Babcock International Group PLC
Annual Report and Accounts 2010

Delivering engineering excellence.

babcock

trusted to deliver™

Today and for the future...

Delivering results today.

Revenue	Profit before tax
£1,895.5m	£129.2m +21%

Operating profit	Basic earnings per share
£148.1m +11%	46.29p +24%

We have established leading positions in our principal market sectors.

Our ability to bring together engineering skills and bespoke knowledge means we are trusted to design, support and upgrade critical infrastructures.

Our long-term order book is evidence of the close and embedded relationships we have with our customers.

We provide solutions for our customers across the life-cycle of their assets.

Unrivalled experience.

2008

Babcock entered international submarine support market

We have an unrivalled position in the UK naval support market. The depth and scale of our knowledge, our ability to deliver through-life support and the unique infrastructures we own or operate place us in a strong position from which to develop our overseas operations.

Using our extensive technical expertise and depth of knowledge in the UK, our first overseas contract was the five year, £125 million in-service support contract for the Canadian navy's four Victoria class submarines.

Left The fire-damaged HMCS Chicoutimi has been successfully transferred to a dry land cradle at Victoria Shipyard, on the west coast of Canada, and will be the first submarine to undergo a two year Extended Docking Work Period as part of VISSC. The purpose built repair facility has been funded by the Canadian government as part of their long-term commitment to the contract.

Long-term contracts. Design and innovation. Systems for the future.

675 Courses delivered each year training 4,000 soldiers

The future of our business is underpinned by long-term contracts and framework agreements. These provide us with excellent security and visibility of revenue streams and are supported by our ability to work collaboratively with our customers.

Our 30 year, £1.5 billion training and training support contract at the Royal School of Military Engineering (RSME), the largest residential construction college in Europe, is the first of its type for the British Army.

Left We have 270 instructors delivering 675 courses training 4,000 soldiers each year. We are creating a better learning and living environment to ensure the Army has the highly skilled and motivated soldiers it needs. We will also be delivering significant cost savings over the contract term.

Top right We have successfully operated, maintained and upgraded baggage handling systems at London's Heathrow Airport for many years adding operations at Terminal 5 after it opened in 2008.

Above Digital technology is transforming the way we watch television. Babcock has had a key role in the Digital Switchover project helping to replace the antenna systems on many of the UK's TV transmitter stations.

Applied know-how. Reducing costs and raising standards.

20,000 — Fast jet trainer flying hours delivered

We apply the wealth of knowledge and expertise within our businesses to deliver cost efficient solutions for our customers at the same time as maintaining or improving the availability of their assets.

We believe our track record for delivering efficiencies will be beneficial as pressure on public spending increases.

Above Using our extensive knowledge and know-how we were able to bring equipment originally designed by us in the 1950s up to modern standards. The innovative solution to re-engineer the fuel-routes at Chapelcross will ensure the four reactors, each containing about 10,000 irradiated magnox fuel elements, can be defuelled to 21st century safety standards and four times faster than planned.

Above At RAF Valley and Leeming and RNAS Culdrose we are responsible for ensuring Hawk TMk1 and TMk2 fast jet trainers deliver 20,000 flying hours each year. By contracting for availability the MoD will benefit over the life of the contract from increased availability of around 40% whist saving £17 million and reducing the fleet size by 30%.

We regard the health and safety of our employees and those working alongside them as paramount. This is a key priority at all levels of our business – from the Board of Directors to the shop floor.

In many of our businesses the activities we undertake are inherently dangerous. Our health and safety record therefore is vital to our reputation and our ability to retain and win new contracts. We seek to ensure that best practice, innovative programmes and experiences are shared across the Group.

51% 3 year reduction in our RIDDOR incident rate

Skills for the future. Award-winning health and safety.

Above right Appledore was recognised for an outstanding contribution to safety excellence, winning both the Team Achievement Award and The Chief Executive's Award in this year's Safety Excellence Awards. Over the past 12 months there has been a significant reduction in the number of accidents at Appledore and a significant change in attitudes towards safety.

Above To promote and reward excellence in safety management and performance across the Group we introduced Safety Excellence Awards in 2010. These awards will highlight health, safety and environmental initiatives across our operations and will not only recognise the work of the safety professionals in the business but any employee who has introduced or developed safer methods of working.

Above We share a passion with our employees to provide exceptional service to our customers. We never forget they provide the skills, energy and pride essential to maintaining our position as a leading engineering support services provider.

Building partnerships. Advice and knowledge. Better solutions.

10,000 Buildings maintained through their life cycle

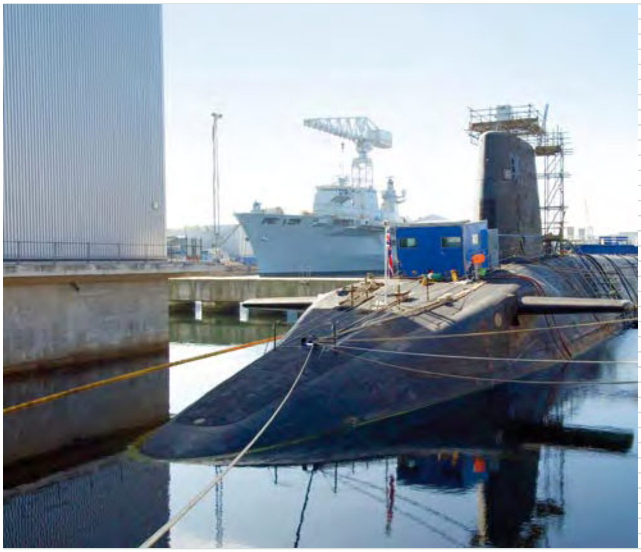
Our customers own large strategically important assets or infrastructures and operate in highly regulated environments. It is essential we work in close partnership to successfully deliver full life-cycle support and critical, complex technical projects.

As the largest Prime contractor for Defence Estates we manage the life-cycle maintenance for 120 bases, 10,000 buildings, 22,000 primary systems and 150,000 components.

Left and Above Using our in-house skills and experience we deliver a wide range of facilities management services across two Regional Prime contracts. Our integrated and efficient contract delivery arrangements are vital to providing increased cost savings for our customers who rely on our advice and knowledge so they can focus on supporting their military capability.

Above As a Tier 1 alliance partner, we play a key role in the UK's Aircraft Carrier Alliance. We have significant design and manufacturing roles and are responsible for the assembly and integration at Rosyth. Our role draws on our strong partnering skills and requires considerable engineering excellence and innovation.

Above As EDF Energy Network's alliance partner we provide a full end-to-end service – developing, designing and constructing networks – so they can meet the UK's future demand for electricity.



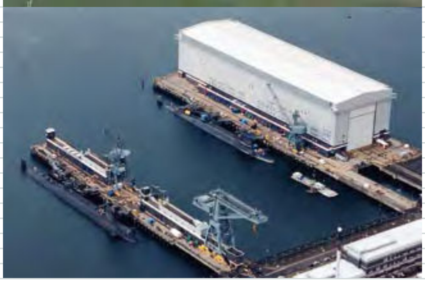
Left The ToBA confirms our long-term strategic role supporting the Royal Navy's major warships and nuclear powered submarines and will deliver significant benefits for both parties.

15 Years of work stream visibility

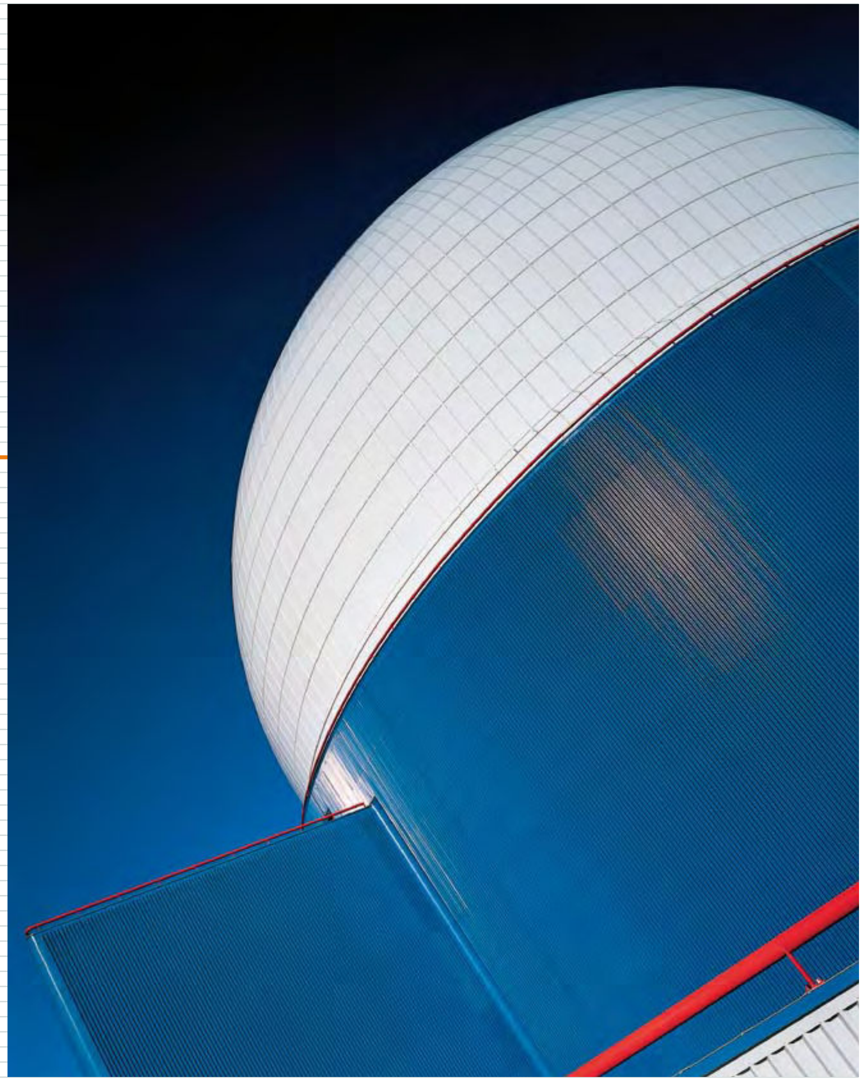
Demonstrating the close and embedded relationships we seek to establish with our customers, the Terms of Business Agreement (ToBA) signed in March 2010 strengthens our position as the MoD's key maritime support partner through to 2025.

