9	19.5	0.4	1.6	20.3	21.1
– vehicles, plant and equipment	13.9	12.3	–	0.3	13.9	12.6
Research and development	1.9	1.9	–	–	1.9	1.9
Trade receivables (release)/impairment	(0.9)	0.9	–	(1.0)	(0.9)	(0.1)
Net foreign exchange (gains)/losses	(0.8)	0.8	–	–	(0.8)	0.8

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

	Total	
	2013 £m	2012 £m
Audit fees:		
Fees payable to the parents auditor and its associates for the audit of the parent company's individual and consolidated financial statements	0.8	0.8
Fees for other services:		
Fees payable to the parents auditor and its associates in respect of the audit of the Company's subsidiaries	0.8	0.8
Taxation advisory services	0.2	0.1
All other services	–	0.2
Total fees paid to the Group's auditor and network firms	1.8	1.9

Other services in 2012 include £0.2 million for work on non statutory audits.

Notes to the Group financial statements (continued)

6. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Continuing operations						
Profit on disposal of subsidiaries (note 32)	(0.2)	(1.9)	–	–	(0.2)	(1.9)
Reorganisation cost	14.5	12.8	–	–	14.5	12.8
Exceptional items	14.3	10.9	–	–	14.3	10.9
Acquired intangible amortisation	66.4	77.3	6.2	6.2	72.6	83.5
Continuing total	80.7	88.2	6.2	6.2	86.9	94.4
Discontinued operations						
Loss on disposal, in year, of subsidiaries (note 32)	8.9	–	–	–	8.9	–
Reorganisation costs	–	0.1	–	–	–	0.1
Impairment of US defence goodwill	–	58.5	–	–	–	58.5
Provision for costs on previous years disposals (note 32)	9.3	–	–	–	9.3	–
Exceptional items	18.2	58.6	–	–	18.2	58.6
Acquired intangible amortisation	–	7.9	–	–	–	7.9
Discontinued total	18.2	66.5	–	–	18.2	66.5

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

Reorganisation costs relate to the integration of Babcock International Group PLC and VT Group plc which is now complete.

Following the exchange of conditional contracts, in 2012, for the sale of the US defence business acquired with the VT Group plc there was an impairment of goodwill reflecting the sales value expected. The sale was completed in 2012/13 and resulted in a further loss on disposal. Included within the loss on disposal of the VT US business is £4.8 million of foreign exchange translation previously taken to reserves, which is now recycled.

Previous year disposal losses arise from long-term property liabilities retained as part of past disposals.

7. Net finance costs

	2013 £m	2012 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges*	36.1	43.7
Finance leases	0.3	0.2
Amortisation of issue costs of bank loan	1.2	1.0
Other	1.1	1.1
Total finance costs	38.7	46.0
Finance income		
Bank deposits and loans	9.1	10.5
Total finance income	9.1	10.5
Net finance costs	29.6	35.5

* Interest rate hedges included above is £0.1 million costs (2012: £2.8 million income).

8. Employee costs

	Continuing operations		Discontinued operations		Group total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Wages and salaries	893.0	852.5	16.5	81.3	909.5	933.8
Social security costs	86.9	80.6	1.2	5.9	88.1	86.5
Share-based payments (note 26)	8.6	4.8	–	0.2	8.6	5.0
Pension costs – defined contribution plans (note 27)	31.6	30.0	–	2.3	31.6	32.3
Pension charges – defined benefit plans (note 27)	13.8	18.1	–	–	13.8	18.1
	1,033.9	986.0	17.7	89.7	1,051.6	1,075.7

The average number of people employed by the Group during the year were:

	Continuing operations		Discontinued operations		Group total	
	2013 Number	2012 Number	2013 Number	2012 Number	2013 Number	2012 Number
Operations	22,257	21,855	337	1,838	22,594	23,693
Administration and management	3,535	3,470	26	114	3,561	3,584
	25,792	25,325	363	1,952	26,155	27,277

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the key cash-generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2013 £m	2012 £m
Salaries	7.9	7.3
Post-employment benefits	0.2	0.4
Share-based payments	3.0	1.9
	11.1	9.6

Notes to the Group financial statements (continued)

9. Income tax expense

	Continuing operations		Discontinued operations		Group total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Analysis of tax charge in the year						
Current tax						
– UK current year charge/(credit)	37.2	32.8	–	–	37.2	32.8
– Overseas current year charge	13.1	10.4	0.3	4.4	13.4	14.8
– UK prior year (credit)/charge	(4.5)	3.0	–	–	(4.5)	3.0
	45.8	46.2	0.3	4.4	46.1	50.6
Deferred tax						
– UK current year credit	(17.1)	(24.8)	(2.2)	–	(19.3)	(24.8)
– Adjustment in respect of prior year	–	(3.0)	–	–	–	(3.0)
– Overseas current year charge/(credit)	0.8	0.8	–	(3.1)	0.8	(2.3)
– Impact of change in UK tax rate	(1.2)	(3.4)	–	–	(1.2)	(3.4)
	(17.5)	(30.4)	(2.2)	(3.1)	(19.7)	(33.5)
Total income tax expense	28.3	15.8	(1.9)	1.3	26.4	17.1

The tax for the year is lower (2012: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £m	2012 £m
Profit before tax	224.6	173.0
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 24% (2012: 26%)	53.9	45.0
Effects of:		
Expenses not deductible for tax purposes	1.6	2.2
Re-measurement of deferred tax re change in UK tax rate	(1.2)	(3.4)
Difference in respect of joint venture results	(4.3)	(1.1)
Adjustment in respect of foreign rates and UK consortium relief rates	(6.1)	(12.7)
Adjustments in respect of earlier years	(4.6)	–
Other (including R&D tax relief)	(11.0)	(14.2)
Total income tax expense	28.3	15.8

As a result of the change in the UK corporate tax rate from 24% to 23% for the 2013/14 financial year, a credit of £1.2 million (2012: £3.4 million) has been taken to the income statement in respect of the re-measurement of the year end deferred tax balances, and a charge of £3.1 million (2012: £5.7 million) has been taken to reserves.

10. Discontinued operations

Following the sale of the US defence business, it has been treated as a discontinued operation within these financial statements. In 2012 the business was impaired to its expected fair value less costs to sell and was included as assets and liabilities held for sale. (See note 32).

The Waste business was sold during the year and as a subsidiary intended for sale on the acquisition of the VT Group plc, is treated as discontinued.

	2013 £m	2012 £m
Financial performance of discontinued operations		
Revenue	38.9	202.1
Operating profit before amortisation of acquired intangibles	1.1	14.7
Amortisation of acquired intangibles	–	(7.9)
Profit before tax and exceptional items	1.1	6.8
Taxation	(0.3)	(1.3)
Profit after taxation and before exceptional items	0.8	5.5
Exceptional items:		
Loss on disposal, in year, of subsidiary (US defence business) (note 32)	(18.2)	–
Profit on disposal, in year, of subsidiary (Waste business) (note 32)	9.3	–
Provision for costs on previous years disposals (note 32)	(9.3)	–
Impairment	–	(58.5)
Reorganisation costs	–	(0.1)
	(18.2)	(58.6)
Taxation	2.2	–
Exceptional loss	(16.0)	(58.6)
Loss after taxation from discontinued operations	(15.2)	(53.1)
Cash flows from discontinued operations		
Net cash flows from operating activities	(10.2)	7.9
Net cash flows from investing activities	66.3	(0.4)
Net cash flows from financing activities	–	(2.8)
	56.1	4.7

11. Dividends

	2013 £m	2012 £m
Final dividend for the year ended 31 March 2012 of 17.0p (2011: 14.2p) per 60p share	61.0	50.9
Interim dividend for the year ended 31 March 2013 of 6.3p (2012: 5.7p) per 60p share	22.6	20.5
	83.6	71.4

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2013 of 20.0p (2012: 17.0p) per share which will absorb an estimated £71.8 million (2012: £61.0 million) of shareholders' equity. It will be paid on 8 August 2013 to shareholders who are on the register of members on 5 July 2013. These financial statements do not reflect this dividend payable. Subject to approval at the Annual General Meeting on 11 July 2013.

Notes to the Group financial statements (continued)

12. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The calculation of the basic and diluted EPS is based on the following data:

Number of shares

	2013 Number	2012 Number
Weighted average number of ordinary shares for the purpose of basic EPS	358,912,359	358,568,556
Effect of dilutive potential ordinary shares: share options	4,084,538	1,312,457
Weighted average number of ordinary shares for the purpose of diluted EPS	362,996,897	359,881,013

Earnings

	2013 Earnings £m	2013 Basic per share Pence	2013 Diluted per share Pence	2012 Earnings £m	2012 Basic per share Pence	2012 Diluted per share Pence
Continuing operations						
Earnings from continuing operations	190.4	53.0	52.4	153.9	42.9	42.8
Add back:						
Amortisation of acquired intangible assets, net of tax	55.2	15.4	15.2	61.8	17.2	17.1
Exceptional items, net of tax	11.6	3.2	3.2	8.1	2.3	2.2
Impact of change in UK tax rate	(1.2)	(0.3)	(0.3)	(3.4)	(0.9)	(0.9)
Earnings before discontinued operations, amortisation, exceptional items and other	256.0	71.3	70.5	220.4	61.5	61.2
Discontinued operations						
Earnings from discontinued operations	(15.2)	(4.2)	(4.2)	(53.1)	(14.8)	(14.8)
Add back:						
Amortisation of acquired intangible assets, net of tax	–	–	–	4.8	1.3	1.3
Exceptional items, net of tax	16.0	4.4	4.4	58.6	16.3	16.3
Earnings from discontinued operations before amortisation, exceptional items and other	0.8	0.2	0.2	10.3	2.8	2.8
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	175.2	48.8	48.2	100.8	28.1	28.0
Add back:						
Amortisation of acquired intangible assets, net of tax	55.2	15.4	15.2	66.6	18.5	18.4
Exceptional items, net of tax	27.6	7.6	7.6	66.7	18.6	18.5
Impact of change in UK tax rate	(1.2)	(0.3)	(0.3)	(3.4)	(0.9)	(0.9)
Earnings before amortisation, exceptional items and other	256.8	71.5	70.7	230.7	64.3	64.0