During this period, in exchange for visibility of forward work programmes, we have undertaken to ensure maximum availability and value for money for the MoD.

Indispensable relationships. Specialised capability.



Above Extension of the management contracts for HMNBs Clyde and Devonport to 2025 added around £2.5 billion to the order book.



Above Our dedicated Fuel Route Improvement Teams at seven of British Energy's AGR nuclear power stations respond to emergent issues as well as identify, assess and prioritise maintenance and safety tasks to improve productivity.

Delivering long-term shareholder value through working in close partnership with clients across the life-cycle of their assets.

Business review

Governance

Group accounts

Company accounts

Other information

Directors' report

The Directors present the Annual Report and Accounts for the year ended 31 March 2010. This page and pages 16 to 82, 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 announcement 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 42-45 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 announcement 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, which speak only as of the date of this announcement 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 date of this announcement 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 in this announcement or to correct any inaccuracies which may become apparent in such forward-looking statements.

Group overview

Our six divisions deliver engineering excellence through long-term partnerships with their customers.

Throughout the business review, unless otherwise stated, revenue, operating profit, operating margin, profit before tax and earnings per share refer to results from continuing operations, before amortisation of acquired intangibles and exceptional items.

Marine

£112.9m Operating profit

11.8% Operating return on revenue

Profile

We are the UK's leading naval support business and have a unique role supporting the Royal Navy and the Ministry of Defence.

We have a growing role in the design of future naval defence programmes and are expanding our international submarine support operations.

Key activities

- Submarines – through-life support, refit, refuelling and decommissioning, base porting
- Surface ships – warship refit, member of Surface Ship Support Alliance and Aircraft Carrier Alliance
- Naval bases – management of HMNB Devonport and HMNB Clyde
- Integrated Technology – design and technical solutions

Key customers

- MoD
- DE&S Equipment Support
- Canadian and Australian Governments
- Navantia

Defence

£32.8m Operating profit

8.5% Operating return on revenue

Profile

We are the largest provider of facilities management support to the Ministry of Defence and training support to the Army. We deliver equipment support and base support to the RAF and technical support to equipment manufacturers.

We also provide these services to a number of non-defence customers.

Key activities

- South West and East Regional Prime Contracts for MoD
- RAF Valley and Linton-on-Ouse MAC contracts
- IOS contracts for Hawk fast jet trainers
- 30 year RSME training and training support contract
- Support for airport baggage handling systems at Heathrow, Gatwick and Schipol

Key customers

- MoD Defence Estates
- Army
- RAF
- BAE Systems
- BAA

Nuclear

£13.0m Operating profit

11.2% Operating return on revenue

Profile

We have one of the largest specialist nuclear resources in the UK. We are site managers at Dounreay, Harwell and Winfrith and provide outage and maintenance support for current power generation.

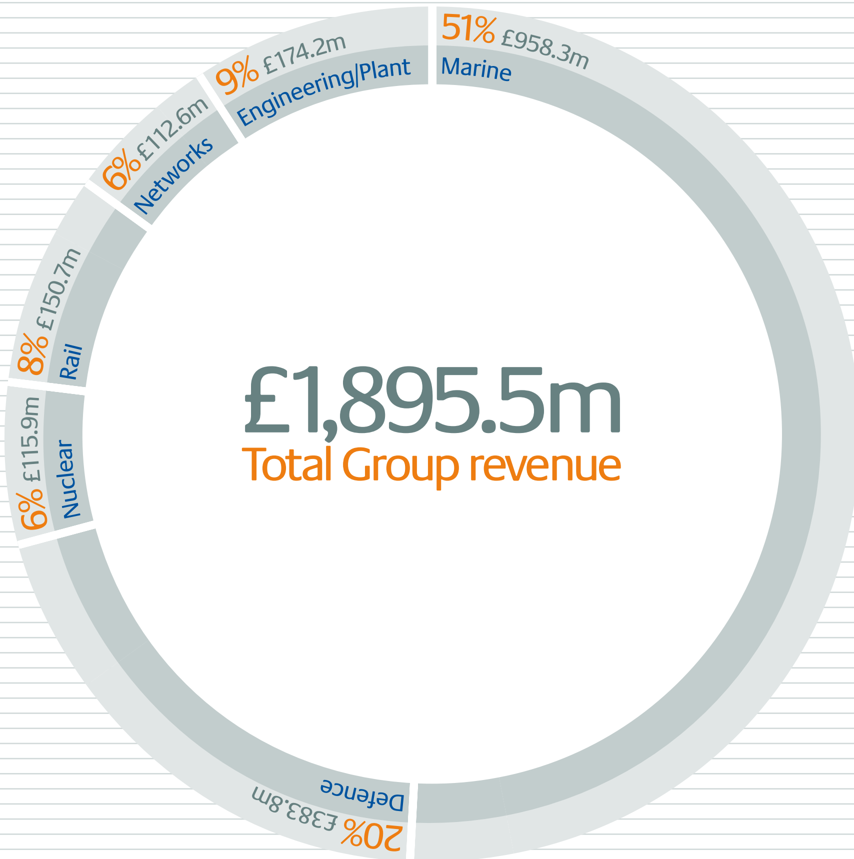
We also operate in the decommissioning and waste management markets.

Key activities

- Outage support for operational reactors
  Site management
- Decommissioning activities
- Waste management solutions
- Mechanical system design and engineering
- Safety and risk analysis

Key customers

- Sellafield Ltd
- British Energy (now EDF EG)
  AWE Aldermaston
- Magnox Electric
- Dounreay Site Restoration Ltd



Rail

£1.2 Operating loss

Profile

We are a major player in the rail infrastructure market.

Key activities

- Traditional track renewal
- Signalling and control system installation
- Telecommunications systems installation

Key customers

- Network Rail
- Transport Scotland

Networks

£4.1m Operating profit

3.6% Operating return on revenue

Profile

We operate in the UK high voltage power transmission, mobile and fixed telecommunications and digital broadcast infrastructure markets.

Key activities

- High voltage power transmission maintenance and upgrade
- Transmission design activities
- Digital switchover antennae design and replacement
- Mobile and fixed telecommunications network upgrades

Key customers

- National Grid
- EDF Energy Networks
- Scottish and Southern Energy
- Nokia Siemens Networks
- Ericsson
- Arqiva

Engineering and Plant

£10.9m Operating profit

6.3% Operating return on revenue

Profile

Operating mainly in South Africa the division supports Eskom, the national power supplier, and operates the Volvo franchise for construction equipment.

In the US we provide specialist oil pipeline support.

Key activities

- Maintenance and engineering support on power station boilers
- Construction, erection and maintenance of high voltage power lines
- Sole distributor for Volvo equipment to mining and infrastructure construction companies
- After sales parts and servicing support for Volvo

Key customers

- Eskom
- Volvo construction equipment customers

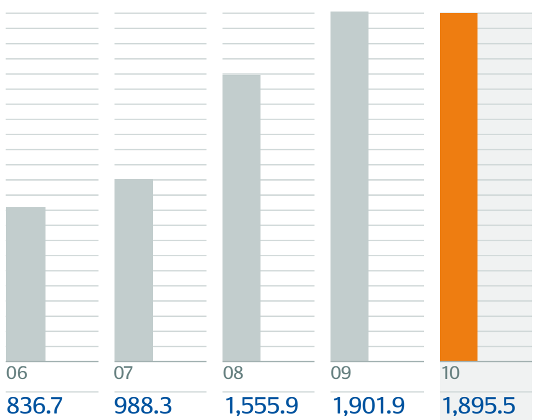
Financial highlights

Statutory results

Revenue	£1,895.5m (2009: £1,901.9m)
Operating profit	£148.1m (2009: £133.1m) +11%
Profit before tax	£129.2m (2009: £106.7m) +21%
Basic earnings per share	46.29p (2009: 37.42p) +24%

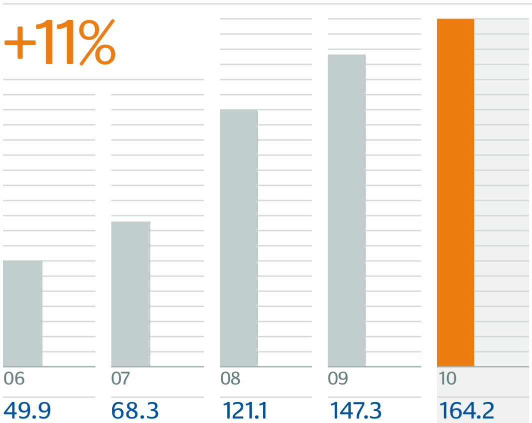
Revenue

£m



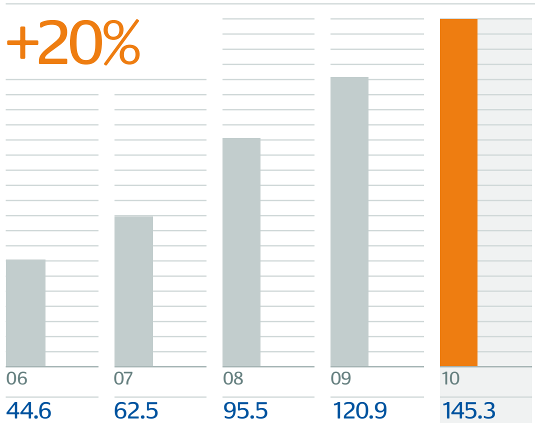
Operating profit

£m



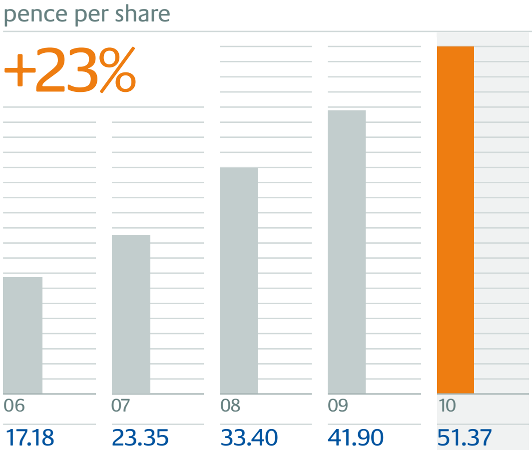
Profit before tax

£m



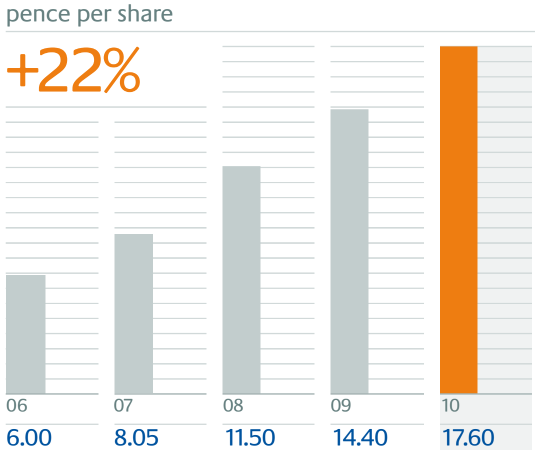
Basic earnings per share

pence per share



Full year dividend

pence per share



Chairman's statement

2009/10 has been another very exciting year for Babcock as we have strengthened our business and pursued our strategy to become the UK's leading engineering support services company.

Delivering our strategic goals

When I wrote to you at this time last year I commented on how fortunate I was to have rejoined the Company at such an exciting time in its development. I hope you will agree that this year has been no exception, both financially and strategically. The financial results we have reported (set out opposite) demonstrate the underlying strength of our business model.

In pursuit of our strategy, we continue to strengthen our positions in our principal markets through organic growth and acquisition. We continue our focus on developing strong and embedded relationships with our major customers, who rely on us to deliver the essential through-life engineering support they require. Despite the current economic climate, we believe there are a significant number of opportunities available to us, in both the UK and overseas, where we can achieve further growth.

The combination of VT Group plc (VT) and Babcock is one that has been much discussed over the years because of the similarity of our strategic objectives and business models. On 23 March 2010 we were able to announce that the Board of VT had recommended our offer to acquire the entire issued and to be issued share capital of VT. This acquisition is wholly in line with our strategy and we believe that, if approved by shareholders of both companies, it will provide us with a unique opportunity to create the UK's largest and most focused engineering support services company.

The Board

On 9 April I was pleased to announce that Archie Bethel and Kevin Thomas were being appointed as Executive Directors, effective 1 May, and I welcome them onto the Board. Both have been with Babcock for a number of years and have played key roles in the development of the Group during that time. As the Group continues to grow and develop the Board will benefit directly from their first hand knowledge and experience of the day-to-day operations of our businesses.

Following Archie and Kevin's appointment we are planning to appoint at least one further Non-Executive Director. This will ensure we retain an appropriate balance of Executive and Non-Executive Directors with sufficient variety of knowledge, skills and experience to serve the needs of the Company.

As Chairman, and on behalf of the Board, it gives me great pleasure to publicly thank our employees for their continuing hard work and dedication. Our business is based on its 'trusted to deliver' reputation and is a result of the knowledge, skills and experience of our workforce and their commitment to delivering the very highest standards of service to our customers.

Creating value for our shareholders

We are committed to delivering sustainable value for our shareholders. This year I am pleased to report a 23% increase in earnings per share to 51.37 pence per share (2009: 41.90 pence per share). As a result of its confidence in the financial strength and future growth prospects of the Group, the Board has declared a second interim dividend of 12.80 pence per share, this will give a total dividend for the year of 17.60 pence per share (2009: 14.40 pence per share). The dividend will be paid on 9 July 2010, to shareholders on the register at close of business on 18 June 2010. This second interim dividend is in lieu of any final dividend for the year and will not be paid on any shares issued in connection with the acquisition of VT.

The Board is confident that Babcock has excellent long-term growth prospects, that will be further strengthened by the proposed acquisition of VT Group plc. We believe the outlook for the 2010/11 financial year remains positive and look forward to another year of good progress.

Mike Turner Chairman.
Focused on delivering long-term value for the Group's shareholders.

Mike Turner CBE Chairman

Operational highlights

Leading positions in markets with healthy long-term prospects

Positive Group outlook

Strong growth in Marine and Defence divisions

Marine builds on unrivalled UK market position

Marine — Revenue +7%
Underlying operating profit +26%

Defence benefits from RSME and continuing growth in Primes

Defence — Revenue +13%
Underlying operating profit +13%

Signature of Terms of Business Agreement in Marine division

Confirms Babcock as key naval support partner to MoD

Provides 15 years' visibility of work streams

Extension to naval base contracts adds £2.5bn to order book

Long-term revenue visibility Order book increased by 46% to £8.3bn

Proposed acquisition of VT Group plc on track

Acquisition further strengthens scale and capabilities in core markets

Objective and strategy

Our objective is to be the leading engineering support services company in the UK and in selected overseas markets thus creating superior levels of returns for our shareholders. In order to achieve this we will develop a balanced portfolio of businesses by focusing on the following strategy:

Leading market position

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.

Key examples

- Sole provider of support to the Royal Navy's submarine fleet
- Largest Prime contractor for Defence Estates
- The sole distributor of Volvo construction equipment in South Africa

Preferred customers

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.

Key examples

- The MoD is our largest customer in both the Marine and Defence divisions
- Network Rail, our Rail division's largest customer, owns and operates Britain's rail infrastructure
- We provide support to British Energy's fleet of AGR nuclear power stations

Customer focused, long-term relationships

Aim

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

Key examples

- Management contracts at HMNBs Devonport and Clyde have been extended through the ToBA until 2025
- 30 year RSME training and training support contract

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.

Key examples

- Babcock engineers are providing around 50% of the design input in the new Queen Elizabeth aircraft carrier programme
- Networks is working with EDF Energy Networks and National Grid to develop, design and construct new powerlines across the UK

Balance 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.

Key examples

Successful delivery of the following contracts will ensure maximum benefits are shared by Babcock and the MoD

- Submarine Engineering Support Contract
- East and South West Regional Primes
- Management contracts at HMNBs Devonport and Clyde

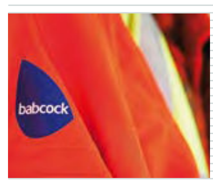
Maintain an excellent safety record

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.

Key examples

- RoSPA Gold Award – Networks, Nuclear
- British Safety Council International Award – Nuclear
- RoSPA Sector Award (facilities management) – Infrastructure
- British Safety Council International Award – Infrastructure



Chief Executive's review

Once again I am delighted to report excellent results for the Group. We have delivered profits significantly ahead of last year with a Group operating margin of 8.7% whilst retaining our secure financial position and strong cash generative profile. Our future is supported by a record order book of £8.3 billion and embedded relationships with our key customers provide us with long-term visibility of future work streams.

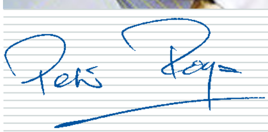
Financial highlights

Revenue for the year has remained flat at £1.9 billion (2009: £1.9 billion) with strong growth in Marine and Defence reducing the impact of lower revenue in Rail and Engineering and Plant. Operating profit increased by 11% to £164.2 million (2009: £147.3 million) and profit before tax has grown by 20% to £145.3 million (2009: £120.9 million). As a result of our focus on delivering and sharing efficiency gains with our customers and Group operating margin has increased to 8.7% (2009: 7.7%).

Growing our business

During this year we have continued to strengthen and grow our business overall, using the extensive knowledge and experience we have built up within our operations. In many instances our customers rely on our skills and expertise to deliver complex through-life support programmes. We have been seeking to broaden the range of services we provide them or extend the length or scope of existing contracts.

Peter Rogers Chief Executive. We believe we are well placed in markets with significant growth potential.



Peter Rogers Chief Executive

Central to our business model is our capacity to work in close partnership with our customers. Through this we have been able to establish and build an excellent reputation for delivering financially efficient solutions at the same time as delivering the operational efficiencies they require. We believe this reputation will provide a number of opportunities across the Group as the current economic climate and pressure on budgets leads to an increased level of outsourcing in both the public and private sector.

The strength of our business today has been achieved through our strategy of growth and positioning in our chosen markets. This has been achieved through organic growth as well as through acquisition. Since 2001 we have successfully acquired and integrated nine businesses, the last of which was UKAEA Ltd, completed in October 2009, which has enhanced our existing and well established position in the nuclear market.

Building on the scale of our knowledge and expertise in the UK, we believe there are a number of opportunities for us in new overseas markets where our business model and reputation will prove beneficial. This year we have successfully expanded our operations in Canada and Australia and have opened a new office in Abu Dhabi as a first step into the Middle East.