13. Goodwill

	2013 £m	2012 £m
Cost		
At 1 April	1,545.7	1,627.0
On acquisition of subsidiaries (note 31)	25.1	–
On disposal of subsidiary (note 32)	(3.4)	(1.2)
Reclassified as assets held for sale	–	(81.7)
Exchange adjustments	0.4	1.6
At 31 March	1,567.8	1,545.7
Accumulated impairment		
At 1 April	4.8	4.8
Impairment charge	–	58.5
Reclassified as assets held for sale	–	(58.3)
Exchange adjustments	–	(0.2)
At 31 March	4.8	4.8
Net book value at 31 March	1,563.0	1,540.9

During the year, the goodwill was tested for impairment in accordance with IAS 36. The recoverable amount for all the cash-generating units has been measured based on a value in use calculation derived from Board approved three year budgeted cash flows and extrapolated cash flows thereafter based on an estimated growth rate of 3% (effectively zero real growth allowing for inflation). A pre-tax discount rate in the range 9.5% to 11.0% was used in the pre tax value in use calculation for the cash-generating units within each segment. The Group's weighted average cost of capital post-tax is approximately 7.0% to 8.0% (2012: 7.5% to 8.5%). The above impairment in 2012 relates to the discontinued US defence business and reflects the then expected proceeds less costs of sale (note 10).

Goodwill is allocated to the Group's cash-generating units (CGUs) based on value in use, identified according to the business segment and country of operation. The defence infrastructure business, formerly reported under Support Services, has been moved and is now reported under Defence and Security and the comparatives have been restated. A segment level summary of goodwill allocation is presented below:

	2013 £m	2012 (restated) £m
Marine and Technology	409.3	387.1
Defence and Security	627.4	626.9
Support Services	523.4	526.8
International – Africa	2.9	0.1
	1,563.0	1,540.9
United Kingdom	1,546.6	1,527.8
Africa	2.9	0.1
North America	2.4	2.4
Middle East	11.1	10.6
	1,563.0	1,540.9

Notes to the Group financial statements (continued)

14. Other intangible assets

	Acquired intangibles £m	IFRIC 12 intangibles £m	Software £m	Development costs £m	Total £m
Cost					
At 1 April 2012	543.9	5.9	29.8	–	579.6
Additions	–	–	6.6	–	6.6
Disposals	–	–	(3.0)	–	(3.0)
On acquisition of subsidiaries (note 31)	20.1	–	–	–	20.1
On disposal of subsidiaries (note 32)	–	–	(0.3)	–	(0.3)
Exchange adjustments	2.6	–	(0.2)	–	2.4
At 31 March 2013	566.6	5.9	32.9	–	605.4
Accumulated amortisation and impairment					
At 1 April 2012	214.8	2.4	15.2	–	232.4
Amortisation charge	66.4	0.2	7.0	–	73.6
Disposals	–	–	(1.9)	–	(1.9)
On disposal of subsidiary (note 32)	–	–	(0.2)	–	(0.2)
Exchange adjustments	2.3	–	–	–	2.3
At 31 March 2013	283.5	2.6	20.1	–	306.2
Net book value at 31 March 2013	283.1	3.3	12.8	–	299.2
Cost					
At 1 April 2011	602.6	5.9	25.4	3.2	637.1
Additions	–	–	6.0	–	6.0
Disposals	–	–	(1.1)	(3.2)	(4.3)
Reclassified as assets held for sale (note 32)	(58.7)	–	(0.3)	–	(59.0)
Exchange adjustments	–	–	(0.2)	–	(0.2)
At 31 March 2012	543.9	5.9	29.8	–	579.6
Accumulated amortisation and impairment					
At 1 April 2011	146.9	0.3	13.3	3.2	163.7
Amortisation charge	85.2	2.1	3.0	–	90.3
Disposals	–	–	(0.9)	(3.2)	(4.1)
Reclassified as assets held for sale (note 32)	(17.2)	–	(0.1)	–	(17.3)
Exchange adjustments	(0.1)	–	(0.1)	–	(0.2)
At 31 March 2012	214.8	2.4	15.2	–	232.4
Net book value at 31 March 2012	329.1	3.5	14.6	–	347.2

All amortisation charges for the year have been charged through cost of sales.

Acquired intangibles are the estimated fair value of customer relationships which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to ten years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years. Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to ten years.

15. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2012	66.7	5.4	292.5	364.6
Exchange adjustments	(0.1)	–	(5.9)	(6.0)
On acquisition of subsidiaries (note 31)	–	–	25.6	25.6
Additions	4.4	1.3	47.2	52.9
Capitalised borrowing costs	–	–	0.4	0.4
Disposals	(2.5)	(0.4)	(10.6)	(13.5)
At 31 March 2013	68.5	6.3	349.2	424.0
Accumulated depreciation				
At 1 April 2012	29.2	2.0	119.7	150.9
Exchange adjustments	–	–	(1.8)	(1.8)
Charge for the year	4.1	0.7	32.6	37.4
Disposals	(2.5)	–	(8.9)	(11.4)
At 31 March 2013	30.8	2.7	141.6	175.1
Net book value at 31 March 2013	37.7	3.6	207.6	248.9
Cost				
At 1 April 2011	69.4	5.9	255.4	330.7
Exchange adjustments	–	(0.1)	(4.7)	(4.8)
On disposal of subsidiaries (note 32)	–	–	(1.2)	(1.2)
Additions	0.8	0.6	41.0	42.4
Capitalised borrowing costs	–	–	0.3	0.3
Reclassified – see note below	–	–	10.2	10.2
Reclassified as assets held for sale (note 32)	(2.9)	(0.6)	(2.6)	(6.1)
Disposals	(0.6)	(0.4)	(5.9)	(6.9)
At 31 March 2012	66.7	5.4	292.5	364.6
Accumulated depreciation				
At 1 April 2011	25.1	1.1	98.7	124.9
Exchange adjustments	(0.1)	(0.1)	(1.7)	(1.9)
On disposal of subsidiaries (note 32)	–	–	(0.6)	(0.6)
Charge for the year	4.5	1.0	28.1	33.6
Reclassified as assets held for sale (note 32)	(0.1)	–	–	(0.1)
Disposals	(0.2)	–	(4.8)	(5.0)
At 31 March 2012	29.2	2.0	119.7	150.9
Net book value at 31 March 2012	37.5	3.4	172.8	213.7

A capitalisation rate of 4% was used to determine the amount of borrowing costs eligible for capitalisation.

During the year to March 2012 two contracts were renewed on different terms resulting in a reclassification from other financial assets of £11.2 million and to inventory of £1.0 million.

Assets held under finance leases have the following net book value within plant and equipment:

	2013 £m	2012 £m
Cost	16.0	10.1
Aggregate depreciation	(6.0)	(5.4)
Net book value	10.0	4.7

Notes to the Group financial statements (continued)

16. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
At 1 April	19.3	64.9	24.9	22.1	44.2	87.0
Joint venture becoming a subsidiary (note 31)	–	4.0	–	–	–	4.0
Loans to/(repayments from) joint ventures and associates	–	–	28.3	3.2	28.3	3.2
Investment in joint ventures and associates	5.9	0.9	–	–	5.9	0.9
Share of profits	18.0	4.3	–	–	18.0	4.3
Interest accrued	–	–	1.8	1.1	1.8	1.1
Interest received	–	–	(3.9)	(1.5)	(3.9)	(1.5)
Dividend received	(7.1)	(6.6)	–	–	(7.1)	(6.6)
Fair value adjustment of derivatives	(23.0)	(65.1)	–	–	(23.0)	(65.1)
Tax on fair value adjustment of derivatives	5.5	16.9	–	–	5.5	16.9
At 31 March	18.6	19.3	51.1	24.9	69.7	44.2

Included within investment in joint venture and associates is goodwill of £1.2 million (2012: £1.2 million)

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2013							
Holdfast Training Services Limited	United Kingdom	38.1	(26.1)	29.3	1.0	–	74%
ALC (Superholdco) Limited	United Kingdom	58.2	(47.7)	18.1	6.7	5.5	50%
Airtanker Limited	United Kingdom	316.4	(299.0)	45.1	1.9	5.0	13%
Airtanker Services Limited	United Kingdom	40.0	(19.6)	8.4	1.3	1.0	23%
Ascent Flight Training (Holdings) Limited	United Kingdom	43.5	(37.1)	9.9	3.3	1.6	50%
Greenwich BSF SPV Limited	United Kingdom	53.1	(57.9)	2.4	0.2	0.1	50%
Lewisham Schools for the Future LEP Limited	United Kingdom	89.7	(78.5)	7.7	0.3	(0.6)	40%
Babcock Dounreay Partnership Limited	United Kingdom	3.3	(2.0)	68.7	4.4	3.3	50%
Other		24.5	(29.2)	24.5	2.1	2.1	
		666.8	(597.1)	214.1	21.2	18.0	

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2012							
Holdfast Training Services Limited	United Kingdom	50.6	(36.6)	42.9	1.1	(0.1)	74%
ALC (Superholdco) Limited	United Kingdom	58.4	(43.7)	20.5	5.1	4.1	50%
Airtanker Limited	United Kingdom	269.5	(274.7)	86.4	3.1	0.5	13%
Airtanker Services Limited	United Kingdom	31.3	(11.0)	3.4	0.2	0.1	23%
Ascent Flight Training (Holdings) Limited	United Kingdom	48.7	(43.7)	14.1	–	(2.9)	50%
Greenwich BSF SPV Limited	United Kingdom	52.7	(55.9)	8.1	0.2	–	50%
Other		84.9	(86.3)	46.6	1.3	2.6	
		596.1	(551.9)	222.0	11.0	4.3	

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed.

Holdfast Training Services Limited is shown as a joint venture as the Group does not have management control. Airtanker Limited as shown as an associate due to the level of management input and the relative share ownership.

17. Deferred tax

	2013 £m	2012 (restated) £m
Deferred tax asset	43.4	31.3
Deferred tax liability	(4.0)	–
	39.4	31.3

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2012	(9.2)	63.8	0.8	(24.1)	31.3
Income statement credit	–	3.3	–	15.1	18.4
Tax credit to equity	–	14.2	–	6.0	20.2
Transfer to corporation tax	–	(18.6)	–	(0.6)	(19.2)
Acquisition of subsidiaries (note 31)	–	–	–	(9.4)	(9.4)
Effect of change in UK tax rate					
– Income statement	0.4	–	–	0.8	1.2
– Equity	–	(2.6)	–	(0.5)	(3.1)
At 31 March 2013	(8.8)	60.1	0.8	(12.7)	39.4
At 1 April 2011	(10.5)	58.5	4.1	(69.4)	(17.3)
Income statement credit	–	4.7	–	22.4	27.1
Tax credit to equity	–	27.8	–	(0.1)	27.7
Prior year adjustment	0.5	–	2.5	–	3.0
Transfer to corporation tax	–	(21.9)	(5.8)	0.1	(27.6)
Acquisition of subsidiaries (note 31)	–	–	–	0.3	0.3
Effect of change in UK tax rate					
– Income statement	0.8	–	–	2.6	3.4
– Equity	–	(5.3)	–	(0.4)	(5.7)
Reclassified as asset held for sale (note 32)	–	–	–	20.4	20.4
At 31 March 2012	(9.2)	63.8	0.8	(24.1)	31.3

The deferred tax in respect of 'other' includes a liability of £3.2 million (2012: £4.4 million asset) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2013 £m	2012 £m
Deferred tax asset	(60.1)	(63.8)
Deferred tax liability	17.5	37.7
	(42.6)	(26.1)

Deferred tax expected to be recovered within 12 months:

	2013 £m	2012 £m
Deferred tax asset	–	–
Deferred tax liability	(13.1)	(17.0)
	(13.1)	(17.0)

Notes to the Group financial statements (continued)

17. Deferred tax (continued)

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses and advance corporation tax) of £16.0 million (2012: £42.8 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil million (2012: £nil million) of such losses, which may be carried forward. No deferred tax has been recognised in respect of the remaining £26.8 million (2012: £42.8 million) due to the unpredictability of future profit streams.

In addition to the changes in rates of corporation tax disclosed in note 9, a number of further changes to the UK corporation tax system were announced in the March 2013 Budget Statement. Further reductions to the main rate are proposed to reduce the rate to 20% by 1 April 2015. These further changes had not been substantively enacted at the balance sheet date and, therefore the impact is not included in these financial statements.

The effect of the change to reduce to a corporation tax rate of 21% would be to reduce the deferred tax asset provided at the balance sheet date by £3.8 million. This £3.8 million decrease in the deferred tax asset would increase profit by £2.3 million and decrease equity by £6.1 million.

The proposed reductions of the main rate of corporation tax to 20% by 1 April 2015, if these applied to the deferred tax balance at the balance sheet date, would be to further reduce the deferred tax asset by an additional £1.9 million.

18. Inventories

	2013 £m	2012 £m
Raw materials	11.2	11.7
Work-in-progress and long-term contracts	9.6	17.3
Finished goods and goods for resale	53.1	52.6
Total	73.9	81.6

19. Trade and other receivables

	2013 £m	2012 £m
Current assets		
Trade receivables	197.7	183.9
Less: provision for impairment of receivables	(3.7)	(6.4)
Trade receivables – net	194.0	177.5
Amounts due from customers for contract work	176.4	195.5
Retentions	6.1	6.3
Amounts owed by related parties (note 37)	20.6	21.0
Other debtors	65.4	45.0
Prepayments and accrued income	56.5	31.6
	519.0	476.9
Non-current assets		
Other debtors	0.5	1.8

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

As of 31 March 2013, trade receivables of £3.8 million (2012: £6.8 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £3.7 million (2012: £6.4 million). The individually impaired receivables mainly relate to receivables in the International division. It was assessed that a portion of these receivables is expected to be recovered.

19. Trade and other receivables (continued)

The ageing of the net impaired receivables is as follows:

	2013 £m	2012 £m
Less than three months	–	0.4
Three to six months	0.1	–
Over six months	–	–
	0.1	0.4

As of 31 March 2013, trade receivables of £26.5 million (2012: £19.8 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2013 £m	2012 £m
Less than three months	20.8	16.6
Three to six months	4.4	2.8
Over six months	1.3	0.4
	26.5	19.8

The carrying amounts of the Group's trade and other receivables are, in the main, denominated in Sterling.

Movements on the provision for impairment of trade receivables are as follows:

	2013 £m	2012 £m
Balance at 1 April	(6.4)	(9.9)
Provision for receivables impairment	(1.3)	(2.1)
Receivables written off during the year as uncollectable	1.2	0.6
Unused amounts reversed	2.4	2.2
Reclassified as assets held for sale	–	2.3
Exchange differences	0.4	0.5
Balance at 31 March	(3.7)	(6.4)

The creation and release of provisions for impairment of receivables have been included in cost of sales in the income statement (note 5). Amounts charged to the impairment provision are generally written-off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business.

Notes to the Group financial statements (continued)

20. Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	83.1	88.0
Short-term bank deposits (overnight)	14.0	12.3
	97.1	100.3

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2013		2012	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	60.6	60.6	48.0	48.0
Euro	21.8	21.8	5.3	5.3
US Dollar	4.8	4.8	17.8	17.8
South African Rand	6.3	6.3	19.4	19.4
Canadian Dollar	0.6	0.6	6.2	6.2
Omani Rial	–	–	2.5	2.5
Australian Dollar	–	–	0.5	0.5
New Zealand Dollar	2.8	2.8	0.5	0.5
Other currencies	0.2	0.2	0.1	0.1
	97.1	97.1	100.3	100.3

The above balances are invested at short-term, floating rates linked to LIBOR in the case of Sterling, the prime rate in the case of South African Rand and the local prime rate for other currencies.

21. Trade and other payables

	2013 £m	2012 £m
Current liabilities		
Contract cost accruals	171.2	166.8
Amounts due to customers for contract work	198.7	159.3
Trade creditors	169.3	154.7
Amounts owed to related parties (note 37)	0.5	2.4
Other creditors	34.7	33.5
Other taxes and social security	39.4	34.7
Accruals and deferred income	270.6	268.1
	884.4	819.5
Non-current liabilities		
Other creditors	7.9	8.9

22. Bank and other borrowings

	2013 £m	2012 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	1.7	2.3
Unsecured	5.1	0.6
	6.8	2.9
Finance lease obligations*	2.0	1.3
	8.8	4.2
Non-current liabilities		
Bank and other loans		
Secured	12.8	14.5
Unsecured	668.6	742.3
	681.4	756.8
Finance lease obligations*	2.6	0.5
	684.0	757.3

* Finance leases are secured against the assets to which they relate.

Bank and other loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR, base rates or foreign equivalents appropriate to the country in which the borrowing is incurred. The Group has entered into interest rate and currency swaps, details of which are included in note 23.

The carrying amount of the Group's borrowings are denominated in the following currencies:

			2013
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	239.5	125.0	114.5
South African Rand	9.2	9.2	–
US Dollar*	442.3	–	442.3
Other	1.8	1.8	–
	692.8	136.0	556.8

			2012
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	342.4	225.0	117.4
South African Rand	1.6	1.6	–
US Dollar*	416.0	–	416.0
Other	1.5	1.5	–
	761.5	228.1	533.4

* US Dollars 650 million have been swapped into Sterling and US Dollars 300 million into floating rates.

The weighted average interest rates of Sterling fixed rate borrowings are 5.1%. The weighted average period for which these interest rates are fixed is four years.