On 23 March 2010 we announced the recommended acquisition of VT Group plc for £1.3 billion. This will be a major acquisition for Babcock but one which we believe has a clear and compelling strategic logic. VT is a high quality business with similar culture, engineering based skills and experience to our own, and in addition, they have comparable markets and customers. If the acquisition is approved by shareholders, we firmly believe that the enhanced capabilities of the combined Group will enable us to increase opportunities to create value for our shareholders and customers, building on the successful growth strategy we have executed in recent years.

Health and safety

Health and safety continues to be a major priority across our operations. We have seen some further progress in reducing our incident rate but we still have more to achieve if we are to reach our ultimate goal of an accident-free Babcock. As we welcome new employees and businesses into the Group I want them to know that I am committed to ensuring we provide an environment where safety is always the number one priority.

Order book

Following signature of the Terms of Business Agreement (ToBA), the Group's order book increased by £2.6 billion to around £8.3 billion. Throughout the year there has been no change to the anticipated level of work coming through to our operating divisions, with a steady flow of contracts from the bid pipeline into the order book. We have had no contracts cancelled.

The strength of the order book supported by a healthy bid pipeline provides the Group with excellent long-term visibility and security.

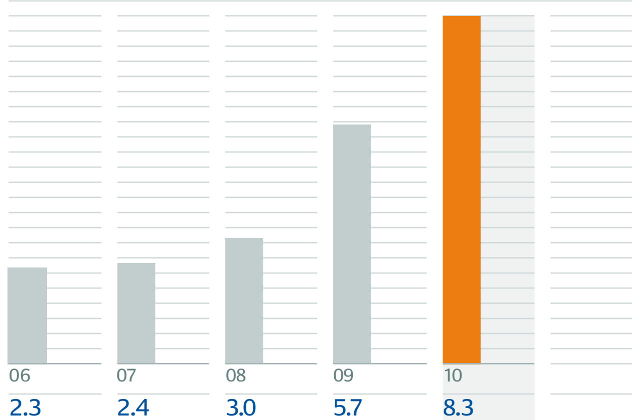
Outlook

We consider the major markets in which we operate remain attractive with significant long-term growth prospects. We believe that our strong market positions and our track record of delivering efficiencies for our customers will be beneficial as pressure on public spending increases. We are confident that the proposed acquisition of VT Group will further strengthen our scale and capabilities in our core markets.

We believe the outlook for the 2010/11 financial year remains positive and we look forward to another year of excellent progress.

Order book

£bn



Operational review

Divisional KPIs

In the Operational review section we use the following KPIs to measure each division's performance:

Operating return on revenue (ORR)

Operating return on revenue is defined as operating profit before amortisation of acquired intangibles and exceptional items expressed as a percentage of revenue.

Revenue growth

Revenue growth is defined as the percentage increase in the division's continuing revenue when compared to that of the previous year.

Marine

Market overview

The UK Naval support sector is the division's most important market. The Ministry of Defence (MoD), our key customer, continues to seek efficiencies and cost benefits and our principal focus remains on the generation of long-term partnerships and arrangements with the MoD that are designed to achieve cost savings and improvements in service delivery.

The key framework for the delivery of major savings is provided by the MoD's Maritime Change Programme. This has the dual aims of improving efficiency within the naval sector whilst ensuring that strategic design, build and support capabilities are retained within the overall UK industrial base.

As governments overseas seek similar cost efficiencies for their submarine support activities, we continue to pursue and engage in a number of international opportunities where our expertise can be used.

Segmental analysis

Division	Revenue £m		Operating profit* £m	
	2010	2009	2010	2009
Marine	958.3	892.9	112.9	89.3
Defence	383.8	338.4	32.8	28.9
Nuclear	115.9	106.7	13.0	13.0
Rail	150.7	228.9	(1.2)	(6.4)
Networks	112.6	119.4	4.1	7.0
Engineering and Plant	174.2	215.6	10.9	19.7
Unallocated	–	–	(8.3)	(4.2)
Total	1,895.5	1,901.9	164.2	147.3

* represents underlying operating profit which is before amortisation of acquired intangibles and exceptional items

Reconciliation to statutory operating profit

	Revenue £m		Operating profit £m	
	2010	2009	2010	2009
Total statutory	1,895.5	1,901.9	148.1	133.1
Amortisation of acquired intangibles	–	–	16.1	14.2
Total underlying	1,895.5	1,901.9	164.2	147.3

Operational review

The division has performed well, exceeding all internal financial and operational targets. Revenue increased by 7% to £958.3 million (2009: £892.9 million) with operating profits increasing 26% to £112.9 million (2009: £89.3 million) and operating margins increasing to 11.8% (2009: 10.0%). These results reflect the considerable scale the division has within the naval support market and the level of synergy and efficiency savings that have resulted as our organisational structure has developed and been streamlined. We have continued to maintain our high level of service as confirmed in performance feedback from our customer.

Negotiations with the MoD on the Terms of Business Agreement (ToBA), designed to support the Maritime Change Programme, were concluded successfully towards the end of the financial year. This confirms Babcock as the MoD's key support partner in the maritime sector and underpins the delivery of key aspects of the Change Programme.

The ToBA covers the 15 year period between 2010 and 2025 during which the Marine division has committed to the progressive delivery of guaranteed cost savings to the MoD. In return the division is nominated to undertake specific roles and to perform particular types of engineering work in support of the Royal Navy's major warships and nuclear-powered submarines. The ToBA also extends Babcock's management roles at the Clyde and Devonport Naval Bases from 2013 to 2025. Overall, the ToBA provides an unprecedented level of visibility of the division's forward work programme and is an excellent foundation on which to continue the division's development.

Submarines

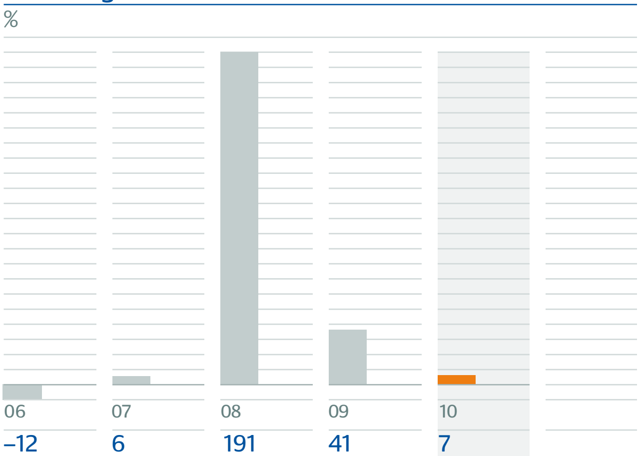
The division is the leading submarine support partner to the Royal Navy. Routine maintenance and support of the submarine flotilla has continued at our Devonport facilities and at HMNB Clyde (Faslane) and we have continued to benefit from the ongoing programme of scheduled refuelling and refit work.

The refuelling and refit of HMS Triumph was completed just after the end of the financial year. This is the last of the seven Trafalgar class submarines to undergo a refit and we have now completed a cost reduction programme to reduce workforce capacity as Devonport's submarine refit programme moves to a single refit stream. Refuelling and refitting work on HMS Vigilant made progress during the year and all major milestones have been met. The submarine began its refuelling cycle at the end of March, with the refit scheduled to complete in 2012.

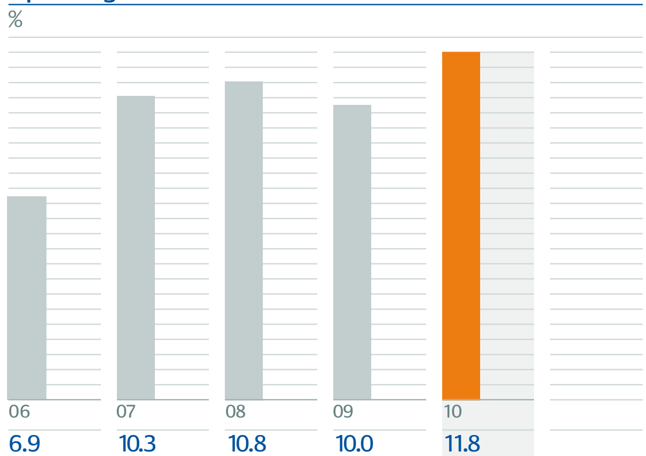
Devonport's nuclear facilities are currently undergoing a £150 million project to upgrade the equipment used to remove used fuel from submarines at the end of their operational lives. Our design and procurement activities associated with this project continued to plan during the year, with the facilities due to become available for use in 2012.

The first Astute class submarine has now arrived at Faslane and we are completing the planning activities associated with the support of this new class of submarines. The Astute class will have a 30 year operational life and their support will involve teams from Clyde, Devonport and Bristol.

Revenue growth Marine



Operating return on revenue Marine



Surface Ships

In our core warship support activities we have supported the Royal Navy with its continuous programme of refit and upgrade projects at both Devonport and Rosyth. A major docking period for the amphibious assault ship HMS Albion involved an especially large programme of upgrades and alterations and these were successfully completed during the reporting period, as were maintenance periods on a number of frigates and mine hunters at both Devonport and Rosyth.

Under an alliance formed with MoD and one other industrial partner we generated a pilot project focused on providing support for Type 22 frigates. The arrangement involves industry taking responsibility for delivering a specified level of warship availability at reduced cost compared to previous levels. We have the opportunity to share in the savings that are generated under this arrangement, which is expected to extend to other classes of warship in due course.