The floating rate for borrowings is linked to LIBOR in the case of Sterling, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The exposure of the Group to interest rate changes when borrowings re-price is as follows:

Total borrowings	1 year £m	1–5 years £m	>5 years £m	Total £m
As at 31 March 2013	341.2	164.8	186.8	692.8
As at 31 March 2012	442.4	60.0	259.1	761.5

Notes to the Group financial statements (continued)

22. Bank and other borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	2013 %	2012 %
UK bank overdraft	1.5	1.5
UK bank borrowings	3.0	3.0
US private placement – fixed	5.7	5.7
US private placement – floating	3.1	3.1
Other borrowings	4.8–5.5	2.0–7.8
Finance leases	8.0–14.0	5.0–11.0

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2013		2012	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	6.8	2.0	2.9	1.3
Between one and two years	1.7	2.6	1.7	0.5
Between two and five years	287.8	–	287.9	–
Greater than five years	391.9	–	467.2	–
	688.2	4.6	759.7	1.8

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2013 £m	2012 £m
Expiring in less than one year	32.4	8.3
Expiring in more than one year but not more than five years	375.0	275.0
	407.4	283.3

The minimum lease payments under finance leases fall due as follows:

	2013 £m	2012 £m
Not later than one year	2.2	1.4
Later than one year but not more than five years	2.9	0.5
More than five years	–	–
	5.1	1.9
Future finance charges on finance leases	(0.5)	(0.1)
Present value of finance lease liabilities	4.6	1.8

23. Financial instruments

Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Non-current				
US private placement – currency and interest rate swaps	45.1	20.1	–	–
Total non-current other financial assets and liabilities	45.1	20.1	–	–
Current				
Interest rate hedges	–	–	3.1	5.1
Other currency hedges	3.5	3.3	4.1	3.1
Total current other financial assets and liabilities	3.5	3.3	7.2	8.2

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales, purchases, deposits and borrowings denominated in foreign currencies, as the transactions occur.

The Group enters into interest rate hedges against interest rate exposure and to create a balance between fixed and floating interest rates.

The fair values of the financial instruments are based on valuation techniques (level 2).

Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2013 included £14.5 million of UK interest rate swaps and interest rate swaps in relation to the US$650 million US$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2013:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	0.2	5.45	0.6025	31/3/2014
Interest rate swap	8.5	5.45	0.6025	31/3/2019
Interest rate swap	5.8	4.745	0.6025	31/3/2029
Total interest rate swaps	14.5			

	Amount US$m	Amount at swapped rates £m	Swap %	Maturity
Hedged				
Cross currency and interest rate swap	150.0	92.1	Fixed 4.94% US$ to fixed 5.4% GBP	19/3/2018
Cross currency and interest rate swap	200.0	122.9	Fixed 5.64% US$ to fixed 5.95% GBP	17/3/2021
Cross currency and interest rate swap	300.0	184.3	Fixed 5.64% US$ to floating three month LIBOR +margin GBP	17/3/2021
Total cross currency and interest rate swap	650.0	399.3		

Notes to the Group financial statements (continued)

23. Financial instruments (continued)

Fair value of financial assets and financial liabilities

The fair values of financial assets and liabilities at the balance sheet date were:

	2013		2012	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	(684.0)	(683.4)	(757.3)	(756.7)
Loan to joint venture	51.1	51.1	24.9	24.9
	(632.9)	(632.3)	(732.4)	(731.8)
Fair value of other financial assets and financial liabilities				
Short-term borrowings	(8.8)	(8.8)	(4.2)	(4.2)
Trade and other payables*	(875.1)	(874.0)	(812.9)	(811.6)
Trade and other receivables	519.5	519.5	478.7	478.7
Other financial assets – IFRIC 12	22.2	22.2	23.1	23.1
Short-term deposits	14.0	14.0	12.3	12.3
Cash at bank and in hand	83.1	83.1	88.0	88.0
Income tax payable	–	–	(10.0)	(10.0)
Income tax receivable	8.6	8.6	–	–
Other financial assets and liabilities	31.4	31.4	15.2	15.2
	(205.1)	(204.0)	(209.8)	(208.5)

* Does not include other taxes and social security.

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4% to 5% (2012: 4% to 5%).

24. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/warranty (b) £m	Reorganisation costs (c) £m	Property and other (d) £m	Total provisions £m
At 1 April 2012	4.4	47.5	16.0	77.1	145.0
On acquisition of subsidiaries (note 31)	–	2.9	–	–	2.9
Charged/(released) to income statement	(0.6)	9.9	(0.2)	9.2	18.3
Utilised in year	(0.4)	(5.5)	(0.8)	(2.0)	(8.7)
Foreign exchange		0.3	–	–	0.3
At 31 March 2013	3.4	55.1	15.0	84.3	157.8

Provisions have been analysed between current and non-current as follows:

	2013 £m	2012 £m
Current	42.6	27.8
Non-current	115.2	117.2
	157.8	145.0

(a) The insurance provisions arise in the Group's captive insurance companies, Chepstow Insurance Limited, Peterhouse Insurance Limited and VT Insurance Services Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

(b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.

(c) The reorganisation costs arise mainly in relation to acquired businesses personnel related costs.

(d) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure.

Included within property and other provisions is £40 million expected to be utilised in approximately ten years. In addition within contract/warranty provisions there is £18 million expected to be materially utilised in approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

25. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2012	359,146,705	215.5
Shares issued	2,925,097	1.7
At 31 March 2013	362,071,802	217.2
At 1 April 2011	358,838,092	215.3
Shares issued	308,613	0.2
At 31 March 2012	359,146,705	215.5

Potential issues of ordinary shares

The table below shows options existing over the Company's shares as at 31 March 2013 that are capable of being met on exercise by the issue of new shares. They represent outstanding options granted under the Company's executive share plans. The options were either granted directly by the Company or by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 5,917,922 shares – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of 206,973 shares. The Company decides from time to time whether to meet the exercise of such options by way of a fresh issue of shares (either to the option holder or to the employee share trust) or by way of financing the employee share trusts to purchase already-issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise price Pence	Exercise period	2013 Number	2012 Number
27 November 2002	Option – vested	106.33	27/11/2005 – 26/11/2012	–	7,346
30 June 2003	Option – vested	115.60	30/06/2006 – 29/06/2013	9,940	28,539
06 July 2004	Option – vested	126.00	06/07/2007 – 05/07/2014	45,118	48,579
06 July 2004	LTIP[1] – vested	–	06/07/2007 – 05/07/2014	83,333	83,333
11 July 2005	LTIP[1] – vested	–	11/07/2008 – 10/07/2015	–	33,038
24 July 2006	LTIP[1] – vested	–	24/07/2009 – 23/07/2016	17,060	17,060
19 June 2008	LTIP[1] – vested	–	19/06/2011 – 18/06/2018	146,401	146,401
11 September 2009	PSP[2] – vested in year	–	11/09/2012 – 10/09/2013	503,349	1,325,648
11 September 2009	CSOP[3] – vested in year	–	11/09/2012 – 10/09/2013	113,719	306,536
13 July 2010	PSP[2]	–	13/07/2013 – 12/07/2014	1,471,563	1,575,271
13 July 2010	CSOP[3]	–	13/07/2013 – 12/07/2014	91,007	95,847
14 June 2011	PSP[2]	–	14/06/2014 – 13/06/2015	1,526,516	1,670,871
14 June 2011	CSOP[3]	–	14/06/2014 – 13/06/2015	77,110	80,703
14 June 2012	PSP[2]	–	14/06/2015 – 13/06/2016	1,449,353	–
14 June 2012	CSOP[3]	–	14/06/2015 – 13/06/2016	70,239	–
16 July 2012	PSP[2]	–	16/07/2015 – 15/07/2016	32,454	–
24 January 2013	PSP[2]	–	24/01/2016 – 24/01/2017	11,617	–
16 July 2012	DBMP[4]	–	16/07/2015 – 15/07/2016	490,116	–
				6,138,895	5,419,172

Options granted to Directors are summarised in the Remuneration report on pages 74 to 100 and are included in the outstanding options set out above.

1. 2003 Long Term Incentive Plan,
2. 2009 Performance Share Plan,
3. 2009 Company Share Option Plan,
4. 2012 Deferred Bonus Matching Plan.

Notes to the Group financial statements (continued)

25. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these options and also awards made under the 2009 Deferred Bonus Plan.

	2013		2012	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	2,394,033	529,179	–	389,539
PEST	117,880	–	–	33,628
Total	2,511,913	529,179	–	423,167

Share awards granted under the 2009 Deferred Bonus Plan are required by the rules of that plan to be satisfied with already issued-shares purchased in the market.

A reconciliation of share option movements is shown below:

	2013		2012	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 April	84	£1.21	524	£1.21
Exercised	(29)	£1.15	(440)	£1.21
Outstanding at 31 March	55	£1.24	84	£1.21
Exercisable at 31 March	55	£1.24	84	£1.21

Weighted average share price for options exercised during the year was 958.35p per share (2012: 675.10p per share).

A reconciliation of LTIP, PSP, CSOP and DBMP movements is shown below:

	2013	2012
	Number '000	Number '000
Outstanding at 1 April	5,335	3,998
Granted	2,067	1,784
Exercised	(531)	(219)
Forfeited/lapsed	(787)	(228)
Outstanding at 31 March	6,084	5,335
Exercisable at 31 March	864	280

Weighted average share price for options exercised during the year was 933.50p per share (2012: 700.64p per share).

During the year 3,257,686 ordinary shares (2012: no shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts'). The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2013 639,761 shares (2012: 352,386) were disposed by the Trusts resulting from options exercised. At 31 March 2013, the Trusts held between them a total of 3,041,092 (2012: 423,167) ordinary shares at a total market value of £33,087,081 (2012: £3,370,525) representing 0.84% (2012: 0.12%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year, though full dividends were paid in respect of shares held by the Peterhouse Employee Share Trust. The Company meets the operating expenses of the Trusts.

The Trusts enable shares in the Company to be held or purchased and made available to employees through the exercise of rights or awards made under the Company's employee share schemes. The Trusts are discretionary settlements for the benefit of employees within the Group. The Company is excluded from benefiting under them. They are controlled and managed outside the UK and each has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company, but the trustee of the Peterhouse Employee Share Trust does not have the power to waive dividends due on Babcock ordinary shares and therefore receives the full amount of any dividends declared.

26. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £8.6 million (2012: £5.0 million) all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £6.5million (2012: £3.7 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSP's and CSOP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2012 DBMP Matching	326,744	874.5	18.0%	4.0	40%	623.5	874.5	46%	16/7/12
2012 PSP	32,454	874.5	18.0%	4.0	40%	628.8	874.5	46%	16/7/12
2012 PSP Main	1,389,376	879.5	18.0%	4.0	40%	653.5	879.5	46%	14/6/12
2012 PSP Funding	70,239	879.5	18.0%	4.0	40%	575.2	792.4	46%	14/6/12
2012 CSOP	70,239	879.5	18.0%	4.0	40%	78.3	87.1	46%	14/6/12
2011 PSP Main	1,622,534	701.0	25.9%	4.0	40%	433.0	701.0	46%	14/6/11
2011 PSP Funding	80,703	701.0	25.9%	4.0	40%	339.0	582.0	46%	14/6/51
2011 CSOP	80,703	701.0	25.9%	4.0	40%	92.0	116.0	46%	16/6/11
2010 PSP Main	1,564,465	635.0	27.8%	4.0	58%	369.0	635.0	46%	13/7/10
2010 PSP Funding	130,455	635.0	27.8%	4.0	58%	285.0	525.0	46%	137/710
2010 CSOP	130,455	635.0	27.8%	4.0	58%	81.0	107.0	46%	13/7/10

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are just split evenly between TSR and EPS.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and CSOP = 2009 Company Share Option Plan

27. Retirement benefits and liabilities

The Group has established a number of pension schemes around the world covering many of its employees. The principal funds are those in the UK.

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2013 £m	2012 £m
Defined contribution schemes	31.6	32.3

Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2013 £m	2012 £m
Retirement benefits – funds in surplus	10.1	10.2
Retirement benefits – funds in deficit	(271.2)	(276.1)
	(261.1)	(265.9)

Notes to the Group financial statements (continued)

27. Retirement benefits and liabilities (continued)

The Group operates four principal defined benefit schemes for employees in the United Kingdom: the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme, the Rosyth Royal Dockyard Pension Scheme and the Babcock Rail Ltd (formerly First Engineering) Shared Cost Section of the Railways Pensions Scheme. All four schemes are funded by payments to separate trustee-administered funds and the level of the Group's contributions to the schemes is assessed in accordance with the advice of independent, qualified actuaries. The details of the latest formal actuarial valuations of these four schemes are as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme		Rosyth Royal Dockland Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
		Pre-merger section	Former VT Group section of SIPS		
Date of last formal completed actuarial valuation	31/03/11	01/04/10	31/3/10	31/03/09	31/12/10
Number of active members at above date	3,328	909	1,348	1,036	481
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:					
Value of assets	£977.0m	£502.9m	£319.4m	£335.6m	£189.0m
Level of funding	90%	92%	78%	90%	101%
Principal valuation assumptions:					
Excess of investment returns over earnings increases	(1.3%)–2.4%	2.4%	c. 1.4%	3.5%	3.5%
Excess of investment returns over pension increases	(0.3%)–3.6%	1.3%–2.5%	c. 1.4%	2.5%	2.9%

The Group's future service contribution rate for members of the Babcock International Group Pension Schemes depends upon the section of the Scheme, but will be 33.1% of pensionable pay for former members of the VT Group Section of SIPS and 20% of pensionable pay for the majority of other members. The Group will also pay the following amounts – deficit contributions starting at £17.05 million for the year to 31 March 2014, £680,000 per annum to meet the cost of insuring the lump sum death-in-service benefits for DC members and members who are covered for the life assurance benefits only; and £648,000 per annum to meet the funding gap in relation to the Scheme's longevity swap.

The Group's future service contribution rate for the vast majority of members in the Devonport Royal Dockyard Pension Scheme is 19.1% of pensionable pay, with additional payments of £13.5 million per annum to meet the funding deficit and £14.8 million per annum to meet the funding gap in relation to the Scheme's longevity swap.

The Group's future service contribution rate for the Rosyth Royal Dockyard Pension Scheme is 15.0% of pensionable pay, with additional payments of £7.84 million per annum (rising in line with RPI) to meet the funding deficit and £2.52 million per annum to meet the funding gap in relation to the Scheme's longevity swap.

The Group's contribution rate for the Babcock Rail Ltd Section of the Railways Pension Scheme is 18.0% of pensionable pay.

Where salary sacrifice arrangements are in place the Group effectively meet the members' contributions in addition.

The Group cash contributions forecast for next year, excluding salary sacrifice, are: £35.2 million to the Devonport Royal Dockyard Pension Scheme; £36.6 million to the Babcock International Group Pension Scheme; £14.8 million to the Rosyth Royal Dockyard Pension Scheme; £2.0 million to the Babcock Rail Ltd section of the Railways Pension Scheme; other scheme contributions of £4.2 million.

The HMNB Clyde contract includes a contract specific defined benefit pension scheme where all funding risk is borne by the customer and hence the costs are included within the defined contribution analysis above.

27. Retirement benefits and liabilities (continued)

The latest full actuarial valuation of the Group's defined benefit pension schemes have been updated to 31 March by qualified independent actuaries for IAS 19 purposes using the following assumptions:

	2013 (weighted average) %	2012 (weighted average) %
Rate of increase in pensionable salaries	2.6	2.4
Rate of increase in pensions	2.8	2.7
Discount rate	4.4	4.8
Inflation rate	2.8	2.7
Expected return on plan assets	5.4	6.6
Total life expectancy – future pensioners (years)	86.9	86.7

The fair value of the assets, the present value of the liabilities and the expected rates of return of the Group pensions schemes at 31 March were as follows:

	2013		2012	
	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m
Equities	8.4	792.0	8.4	1,159.9
Property	7.7	152.0	7.7	158.6
Bonds – corporate	4.3	1,413.9	4.8	1,168.7
Bonds – government*	2.8	719.8	3.1	347.5
Cash plus infrastructure	7.7	12.9	7.7	17.4
Collateral	5.2	51.6	–	–
Funds awaiting investment	5.2	162.5	6.3	54.7
Active position of longevity swap		(99.9)		(124.1)
Fair value of assets		3,204.8		2,782.7
Present value of funded obligations		(3,465.8)		(3,039.9)
Funded status		(261.0)		(257.2)
Present value of unfunded obligations		(0.1)		(0.1)
IFRIC 14 adjustment		–		(8.6)
Net liabilities recognised in the balance sheet		(261.1)		(265.9)

* Government bonds are shown net of repurchase obligations of £1,495 million. Over the year, a significant hedging programme was undertaken to reduce the risk of volatility in the schemes funding positions and IAS deficit due to adverse movements in interest rates.

The amounts recognised in the Group income statement are as follows:

	2013 £m	2012 £m
Current service cost	(44.8)	(44.5)
Interest on obligation	(137.3)	(145.7)
Expected return on plan assets	168.3	172.1
Total included within operating profit	(13.8)	(18.1)

The expected change in pension costs as a result of revisions to IAS 19 are shown in note 1.

Notes to the Group financial statements (continued)

27. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2013 £m	2012 £m
Actual return less expected return on pension scheme assets	282.3	70.1
Experience gain/(losses) arising on scheme liabilities	(59.1)	(23.8)
Changes in assumptions relating to present value of scheme liabilities	(315.0)	(152.5)
Reimbursement right	24.2	(2.5)
IFRIC 14 adjustments	8.6	1.8
At 31 March	(59.0)	(106.9)
Cumulative other comprehensive income at 31 March	(552.4)	(493.4)

Analysis of movement in the Group balance sheet

	2013 £m	2012 £m
Fair value of plan assets		
At 1 April	2,782.7	2,579.9
Contract wins	3.9	–
Expected return	168.3	172.1
Actuarial gains	282.3	70.1
Change in reimbursement rights (longevity swaps)	24.2	(2.5)
Employer contributions	77.6	84.3
Employee contributions	5.1	7.3
Benefits paid	(139.5)	(128.5)
Exchange differences	0.2	–
At 31 March	3,204.8	2,782.7
Present value of benefit obligations		
At 1 April	3,039.9	2,794.6
Contract wins	3.9	–
Service cost	44.8	44.5
Interest cost	137.3	145.7
Employee contributions	5.1	7.3
Actuarial loss	374.1	176.3
Benefits paid	(139.5)	(128.5)
Exchange differences	0.2	–
At 31 March	3,465.8	3,039.9
Present value of unfunded obligations	(0.1)	(0.1)
IFRIC 14 adjustment	–	(8.6)
Net deficit at 31 March	(261.1)	(265.9)
Actual return on plan assets		
Year ending 31 March	450.6	242.2

The expected return on plan assets is based on long-term market expectations at the beginning of the year. In the case of equities there is a premium over the risk free rate.