Babcock is a key member of the Aircraft Carrier Alliance that is designing, building, assembling and supporting the two new Queen Elizabeth class aircraft carriers. This year we received the first structural modules for HMS Queen Elizabeth at Rosyth, including the bow section from our Appledore facility. The assembly programme at Rosyth required a number of modifications and upgrades to civil structures and other facilities. The main aspects of work to the dock where the ships will be assembled are complete and we are now completing changes to the basin. Manufacture of the large 1,000 tonne capacity crane is underway and delivery is expected late in 2010 after which the crane will be erected and commissioned.

Integrated Technology

Integrated Technology has delivered strong growth across all its business streams and areas of operation during the year.

Our long-term UK Submarine Engineering Support Contract (SESC) has had a successful first year, with a joint MoD-industry team under Babcock leadership delivering an effective upkeep planning and engineering support service. SESC will be a cornerstone of Flotilla Output Management, an over-arching submarine support arrangement that Babcock is developing as the first Astute-class submarine enters service.

Our team is heavily involved in concept development of the future nuclear deterrent submarine platform, the planned Vanguard class replacement. Integrated Technology is providing a broad range of capabilities into this programme, from overall submarine naval architecture, through specialist systems to designing for high availability and cost effective upkeep. These inputs are being delivered both through the collaborative industry project team and independently as an expert consultancy service to the MoD.

As the Queen Elizabeth class aircraft carrier programme moves into the build phase, delivery of key systems developed in-house has commenced, balanced by a consistent output from our designers plus increased build engineering responsibilities and additional specialist equipment packages.

In overseas markets our range of opportunities and contracts for the supply of new equipment and support services associated with conventionally-powered submarines continued to develop strongly. In Canada, the Victoria In-Service Support Contract (VISSC) continues to perform well and HMCS Chicoutimi, the first submarine to require a two year Extended Docking Work Period, has been successfully moved into dry dock in preparation for work starting during the summer. In Australia, the secure foothold we have established is allowing us to develop relationships at a platform level.

The commercial marine market remained flat during the year, albeit the diversity of our other activities allowed us to retain our engineering capability.

Naval Bases

At the Devonport and Clyde Naval Bases we continue to work closely with the Royal Navy and the MoD to improve the efficiency of their operations. The recently agreed ToBA extends our management role at both sites to 2025. It also provides an important framework within which long-term initiatives can be developed to ensure cost savings are delivered through the rationalisation and modernisation of facilities.

Equipment Support

Our Equipment Support business unit has had a very successful year and continues to deliver improved equipment upgrade and availability services to our land, sea and air customers in the MoD as well as to the wider defence industry. Market conditions have been strong, demonstrating long-term growth opportunities for the expansion of equipment management services, weapon system upgrades and other maintenance operations.

During the year our Land Systems team has delivered in excess of 200 Jackal and Coyote off-road armoured patrol vehicles in support of Urgent Operational Requirements (UOR) for the Army. We also supported deployment of these vehicles through specialist driver training services and integrated logistic support for the provision of spares and repairs to the vehicles.

The Marine Equipment Support business has delivered a very good performance across its extensive range of equipment availability contracts, including the management of naval pumps, motors and generators, whilst our Weapons Systems support team continued with the delivery of upgraded medium calibre naval guns and Phalanx defensive close in weapons systems.

Our Supply Chain Services business achieved strong growth during the year adding to its broad portfolio of contracts for the provision of unique spare parts.

Outlook

We remain confident the division will continue to benefit from the strength of the relationship with our major customer as well as our ability to reduce operational costs whilst improving the availability of assets. We have excellent long-term visibility through existing orders as well as the scheduled programme of refits and maintenance. This degree of visibility has been further enhanced by the signature of the ToBA. In addition we continue to pursue and develop a number of opportunities to deliver further growth in the UK and overseas where we believe we can build on the strength of our reputation and expertise.

Defence

Market overview

The Ministry of Defence (MoD) continues to be the division's major customer. Current budgetary pressures have resulted in the MoD focusing their resources on supporting frontline operations whilst seeking to achieve cost efficiencies in UK based support activities. We continue to work collaboratively with our customers to provide value for money whilst delivering high quality operational performance.

Operational review

The division has increased revenue by 13% to £383.8 million (2009: £338.4 million) mainly as a result of a full year's contribution from the Royal School of Military Engineering (RSME) contract as well as continued growth in the Regional Prime contracts. The division's operating margin remained stable on last year at 8.5% (2009: 8.5%) with operating profit increasing to £32.8 million (2009: £28.9 million).

Training

After its first full year of operation, the RSME contract has exceeded our customer's initial expectations as we deliver financial and operational benefits through improved training. The quality of our training output has been extremely high with all courses meeting or exceeding target pass rates. The outsourcing process itself allowed the Army to redeploy 300 soldiers from training to operational duties.

In addition to training and training support services, a key part of the RSME contract is the provision of estates maintenance at four major locations. This contract is now being cited by the MoD Partnership Steering Group as a best practice example of partnership working.

Infrastructure

The division has made good progress during the year consolidating its position as the leading Prime Contractor to Defence Estates. Through more integrated and efficient contract delivery arrangements we have been able to deliver increased cost savings for the customer. Building on the operational success of these contracts we believe there are a number of opportunities for us to take our business model overseas.

The South West Regional Prime Contract has maintained a high order book of additional works and projects during the year. Sites added to the contract scope include the MoD's training college at Southwick Park.

The East Regional Prime Contract broadened its self delivery capability and completed a number of additional projects including Project ELAN, an accommodation modernisation programme for the RAF.

We have continued to deliver improved living accommodation for the MoD through the Single Living Accommodation Modernisation (SLAM) programme, with 14,000 new bed spaces under the care of our maintenance programme.

Technical support

We are delivering engineering excellence through our Multi Activity (MAC) and Integrated Operational Support (IOS) contracts all of which are performing well, meeting or exceeding previous levels of service. For example, availability of the Hawk jet trainer aircraft consistently runs at over 98%. This level of performance has been achieved despite a reduction in the fleet size of 30%, resulting in further savings to the MoD's operating budget. During the year we also supported the introduction of the new Advanced Jet Trainer Hawk TMk2 at RAF Valley.

In addition to winning the multi-activity contract for airfield support and maintenance at RAF Linton-on-Ouse during the first half of the year, we successfully entered the component spares market with a contract to manage the overhaul of under carriage components and assemblies for the Harrier, Hawk, VC10 and Nimrod fleets.

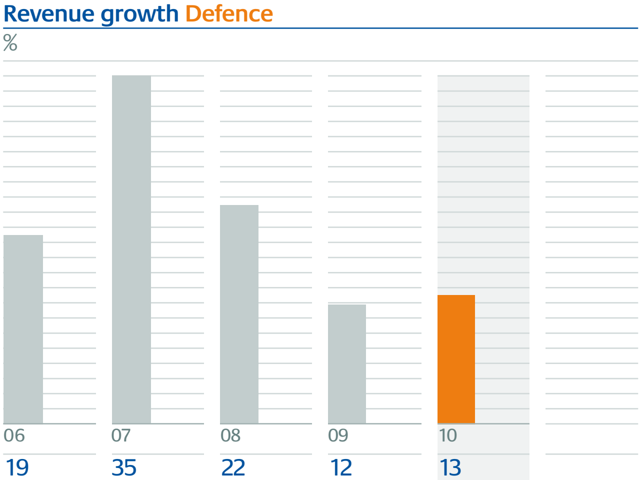
Airports

The airport operations have had another good year. Building on our success in the UK at London Heathrow and Gatwick during the first half of the year we were awarded the contract for maintenance and operation of part of the baggage handling systems at Schipol Airport, Amsterdam.

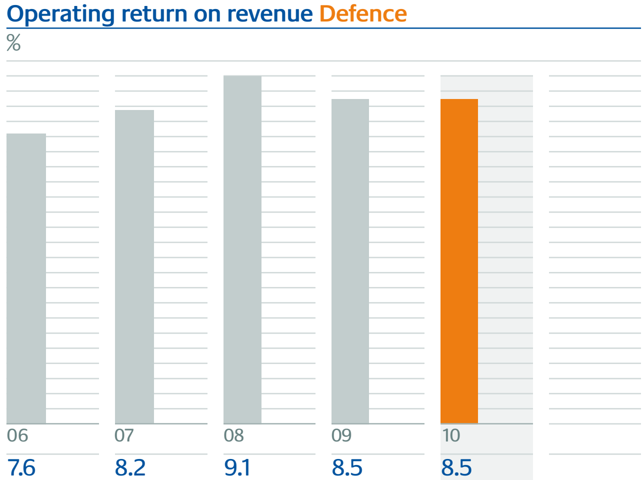
Outlook

Our existing long-term contracts provide us with good visibility across the division. We believe pressure across our markets will continue. We will seek to help our customers meet their savings targets by developing new innovative ways of delivering support and services. We are confident our track record of reducing costs whilst maintaining high service performance will place us in a strong position from which to benefit, both the UK and overseas.

Revenue growth Defence



Operating return on revenue Defence



Nuclear

Market overview

The power generation sector has maintained good momentum throughout the year. However, as previously highlighted, the decommissioning sector remains somewhat subdued resulting in delays to several major waste management contracts.

Operational review

The division has achieved a 9% increase in revenue to £115.9 million (2009: £106.7 million), benefiting from five months' contribution from UKAEA Ltd. Operating profits were stable on last year at £13.0 million (2009: £13.0 million) after approximately £4 million of restructuring costs were incurred following completion of the acquisition of UKAEA Ltd. As a result operating return on revenue has remained strong at 11.2% but below last year (2009: 12.2%).