27. Retirement benefits and liabilities (continued)

(Deficits)/surpluses in the plans

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of plan assets	3,204.8	2,782.7	2,579.9	1,979.8	1,702.9
Present value of benefit obligations	(3,465.8)	(3,039.9)	(2,794.6)	(2,303.8)	(1,652.2)
Present value of unfunded obligations	(0.1)	(0.1)	–	–	–
IFRIC 14 adjustment	–	(8.6)	(10.4)	–	–
(Deficits)/surpluses at 31 March	(261.1)	(265.9)	(225.1)	(324.0)	50.7

History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Difference between the expected and actual return on scheme assets	282.3	70.1	7.8	375.5	(383.0)
Percentage of scheme assets at 31 March	9%	3%	0%	19%	(22%)
Experience gains/(losses) of scheme liabilities	(59.1)	(23.8)	17.0	(41.6)	6.1
Percentage of present value of scheme liabilities at 31 March	2%	1%	(1%)	2%	0%
Total amount recognised in the Group statement of comprehensive income	(59.0)	(106.9)	103.5	(403.5)	(145.6)
Percentage of present value of scheme liabilities at 31 March	(2%)	(4%)	4%	(18%)	(9%)

The changes to the Group balance sheet at March 2013 and the charges to the Group income statement for the year to March 2014, if the assumptions were sensitised by the amounts below, would be:

	Balance sheet 2013 £m	Income statement 2014 £m
Initial assumptions	(261.1)	61.4
Discount rate moves up or down by 0.1%	±54.0	±3.1
Inflation rate moves up or down by 0.1%	±38.0	±2.0
Total life expectancy changes by half a year up or down	±40.6	±2.4
Real salaries move up or down by 0.25%	±20.2	±1.7

Notes to the Group financial statements (continued)

28. Reconciliation of operating profit to cash generated from operations

	2013 £m	2012 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible and exceptional items	315.2	290.2
Amortisation of acquired intangible and exceptional items	(80.7)	(88.2)
Pre-tax loss from discontinued operations	(17.1)	(51.8)
Operating profit	217.4	150.2
Depreciation of property, plant and equipment	37.4	33.6
Amortisation of intangible assets	73.6	90.3
Investment income	1.7	2.2
Equity share-based payments	8.6	5.0
Loss/(profit) on disposal of subsidiaries	18.0	(1.9)
Impairment of goodwill	–	58.5
Profit on disposal of property, plant and equipment	(4.1)	(0.8)
Loss on disposal of intangible assets	1.1	0.2
Operating cash flows before movement in working capital	353.7	337.3
Decrease in inventories	1.4	8.6
(Increase)/decrease in receivables	(34.8)	23.3
Increase/(decrease) in payables	48.5	(26.4)
Decrease in provisions	(11.5)	(16.0)
Retirement benefit payments in excess of income statement	(63.9)	(66.1)
Cash generated from operations	293.4	260.7

29. Movement in net debt

	2013 £m	2012 £m
(Decrease)/increase in cash in the year	(5.7)	28.2
Cash flow from the decrease in debt and lease financing	104.8	56.6
Change in net funds resulting from cash flows	99.1	84.8
Finance leases acquired with subsidiaries	(6.3)	–
New finance leases	(0.6)	–
Foreign currency translation differences and other	(1.7)	3.1
Movement in net debt in the year	90.5	87.9
Net debt at the beginning of the year	(641.1)	(729.0)
Net debt at the end of the year	(550.6)	(641.1)

30. Changes in net debt

	31 March 2012 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/other movement £m	31 March 2013 £m
Cash and bank balances	100.3	(2.8)	2.4	–	(2.8)	97.1
Bank overdrafts	(1.9)	(5.3)	–	–	0.7	(6.5)
Cash, cash equivalents and bank overdrafts	98.4	(8.1)	2.4	–	(2.1)	90.6
Debt	(757.8)	101.1	–	–	(25.0)	(681.7)
Finance leases	(1.8)	3.7	(6.3)	(0.6)	0.4	(4.6)
	(759.6)	104.8	(6.3)	(0.6)	(24.6)	(686.3)
Net debt before derivatives	(661.2)	96.7	(3.9)	(0.6)	(26.7)	(595.7)
Net debt derivative	20.1	–	–	–	25.0	45.1
Net debt including derivatives	(641.1)	96.7	(3.9)	(0.6)	(1.7)	(550.6)

31 (a). Acquisitions – current year

On 1 June 2012 the Group acquired a controlling interest of 52% of Target Cranes (Pty) Limited (Target) a company based in South Africa involved in the rental of mobile cranes. The transaction was made via an exchange of shares and with Target also acquiring the assets and liabilities of the Plant division of Babcock Africa Services (Pty) Limited.

On 28 December 2012 the Group acquired the entire business of LGE Process a company based in Scotland that designs and builds plants for processing, storage and handling of liquid gasses and is the market leader in the supply of these solutions to the marine and onshore liquid gas sectors.

The goodwill arising on the acquisition derives from the market position of the entities involved and the value of the workforce acquired.

Details of the assets acquired and the provisional goodwill are as follows:

	LGE Process £m	Target Cranes £m	Other £m	Total £m
Cost of acquisition				
Cash paid	25.2	–	2.0	27.2
Deemed consideration	–	19.8	–	19.8
Purchase consideration	25.2	19.8	2.0	47.0
Fair value of assets acquired (see below)	3.2	16.7	2.0	21.9
Goodwill	22.0	3.1	–	25.1

Net assets and liabilities arising from the acquisition are as follows:

	LGE Process		Target Cranes		Other		Total	
	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m
Goodwill	8.9	–	–	–	–	–	8.9	–
Acquired intangibles*	–	18.1	–	–	–	2.0	–	20.1
Property plant and equipment	–	–	23.3	25.6	–	–	23.3	25.6
Deferred tax	–	(3.9)	(4.6)	(5.5)	–	–	(4.6)	(9.4)
Income tax	–	–	0.1	(0.2)	–	–	0.1	(0.2)
Cash, cash equivalents and bank overdraft	3.8	3.8	1.2	1.2	–	–	5.0	5.0
Finance leases	–	–	(6.3)	(6.3)	–	–	(6.3)	(6.3)
Inventory	–	–	0.1	0.1	–	–	0.1	0.1
Current assets	6.8	6.3	3.0	2.3	–	–	9.8	8.6
Current and non-current liabilities	(16.7)	(18.2)	(0.5)	(0.5)	–	–	(17.2)	(18.7)
Provisions	(2.9)	(2.9)	–	–	–	–	(2.9)	(2.9)
Net assets acquired	(0.1)	3.2	16.3	16.7	–	2.0	16.2	21.9

* Acquired intangibles are: customer relationships, both contracted and non-contracted (see note 14).

Cash outflow to acquire businesses net of cash acquired:

	LGE Process £m	Target Cranes £m	Other £m	Total £m
Purchase consideration paid in cash	25.2	–	2.0	27.2
Cash, cash equivalents and bank overdrafts	(3.8)	(1.2)	–	(5.0)
Cash outflow/(inflow) in period	21.4	(1.2)	2.0	22.2

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2010 are:

	LGE Process		Target Cranes	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Revenue	9.7	41.2	8.0	10.2
Operating profit	(0.7)	1.5	3.2	3.8

Mark-to-market losses on forward exchange contracts of £0.7 million are included above within LGE Process since date of acquisition as the contracts are deemed ineffective since acquisition.

Notes to the Group financial statements (continued)

31 (b). Acquisitions – prior year

On 6 October 2011 the Group acquired a controlling interest in Careers Enterprises (Futures) Limited for a cost of £nil. Prior to this the Group had an investment in the company and accounted for it as a joint venture. The net assets acquired were £nil after allowing for the negative value of the joint venture brought forward and a provision of £3.7 million.

32. Disposals and held for sale

In July 2012 the Group completed the disposal of its holding in VT Services Inc. (the US defence business), the net assets of which had been disclosed as held for sale at 31 March 2012.

On 5 December 2012 the Group sold the trade and assets of the UKAEA Pension Administration Office that had been acquired as part of the UKAEA Limited acquisition in 2009.

In January 2013 the Group disposed of its interest in the Waste business.

In the year ending March 2012 the Group disposed of its holding in Babcock Eagleton Inc.

	2013					2012		
	UKAEA Pensions £m	Waste business £m	VT Services £m	Previously disposed of business £m	Total £m	Babcock Eagleton Inc. £m	Held for sale £m	Total £m
Goodwill	3.4	–	–	–	3.4	1.2	23.4	24.6
Other intangible assets	0.1	–	–	–	0.1	–	41.7	41.7
Property plant and equipment	–	–	–	–	–	0.6	6.0	6.6
Cash, cash equivalents and bank overdrafts	–	–	2.6	–	2.6	–	–	–
Taxation	–	–	–	–	–	–	(20.4)	(20.4)
Current and non-current assets	–	–	–	–	–	3.4	31.7	35.1
Inventories	–	–	–	–	–	–	0.2	0.2
Current and non-current liabilities	–	–	–	–	–	(1.4)	(21.2)	(22.6)
Provisions	–	–	–	–	–	–	(6.8)	(6.8)
Non-controlling interests	–	–	0.4	–	0.4	–	–	–
Held for sale assets and liabilities	–	–	62.2	–	62.2	–	–	–
Translation adjustment recycled from translation reserve	–	–	4.9	–	4.9	–	–	–
Net assets disposed/held for sale	3.5	–	70.1	–	73.6	3.8	54.6	58.4
(Loss)/profit on disposal of subsidiary	0.2	9.3	(18.2)	(9.3)	(18.0)	1.9	–	1.9
Other disposal costs accrued/deferred consideration	(1.4)	2.6	8.9	9.3	19.4	–	–	–
Net assets held for sale	–	–	–	–	–	–	(54.6)	(54.6)
Sale proceeds	2.3	11.9	60.8	–	75.0	5.7	–	5.7
Sale proceeds less cash disposed of	2.3	11.9	58.2	–	72.4	5.7	–	5.7
Less costs paid in the year	(0.8)	(1.7)	(1.9)	–	(4.4)	–	–	–
Net cash flow	1.5	10.2	56.3	–	68.0	5.7	–	5.7

33. Transactions with non-controlling interests

The following are the transactions for the period:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
Following the acquisition of Target Cranes, a further 12.4% of shares were purchased, in cash, from the non-controlling interest for £5.1 million. This resulted in a net gain on non-controlling interest of £4.0 million.	4.0	(9.1)	5.1
Following the acquisition of Target Cranes, an agreement was reached for a put option providing the non-controlling interest shareholders the right to force the Group to purchase further shares. The option exercise price is a multiple of EBITDA. The put option liability is shown as non-current Other financial liabilities on the balance sheet. (See below)	(14.6)	–	–
The non-controlling interest in one of the Group's subsidiaries has been acquired with the vendor paying £6.4 million.	6.0	0.4	(6.4)
Transactions with non-controlling interests	(4.6)	(8.7)	(1.3)

The £14.6 million shown above reflects the option at inception which will be revalued at period ends.