The acquisition of UKAEA Ltd greatly enhances our nuclear credentials and provides us with our first Tier 1 civil nuclear site management positions at Dounreay, Harwell and Winfrith, replicating similar positions already held in the defence nuclear sector. It also expands our existing capabilities in nuclear engineering and scientific consultancy, establishing us as one of the UK leaders in this field. The name of UKAEA is recognised around the world and as part of the combined nuclear division we believe will provide us with strong credentials from which to establish and develop an international civil nuclear business.

The major site management contract at Dounreay is performing well and continues to deliver a steady stream of revenue as expected. The competition for the rebid of the management and operation of the Dounreay site has now been announced by the NDA. Through our acquisition of UKAEA Ltd and our broader nuclear capabilities, we have been able to put together a strong alliance team with CH2M Hill and URS Corporation to compete for this contract.

We continue to strengthen our position in the power generation market where our expertise and high calibre resource are key to the continuing operation of our customer's nuclear power stations. We are looking at a number of opportunities which will help us further expand the level of business in this sector. We are consolidating and upgrading our spares and service centre for our power generation support operations onto one site at Whetstone. This will enable us to deliver improved efficiencies for our customers and also allow for further expansion of the spares operation.

In the nuclear defence sector we have made progress both in terms of site decommissioning and also in the provision of engineering consultancy services for existing facility upgrades and new facilities. There are a number of significant opportunities in this area that, if successful, will increase momentum going forward.

The decommissioning market generally remains difficult as a result of delays in spending and budgetary pressures on the Nuclear Decommissioning Authority (NDA). However, the division has been successful in winning a framework contract to provide engineering support services for plant enhancement and other operational facilities on the Sellafield site, which is expected to deliver around £18.0 million over the next three years.

Whilst initial volumes have been slow, we anticipate there will be a considerable increase in volume going forward. Funding has recently been withdrawn from the sludge encapsulation project as Sellafield continues to refine its programme of works. However, we were well advanced with testing and trials using bespoke equipment developed at our Irlam site. We are confident that the innovative solution we have developed and successfully tested can be successfully deployed to deal with waste materials both at Sellafield and other UK sites in the future.

Outlook

The closure of most of the UK's nuclear power stations by 2017 has helped create a huge demand for the building of new power generating stations. In addition, there are plans being developed to extend the generating life of a small number of existing facilities. We have extensive knowledge and experience of these plants, and are well positioned to benefit from any future investment both in support for continued operations and life extensions and in new build.

Although the decommissioning market will continue to face some uncertainty as government spending priorities are reviewed, we believe there are opportunities to assist the NDA in reducing expenditure through the outsourcing of more site activities. We remain confident in the growth prospects for the division, both in the UK and overseas, and believe our track record and scale and depth of our resource will place us in a strong position from which to benefit.

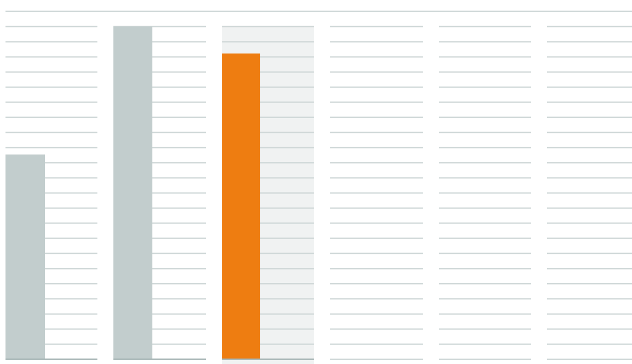
Revenue growth Nuclear

%

09	10
40	9

Operating return on revenue Nuclear

%



08	09	10
7.5	12.2	11.2

Rail

Market overview

The Office of Rail Regulation (ORR) has agreed a settlement of £28.5 billion with Network Rail for Control Period 4 (CP4) covering 1 April 2009 to 31 March 2014. We anticipate that some £22 billion will be spent on infrastructure renewals and upgrades, providing the division with significant potential opportunities in an area where we excel operationally.

The ORR's settlement provides Network Rail with a lower overall level of funding than had been requested so they will need to identify and implement savings in project delivery costs of over 20% during the control period. With this in mind they are looking at each area of their business to identify more cost effective and innovative contracting and delivery mechanisms. These include changes to the way that core track renewals are contracted and the introduction of new low cost technologies in key elements of the market. Discussions on the detail and implications of these proposals are ongoing with Network Rail.

Operational review

As anticipated, revenue for the division was below last year at £150.7 million (2009: £228.9 million), mainly due to our withdrawal from the multidisciplinary contract market but also due to the loss of the High Output Track Renewals contract that we had successfully operated for Network Rail for five years through our SB Rail joint venture with Swietelsky.

As a result we have developed a robust three year transformation plan to return the business to profit and improve its overall market position. The implementation of this plan is well underway and is already having a significant positive impact on the division's financial and operational performance. Including restructuring costs in the order of £4 million, operating losses for the division have been reduced to £1.2 million (2009: £6.4 million) and the division operated profitably during the second half of the year. Overall headcount in the division will be reduced by 25% during the second quarter of 2010 and the number of operating locations across the North West are being rationalised.

During the year we have concluded settlements on the majority of outstanding legacy contracts. This significant achievement further reduces the level of commercial risk in the business and has enabled us to strengthen our relationship with key customers.

Operationally, it has been a strong period with positive feedback from Network Rail on a number of changes we have introduced to the way work packages are planned and managed.

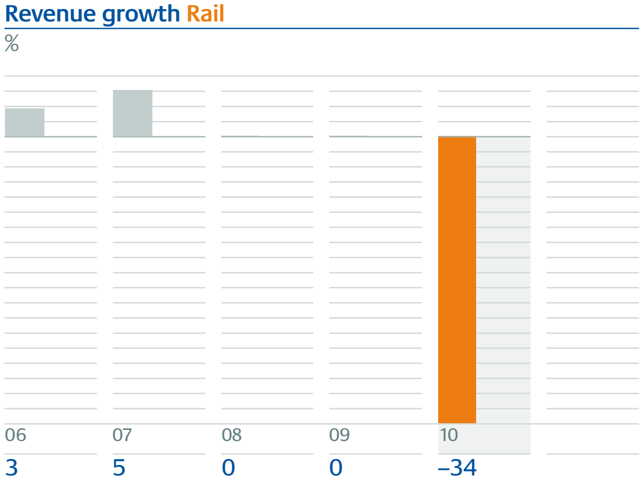
Our framework contracts in track, signalling and telecoms continue to provide a stable platform for the business. In support of Network Rail's cost reduction targets we are discussing a move to a single incentive-based contract for track renewals in North West England and Scotland replacing the separate contracts which existed previously. We have also recently secured one of only three telecoms framework contracts for the next 12–18 months positioning us strongly for the next long-term contract which we anticipate should be awarded before the end of this financial year.

Outlook

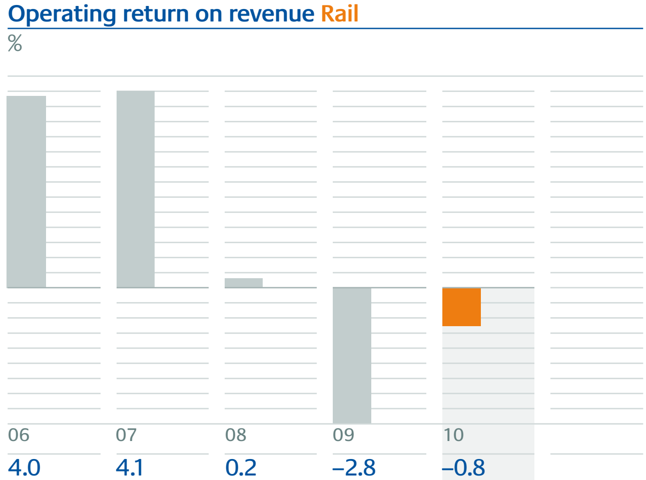
The challenges that Network Rail faces in delivering significant cost savings are driving a move to more open, collaborative type contracts. This is a way of working in which Babcock has traditionally excelled.

Although Network Rail's spend will reduce we believe there are a number of significant opportunities available to us. In addition we will continue to try to diversify our customer base to improve stability. However, our key imperative will continue to be the ongoing transformation of the business to deliver reduced costs, improved operational performance and increased safety.

Revenue growth Rail



Operating return on revenue Rail



Networks

Market overview

The electricity transmission and distribution markets have been stable throughout the year, with network owners maintaining a consistent spend on their infrastructure despite an increased focus on value for money. This will continue to be a priority as the Regulator seeks improved efficiencies through the Price Control Review process.

In the telecommunications markets there remains some volatility, although visibility has improved as network operators outsource services to the original manufacturers. In addition, to enhance network coverage and reduce expenditure, the mobile network operators have started to merge their network assets (Vodafone with O_2 and Orange with T-Mobile) which we believe will result in further work for the division. Following the Digital Britain report last year, the next generation of communications networks are starting to show increased opportunities.

Operational review

As a result of changes in the market, revenue for the division has reduced by 6% to £112.6 million (2009: £119.4 million). Operating profits were £4.1 million (2009: £7.0 million) as a result of both the slow UK telecommunications market and losses in the Irish telecommunications business. We have now exited the Irish market at a cost of c £1.5 million. Operating margins were also impacted and reduced to 3.6% (2009: 5.9%).

Both the National Grid Electricity Alliance contract (a joint venture with AMEC and Mott Macdonald) and the EDF Energy Networks Alliance contract have performed well and have provided the division with visibility of future income and the opportunity to deliver improvements in efficiency, innovation and safety performance. As a result the division is well placed to meet the challenges ahead following the conclusion of Distribution Price Control Review 5.

Specialist transmission design services continue to be a key part of the value we can add to support the power network operators. As a result, we have continued to increase resource in our UK and Bulgarian design offices to match demand.