34. Operating lease commitments – minimum lease payments

	2013		2012	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:				
Within one year	21.2	10.2	20.5	10.2
Later than one year and less than five years	52.4	14.1	49.9	14.2
After five years	24.0	–	24.6	–
	97.6	24.3	95.0	24.4

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating leases.

35. Contingent liabilities

(a) Pursuant to the Rosyth Dockyard privatisation agreement, the MoD will share in the net proceeds of sale or development of the Dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MoD dated 30 January 1997. By way of security for the MoD's rights to such share, the Company has granted a fixed charge (standard security) over the Dockyard in favour of the Authority.

(b) The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.

(c) The Group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

36. Capital and other financial commitments

	2013 £m	2012 £m
Contracts placed for future capital expenditure not provided in the financial statements	6.2	4.2

Notes to the Group financial statements (continued)

37. Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 16.

	2013 Revenue to £m	2013 Purchases from £m	2013 Year end debtors' balance £m	2013 Year end creditor balance £m
Joint ventures and associates				
Debut Services (South West) Limited	128.9	1.2	–	–
Holdfast Training Services Limited	73.4	0.4	12.7	–
First Swietelsky Operation and Maintenance	9.5	–	1.2	0.5
Ascent Management Company (Weybridge) Limited	0.5	–	–	–
Ascent Flight Training (Management) Company Limited	1.8	–	0.7	–
Advanced Jet Training Limited	1.5	–	0.3	–
Rear Crew Training Limited	0.8	–	0.2	–
Airtanker Services Limited	6.9	–	1.0	–
Whitefleet Limited	0.4	17.9	–	–
ALC (Superholdco) Limited	3.1	–	–	–
Naval Ship Management (Australia) Pty Limited	2.1	–	0.2	–
Lewisham Schools for the Future LEP Limited	0.1	–	–	–
Lewisham Schools for the Future SPV Limited	2.2	–	0.9	–
Lewisham Schools for the Future SPV2 Limited	0.4	–	–	–
Lewisham Schools for the Future SPV3 Limited	0.5	–	0.1	–
Lewisham Schools for the Future SPV4 Limited	0.8	–	0.2	–
Greenwich BSF SPV Limited	0.2	–	–	–
Cura Classis (UK) Limited	5.1	–	–	–
Cura Classis (US) LLC	6.8	–	0.1	–
Cura Classis Canada Hold Co Inc.	7.2	–	–	–
Dounreay Site Licence Company	9.5	–	2.1	–
Related by common directorships				
Finmeccanica UK Group	9.3	0.1	0.9	–
Northrop Grumman Sperry Marine Limited	–	–	–	–
	271.0	19.6	20.6	0.5

37. Related party transactions (continued)

	2012 Revenue to £m	2012 Purchases from £m	2012 Year end debtors' balance £m	2012 Year end creditor balance £m
Joint ventures and associates				
Debut Services (South West) Limited	122.5	1.2	–	–
Holdfast Training Services Limited	69.2	0.2	11.9	–
First Swietelsky Operation and Maintenance	9.7	–	1.2	–
Ascent Management Company (Weybridge) Limited	0.5	–	–	–
Ascent Flight Training (Management) Company Limited	1.2	–	0.2	–
Advanced Jet Training Limited	2.3	–	0.3	–
Rear Crew Training Limited	0.8	–	0.1	–
Airtanker Services Limited	36.1	–	2.9	–
Whitefleet Limited	2.2	56.2	0.1	2.3
ALC (FMC) Limited	3.7	–	0.1	–
Lewisham Schools for the Future LEP Limited	0.3	–	–	–
Lewisham Schools for the Future SPV Limited	1.9	0.1	0.3	–
Lewisham Schools for the Future SPV2 Limited	0.5	–	0.1	–
Greenwich BSF SPV Limited	0.3	–	–	–
Cura Classis (UK) Limited	4.1	–	0.1	–
Other	22.8	0.8	1.9	0.1
Related by common directorships				
Finmeccanica UK Group	10.0	0.2	1.8	–
Northrop Grumman Sperry Marine Limited	–	0.1	–	–
	288.1	58.8	21.0	2.4

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes
Please refer to note 27 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 8.

(d) Transactions in employee benefits trusts are shown in note 25.

38. Post balance sheet events

(a) Dividend

Details on dividends are given in note 11. There are no further material events subsequent to 31 March 2013 that require disclosure.

Notes to the Group financial statements (continued)

39. Group entities

Principal related undertakings	Principal activities	Group interest in allotted capital	Country of incorporation
Babcock Marine (Rosyth) Limited	Trading company	100%	Scotland
Rosyth Royal Dockyard Limited	Owner of Rosyth dockyard	99.999%	Scotland
Babcock Marine (Devonport) Limited	Trading company	100%	England and Wales
Devonport Royal Dockyard Limited	Maintains Royal Navy ships and provides support services to naval base	100%	England and Wales
Babcock Marine (Clyde) Limited	Trading company	100%	Scotland
LSC Group Limited	Consultancy and project management	100%	England and Wales
Frazer-Nash Consultancy Limited	Systems and engineering technology services	100%	England and Wales
Appledore Shipbuilders (2004) Limited	Shipbuilding	100%	England and Wales
Babcock (Pty) Limited	Engineering and maintenance support	100%	Australia
Babcock Integrated Technology Limited	Design, supply and installation of specialist handling equipment	100%	England and Wales
Air Power International Limited	Compressed air management and support services	100%	Scotland
Babcock Support Services Limited	Support services and facilities management	100%	England and Wales
Babcock Flagship Limited	Naval training services	100%	England and Wales
Babcock Aerospace Limited	Airfield support services	100%	England and Wales
Babcock Land Limited	Fleet management and training services	100%	England and Wales
Babcock Land (Whitefleet Management) Limited	Contract management services	100%	England and Wales
BNS Nuclear Services Limited	Engineering solutions and services	100%	England and Wales
Babcock Airports Limited	Airport support services	100%	England and Wales
Babcock Rail Limited	Rail infrastructure repair and maintenance	100%	England and Wales
Babcock Networks Limited	Powerline erection and maintenance	100%	England and Wales
Babcock Communications Limited	Communication services	100%	England and Wales
Babcock Africa Services (Pty) Limited	Equipment sales, hire and maintenance	100%	South Africa
Equity accounted investments			
Holdfast Training Services Limited	Military training	74%	England and Wales
ALC (Superholdco) Limited	PFI operator	50%	England and Wales
Airtanker Limited	In-flight refuelling support	13.3%	England and Wales
Ascent Flight Training (Holdings) Limited	Flight training	50%	England and Wales
Babcock Dounreay Partnership Limited	Nuclear site decommissioning	50%	England and Wales

The Company has taken advantage of the exemption under section 410(2) of the Companies Act 2006 by providing information only in relation to related undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. A full list of subsidiary, equity accounted investments and other associated undertakings as at 31 March 2013 will be annexed to the Company's next annual return filed with the Registrar of Companies.

All subsidiary undertakings are included in the consolidation, except for Research Site Restoration Limited which is treated as an investment due to restrictions in control.

Of the undertakings listed above, the Company holds 100% of the Group's interest in Babcock (Pty) Limited. It does not directly hold any share of the Group's interest in the other listed undertakings.

Independent auditors' report to the members of Babcock International Group PLC

We have audited the parent Company financial statements of Babcock International Group PLC for the year ended 31 March 2013 which comprise the Company balance sheet and the Notes to the Company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibility statement on page 73, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Babcock International Group PLC for the year ended 31 March 2013.

John Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

13 May 2013

Company balance sheet

As at 31 March 2013	Note	2013 £m	2012 £m
Fixed assets			
Investment in subsidiary undertakings	3	2,121.7	1,600.8
Tangible fixed assets	4	–	0.1
		2,121.7	1,600.9
Current assets			
Debtors – amounts due after more than one year	5	445.0	583.2
Debtors – amounts due within one year	5	280.7	612.2
Cash at bank and in hand		31.2	–
		756.9	1,195.4
Creditors – amounts due within one year	6	885.7	806.9
Net current (liabilities)/assets		(128.8)	388.5
Total assets less current liabilities		1,992.9	1,989.4
Creditors – amounts due after one year	6	667.3	738.8
Net assets		1,325.6	1,250.6
Capital and reserves			
Called up share capital	7	217.2	215.5
Share premium account	8	873.0	873.0
Capital redemption reserve	8	30.6	30.6
Profit and loss account	8	204.8	131.5
Total shareholders' funds		1,325.6	1,250.6

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The financial statements were approved by the Board of Directors on 13 May 2013 and are signed on its behalf by:

P L Rogers
Director

W Tame
Director

Notes to the Company financial statements

1. Significant accounting policies

The principal accounting policies adopted by the Company are disclosed below:

Basis of accounting

The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and in accordance with applicable United Kingdom Accounting Standards and in compliance with the Companies Act 2006 and on a going concern basis. The Directors have reviewed the Company's existing accounting policies and consider that they are consistent with last year.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis.

Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award and recharged to subsidiaries. Full details of the share-based compensation plans are disclosed in note 26 of the Group financial statements.

(b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. Refer to the Group financial statements note 25 for further details.

Notes to the Company financial statements (continued)

1. Significant accounting policies (continued)

(c) Pension arrangement

The Company operates a multi-employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities.

There is no material difference between the FRS 17 (as amended): 'Retirement Benefits' and IAS 19: 'Employee Benefits' valuation. Refer to the Group financial statements note 27 for further details.

As a result of the level of surplus the Company's compulsory contribution to the Babcock International Group Pension Scheme is currently suspended until at least the results of the next formal valuation are available although voluntary contributions have been made (see note 27 of the Group financial statements).

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in the profit and loss account immediately.

Financial risk management

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are approved and in the case of interims, when paid.

Cash flow statement and related party disclosure

A cash flow statement has not been prepared by the Company under the terms of FRS 1, available to wholly owned subsidiaries of a company whose consolidated financial statements include a consolidated cash flow statement and are publicly available. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Babcock International Group PLC group.

2. Company profit

The Company has taken advantage of the exemption granted by section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £147.0 million (2012: £106.0 million).

Fees payable to the parent auditors and its associates in respect of the audit of the Company's financial statements was £0.1 million (2012: £0.1 million).

3. Investment in subsidiary undertakings

	2013 £m	2012 £m
At 1 April	1,600.8	2,004.3
Additions	520.9	1,067.8
Disposals	–	(1,471.3)
Investments in shares	2,121.7	1,600.8

On 19 November 2012 the Company acquired shares in Babcock (UK) Holdings Limited for £520.9 million.

On 14 June 2011 the Company sold its investment in Babcock Southern Holdings Limited to Babcock Overseas Investments Limited for a profit of £3.7 million. On the same day the Company acquired shares in Babcock (UK) Holdings Limited for £1,067.8 million.

4. Tangible fixed assets

	Leasehold property £m
Cost	
At 1 April 2012	0.5
Additions	–
At 31 March 2013	0.5
Accumulated depreciation	
At 1 April 2012	0.4
Charge for the year	0.1
At 31 March 2013	0.5
Net book value at 31 March 2013	–
Net book value at 31 March 2012	0.1

5. Debtors

	2013 £m	2012 £m
Non-current debtors		
Amounts owed by subsidiary undertakings	0.7	163.9
Preference shares in a subsidiary undertaking	444.3	419.3
	445.0	583.2
Current debtors		
Amounts owed by subsidiary undertakings	268.2	608.0
Deferred tax	9.8	3.4
Prepayments and accrued income	2.7	0.8
	280.7	612.2

Of the preference shares in a subsidiary undertaking, the A preference shares of US$150 million mature on 19 March 2018 and carry interest at 4.94%. The B preference shares of US$500 million mature on 17 March 2021 and carry interest at 5.64%. The non-current amount owed by subsidiary undertakings is repayable on demand and is interest free. The current amounts owed by subsidiary undertakings are repayable on demand and are interest free apart from £7.0 million which carries interest at LIBOR +4% and another loan of £ 5.0 million which carries interest at LIBOR + 1%

Notes to the Company financial statements (continued)

6. Creditors

	2013 £m	2012 £m
Amounts due within one year		
Bank loans and overdrafts	–	86.7
Amounts owed to subsidiary undertakings	881.5	715.5
Accruals and deferred income	4.2	4.7
	885.7	806.9
Amounts due after one year		
Bank loans	667.3	738.8
	667.3	738.8

The Company has £1,028.1 million (2012: £1,006.8 million) of committed borrowing facilities, of which £653.1 million (2012: £731.8 million) was drawn at the year end. The interest rate applying to bank loans is 1.25% (2012: 1.66%) and is linked to LIBOR, whilst the interest rate applying to overdrafts is 1.5% (2012: 1.5%).

The amounts due to subsidiary undertakings are repayable on demand and £713.5 million is interest free. £125.2 million carries interest at LIBOR + 4% and £9.1 million carries interest at LIBOR + 1%.

7. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2012	359,146,705	215.5
Shares issued	2,925,097	1.7
At 31 March 2013	362,071,802	217.2
At 1 April 2011	358,838,092	215.3
Shares issued	308,613	0.2
At 31 March 2012	359,146,705	215.5

8. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 1 April 2012	873.0	30.6	131.5
Shares issue in the period	–	–	–
Share-based payments	–	–	4.5
Tax on share-based payments	–	–	6.4
Fair value adjustments to interest rate hedges (net of tax)	–	–	(1.0)
Retained profit for the year – profit for the year	–	–	147.0
– dividends	–	–	(83.6)
At 31 March 2013	873.0	30.6	204.8
At 1 April 2011	872.8	30.6	87.0
Shares issue in the period	0.2	–	–
Share-based payments	–	–	5.0
Tax on share-based payments	–	–	(0.6)
Fair value adjustments to interest rate hedges (net of tax)	–	–	5.5
Retained profit for the year – profit for the year	–	–	106.0
– dividends	–	–	(71.4)
At 31 March 2012	873.0	30.6	131.5

9. Operating lease commitments

The Company has an operating lease commitment for land and buildings as at 31 March 2013 with an annual commitment expiring after more than five years of £2.2 million (2012: £2.2 million).

10. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities of £658.6million (2012: £731.8 million) provided to certain Group companies.

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2013 these amounted to £163.7million (2012: £168.4 million), of which the Company had counter-indemnified £89.3 million (2012: £114.1 million).

(c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

11. Post balance sheet events

(a) Dividends

The Directors have proposed a final dividend of 20.0p per 60p ordinary share (2012: 17.0p per 60p ordinary share) and it will be paid on 8 August 2013 to shareholders registered on 5 July 2013. Subject to approval at the Annual General Meeting on 11 July 2013.

Shareholder information

Financial calendar

Financial year end	31 March 2013
2012/13 preliminary results announced	14 May 2013
Annual General Meeting	11 July 2013
Final dividend payment date (record date 5 July 2013)*	8 August 2013

* See also 'Results and dividends' on page 68.

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Company number 2342138

Registrars

Capita Registrars
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Shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc., should be addressed to Capita Registrars at their address given above.

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Share dealing services

Capita Share Dealing Services provide Babcock shareholders with a quick and easy way to buy or sell Babcock International Group PLC ordinary shares. Commission starts from £20 if you deal online and £27.50 if you deal by phone.

In addition, stamp duty, currently 0.5%, is payable on purchases.

There is no need to open an account in order to deal and you can trade at live market prices during stock market hours. You also have the added convenience of placing 'limit' orders which are valid for up to 90 days. This means that you decide the price at which you wish to sell and your shares will only be sold if the price reaches this pre-set limit during the 90-day period.

To use the service, either log on to www.capitadeal.com or call 0871 664 0448 (calls cost 10p per minute plus network extras – lines are open 8.00 am to 4.30 pm Monday to Friday). Please have your share certificate(s) to hand when you log on or call.
If you are planning to purchase shares, you will need to have your debit card at hand with cleared funds available at your bank.

These services are offered on an execution-only basis and are subject to terms and conditions which are available on request or at www.capitadeal.com

Capita Share Dealing Services is a trading name of Capita IRG Trustees Limited, which is authorised and regulated by the Financial Services Authority.

This is not a recommendation to buy, sell or hold shares in Babcock International Group PLC. Shareholders who are unsure of what action to take should obtain independent financial advice. Share values may go down as well as up, which may result in a shareholder receiving less than he/she originally invested.

Dividend Reinvestment Plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash, please complete an application form online at www.babcock-shares.com or call Capita IRG Trustees on 0871 664 0381 (calls cost 10p per minute plus network extras, lines are open 9.00 am to 5.30 pm Monday to Friday) from UK or +44 208 639 3402 from overseas.

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form can be obtained from Capita Registrars. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org

Five-year financial record

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Continuing revenue	3,029.4	2,848.4	2,564.5	1,895.5	1,901.9
Operating profit from continuing operations	234.5	202.0	153.2	148.1	133.1
Share of profit/(loss) from joint ventures	18.0	4.3	6.1	(0.5)	(0.2)
Profit before interest from continuing operations	252.5	206.3	159.3	147.6	132.9
Net interest and similar charges	(27.9)	(33.3)	(48.2)	(18.4)	(26.2)
Profit before taxation from continuing operations	224.6	173.0	111.1	129.2	106.7
Income tax expense	(28.3)	(15.8)	(10.1)	(20.8)	(19.1)
Profit from continuing operations	196.3	157.2	101.0	108.4	87.6
Discontinued operations	(15.2)	(53.1)	3.7	–	(13.3)
Profit for the year	181.1	104.1	104.7	108.4	74.3
Non-controlling interest	(5.9)	(3.3)	(3.6)	(2.4)	(2.3)
Profit attributable to owners of parent	175.2	100.8	101.1	106.0	72.0
Non-current assets	2,302.1	2,232.5	2,447.6	877.4	858.4
Net current liabilities	(240.9)	(153.0)	(219.5)	(88.9)	(117.3)
Non-current liabilities	(1,092.3)	(1,159.5)	(1,207.5)	(702.7)	(448.3)
Total net assets	968.9	920.0	1,020.6	85.8	292.8
Equity holders of the parent	947.1	911.4	1,011.7	80.6	288.4
Non-controlling interest	21.8	8.6	8.9	5.2	4.4
Total equity	968.9	920.0	1,020.6	85.8	292.8
Total earnings per share – basic	48.8p	28.1p	31.3p	46.3p	37.4p
Dividend per share (proposed)	23.6p	22.7p	19.4p	17.6p	14.4p

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