In the telecommunications sector, the division secured strategic supplier status with Nokia Siemens Networks, a global equipment vendor in the communications market, which is now providing the division with more consistent volumes. The division is offering wider services across a number of mobile networks.

We continue to look at opportunities within the Next Generation Networks (NGN) market and have designed and developed our first NGN, a wireless broadband network in Norwich, due to go live in the summer of 2010. This will provide a foundation to build further volumes of work in this growing market sector.

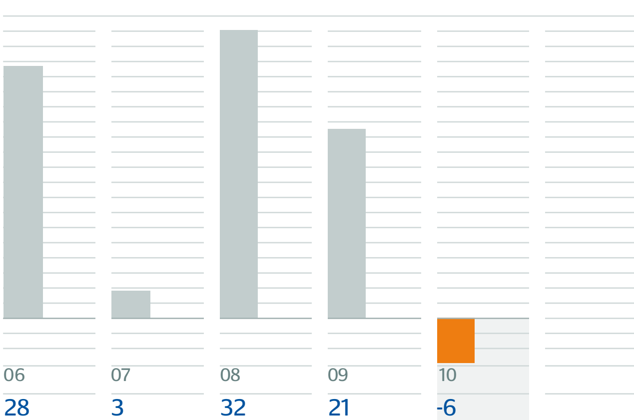
Digital Switchover in the TV and radio broadcasting provided consistent revenue streams during the year following the successful delivery of further key projects, although this programme is now drawing to a successful conclusion in readiness for the Olympic Games in 2012.

Outlook

We anticipate our customers will continue to seek greater value for money solutions. However we believe this year's successful delivery to a wide range of customers in the power and communications markets will ensure we are well placed to maximise the significant opportunities in the years ahead as investment by transmission and communication network owners and operators is required to upgrade their infrastructure for new technologies.

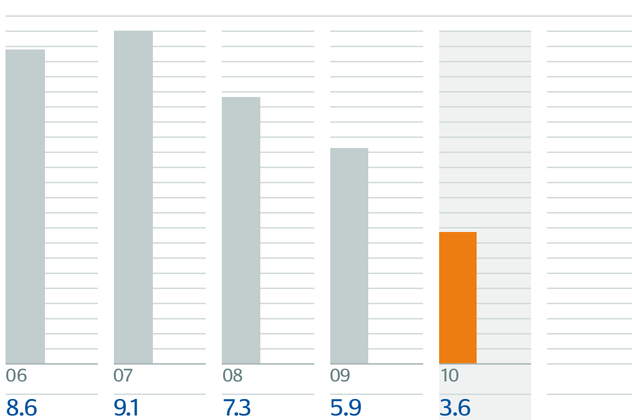
Revenue growth Networks

%



Operating return on revenue Networks

%



Engineering and Plant

Market overview

During the year the world market for mining and construction equipment has seen dramatic changes. The sudden drop in commodity prices, the reduction in available finance and the turmoil from the global recession has led to a much longer than expected slowdown of the South African economy. The cost of the two new coal fired power stations has been greater than anticipated and this has resulted in some reduced spending on maintenance, reduced plant outages and postponement of new projects. Infrastructure spend has stood up well in the run up to the World Cup.

Operational review

As anticipated the economic climate has impacted revenue for the division which has reduced by 19% on last year to £174.2 million (2009: £215.6 million) despite a 55% reduction in the equipment sales market. Operating profit has reduced by 45% to £10.9 million (2009: £19.7 million) and operating margins were 6.3% compared with 9.1% last year, when margins for the division benefited from a very strong performance in the Eagleton pipelines business in the US and improved profitability on power generation support work in South Africa.

Due to cash constraints, the expansions announced by Eskom, the South African power utility, have been limited to the construction of the new power stations and this has meant that some transmission line extension projects have been postponed. The return to service programme for moth-balled power stations was completed during the year and our power generation support and maintenance business has been limited to essential maintenance and a limited outage programme. Although this has led to some reduction in revenue, profit has been held at levels similar to last year through a combination of operational efficiencies and an overhead reduction programme.

We are now starting to see some increase in demand for our Powerlines business which has just been awarded a new line construction contract beginning in April 2010 with a further six projects currently progressing through evaluation along with other expansion work throughout Southern Africa. To strengthen our position we have begun to apply the line maintenance and upgrade programme 'CARE' from the UK Networks division to South Africa.

The Equipment market is beginning to show some early signs of growth with enquiries starting to pick up. With commodity prices recovering, and mining stock piles being sold, we expect the demand for equipment will increase. Parts and service sales have doubled over the prior year and we expect this trend to continue as operators keep machines for longer. A continuing focus on tight overhead control will ensure the division is well placed to capitalise on market recovery.

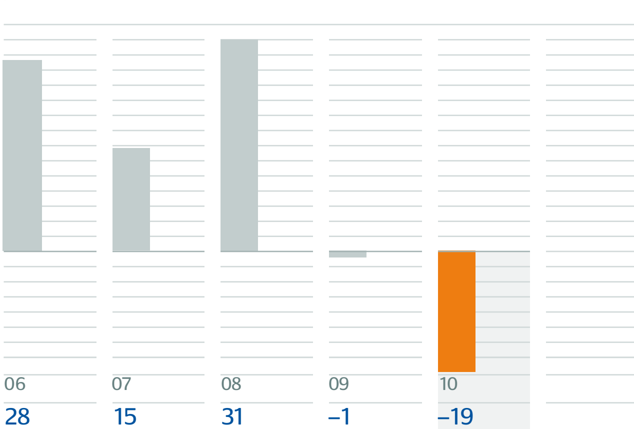
In addition the Plant hire business has continued to perform well, benefiting from infrastructure spend, and we expect this trend to continue. Our recent success in winning a military elementary flying training project is opening doors for further military outsourcing possibilities.

Outlook

The demand for electricity throughout Southern Africa, although slowed by the world economic crisis, continues to be strong. Eskom is progressing with the new power stations and generation projects throughout the region are returning to previous levels. We anticipate that this expansion will continue to provide opportunities within our power generation and transmission line businesses. The cautious approach taken in our equipment operation has led to a much more streamlined business, well able to exploit growth opportunities as the market recovers. Despite the impact of the current economic crisis, we remain confident in the long-term growth prospects for the division.

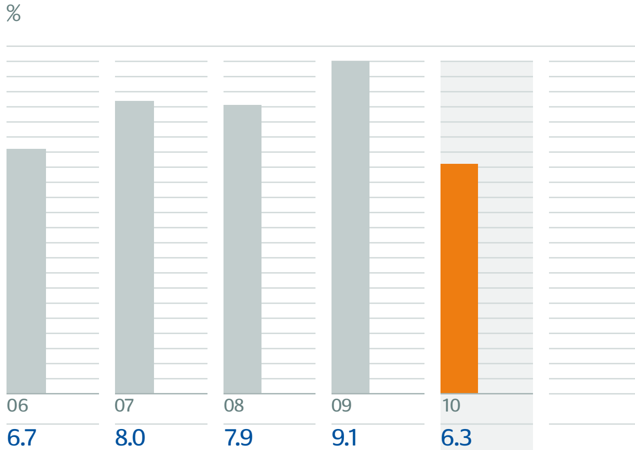
Revenue growth Engineering and Plant

%



Operating return on revenue Engineering and Plant

%



Corporate responsibility

We know that the way we do business matters because what we do today will determine our long-term prospects and the company we will be tomorrow. Our objective to be the leading engineering support services company in the UK and in selected overseas markets is informed by our concern to address issues that are important to our main stakeholders: our customers, our investors and our people.

Through our various initiatives, we are constantly seeking to embed corporate responsibility into our management and business processes.

Corporate governance

We seek to ensure that the way the way we make decisions best supports our reputation that we can be 'trusted to deliver'™. Our decision-making processes are underpinned by a commitment to the highest standards of honesty and integrity and a management structure that reflects our philosophy that responsibility clearly defined and delegated at the operational level will best serve the interests of our stakeholders.

With effect from 1 April 2010, an internal restructuring saw our Defence, Rail, Nuclear and Networks operations come under the common umbrella of a new 'Support Services division'. By creating this new management structure, our aim is to improve and extend our services to our current customers and better develop our capabilities in new markets. We also appointed the Chief Executives of our Marine and Support Services divisions to the main Board of Directors so that the Board may benefit directly from the first-hand knowledge and experience of those close to the day-to-day operations and to allow the Chief Executive and Finance Director at Group level to focus their attention on our long-term strategic development.

Ethical conduct

Being committed to the highest ethical standards, we operate a strict ethical policy, which divisional Managing Directors are responsible for implementing and reporting on annually. The policy covers and provides guidance on such areas as conflict of interest; unlawful and unethical acts; avoiding bribery and corruption; the use of commercial or marketing agents (especially in overseas territories); and giving and receiving gifts and hospitality. We are engaged in an ongoing process of reviewing and developing our ethical policy in light of the recent Bribery Act to ensure that we follow best practice and can meet any government guidelines that are to be issued before the Act comes into force.

Whistleblowing

Across the Group, we have made available to all employees an independently-managed whistleblower hot line to allow them to report confidentially concerns about any unlawful or unethical acts of which they may become aware. These are brought to the attention of Group executives so they can be dealt with and, where possible, all efforts are made to communicate the outcome to the whistleblower once the concern has been investigated.

Health and safety

We are determined that our commitment to health and safety remains strong from the Board of Directors through all levels of management down to the shop floor. The Safety Leadership Team at senior executive level (comprising the Executive Directors and heads of our principal business units) is responsible for the devising and implementation of our health and safety strategy. The Corporate Safety Steering Group (attended by health and safety professionals from across our operations and chaired by the Chief Executive) is a forum for the sharing of good practice. Each business has a dedicated health and safety team and provides appropriate and relevant training to employees on health and safety matters. In addition, good practice events are held to maintain awareness of the day-to-day health and safety issues that can arise in the course of work. Targets for these good practice events were set at the outset and the number of events held were recorded throughout the year. To ensure that they truly reflect and enhance the effort put into improving health and safety at Babcock, the targets and reporting of these good practice events are being kept under review.

We remain as committed as ever to our effort to reduce by 50% our accident frequency rate across the Group. Having launched our Home Safe Every Day message in 2008/09, we sought to strengthen it further in 2009/10. Procedures and processes having been reviewed and improved, wherever possible, our focus has now turned to the behavioural and cultural attitudes that underlie unsafe acts that lead to accident and injury.

The results of the safety cultural assessment carried out last year have shown that across our businesses and across levels of management, health and safety is now seen as being not just something that the Company has to take care of and is as much a matter for which individual employees and contractors are responsible themselves. The survey also enabled us to identify areas for attention in the light of a slowing in the rate of improvement in the reduction of the accident frequency rate.

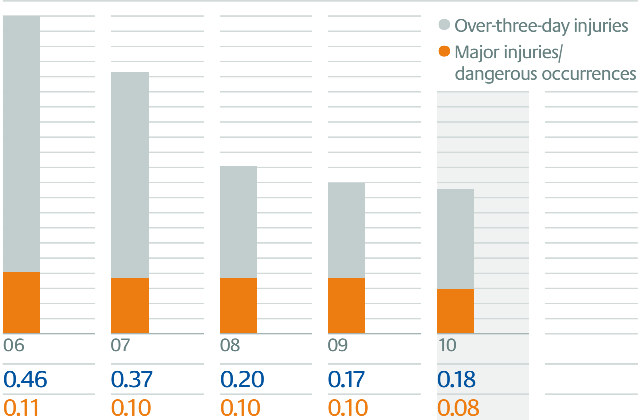
This has led to a number of initiatives, including:

In South Africa, the STEP programme (Safety Through Empowerment of People) has been adopted with a view to understanding and implementing behavioural change through the 'Talk-to-People' process technique. As a result, the business has seen a dramatic improvement in its accident and injury rate since 2007.

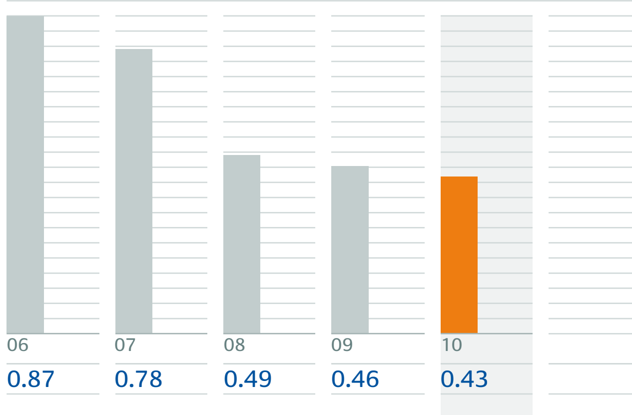
In our Infrastructure business, a similar programme consisting of conversations with employees, SUSA (Safe and UnSafe Acts), was launched in July 2009. Since then the all-accident frequency rate has reduced significantly having plateaued for two years prior to the launch of the campaign.

In our Networks business, work has been undertaken with Nottingham University to look more closely into the behavioural causes of unsafe behaviour.

Incident rate per 100,000 hours worked
(Prior years restated for acquisitions)



Total reported lost time accidents per 100,000 hours worked
(Prior to years restated for acquistions)



In addition to Health and Safety conferences which have been held since 2008, for the first time in early May 2010 we held a Safety Excellence Awards ceremony. The awards seek to promote and reward health, safety and environmental initiatives across our businesses. The categories include an individual achievement award, a team achievement award, a customer engagement award, a supply chain engagement award, a best safety programme/initiative award, an environmental award and the Chief Executive's award.

Employees

We share a passion with our employees to provide exceptional service to our customers. We never forget that it is our employees who provide the skills, energy and pride essential to maintaining our position as a leading engineering support services provider. The highly technical and complex environments in which we frequently operate make it imperative that we recruit and retain, through training, development and recognition, the best skilled engineers and project managers. We seek to do that by maintaining a consistent approach to succession planning and talent management, and by seeking to offer opportunities for all employees regardless of age, race, colour, ethnic origin, gender, marital status, religious beliefs, sexual orientation or disability.

We recognise that a diverse workforce is important to the success of the business and, during the year, we set up a Diversity Committee with representatives from all our businesses and chaired by the Chief Executive. Its purpose is further to develop and monitor our policies and procedures to ensure that we operate as fairly and inclusively as possible. It also serves as a forum for the sharing of best practice across the Group.

Number of incidents

(Prior years restated for acquisitions)

	05	06	07	08	09	10
Fatalities	1	2	2	0	1	1
Major injuries and dangerous occurrences	44	40	43	46	51	34
Over-three-day injuries	186	159	154	89	83	83
Other lost time accidents	83	106	128	87	94	79

The fatality in 08/09 relates to a motor accident in South Africa when our employee's stationary vehicle was hit by a third party truck.

Recruitment and training

Given the highly technical nature of much of the work we do, like many other companies in our sector, we continue to be affected by the national skills shortage in engineering and technology. Each of our businesses works with different customers and in different markets. We believe that, in the main, HR issues, including recruitment, training and development and succession planning are best managed locally. Wherever possible, our divisions seek to recruit from the communities in which they operate. However, to make the best use of our skilled workforce, we are placing increasing emphasis on ensuring opportunities for career development are managed on a Group-wide basis. This is why our Group Director of Organisation and Development is responsible for ensuring that we maintain a strategic view of the optimal allocation of talent across our businesses and that our future generations of senior managers and leading specialists are properly identified and developed.

We also believe that finding the right talent to deliver solutions for our customers starts with promoting engineering as a career of choice for young people. This is why we are working with a number of institutions and have a range of initiatives across our businesses to engage with schools, colleges and universities in promoting engineering as a career option. For example, Babcock is represented at the National Skills Academy for Nuclear, a body which seeks to develop a portfolio of solutions to address the shortage of technical and vocational skills caused by the changing skills mix required by the nuclear sector.

Apprentices – Apprentice recruitment is undertaken by each division as appropriate for its future requirements. We have 519 apprentices in training within our UK operations (2009: 535), of whom 170 were recruited this year (2009: 159). We offer accredited apprenticeships in a wide range of different trades relevant to the operations of each division.

In South Africa we recruited 53 apprentices (2009: 50) working on three or four-year schemes. In addition, we are working in conjunction with a training institution to train 80 A-class welder apprentices between 2010 and 2012 and our aim is to provide employment opportunities to all the welder apprentices who will have satisfactorily completed their training.

Graduates – Our graduate programme covers disciplines such as engineering, naval architecture, finance, HR, IT and operational management. We provide formal development, training programmes, coaching and mentoring so participants have the opportunity to achieve accredited status with an appropriate professional body. In the year to 31 March 2010, our intake for the Babcock Group graduate programme was 101 graduates (2009: 108). The slightly lower number of graduates is a result of the current economic climate, as places on the programme are made available in light of business needs. Following our recruitment campaign in September 2009, at the date of this report we had recruited 79 graduates for the 2010/11 programme, 71% of which are engineering. In addition to the graduate programme, our Marine division in Devonport and our Nuclear business also provide opportunities to engineering undergraduates with the hope that they will then apply for the graduate programme.

Management development – The Babcock Academy, introduced in 2005 and run in conjunction with Strathclyde University, continues to provide an opportunity for our managers and senior executives to develop their leadership, strategic planning and commercial skills and to introduce the Babcock approach to a number of key operational areas. During last year around 145 senior managers and executives passed through the programme.

Employee communications

We communicate with our employees in a number of ways to keep them informed of strategic developments and the financial performance of the Group as well as promoting best practice initiatives.

This year, a Group-wide intranet was re-launched across all our businesses with a view to disseminating best practice and providing resources in cross-sectional areas including business development and marketing, IT, health and safety and HR. This is in addition to the existing divisional intranets and newsletters that provide locally relevant information to employees.

Our Group-wide Employee Forum meets twice a year. Each business unit sends their elected representative to be informed of and consulted on all major developments within the Group. Representatives consult within their businesses and bring any issues to the Forum to be discussed.

Customers and customer relations

Strong customer relations are at the heart of any support services business and Babcock is no exception. We pride ourselves on our ability to work in partnership with our customers to deliver jointly agreed objectives. The long-term nature of many of our key contracts makes it vital to our ongoing business success that we meet and exceed the different financial and quality KPIs that are used to measure the success of these contracts.

Corporate responsibility continued

The Babcock Board and senior executives take ultimate responsibility for Group-wide customer relations. Each operating division has a director responsible for liaising directly with the customer and monitoring performance on the agreed KPIs. For the past six years, we have participated in an annual performance review run by the Supplier Relations Team at the Ministry of Defence, which measures our performance on all its contracts by quality, value, timeliness and 11 core criteria including responsiveness, management of risk, quality of relationship, flexibility and innovation. Our performance in this review has seen a steady and significant improvement over successive reviews.

Since 2007, when we commissioned an independent survey across all our customer groups, we have been taking concerted action to improve the quality of service that supports our 'trusted to deliver' ™ reputation. In particular, we have highlighted the following as areas of focus to ensure we achieve maximum success:

Partnership – by achieving a real partnership, both parties feel the benefits through added confidence that project goals will be met.

Cost efficiency – we are committed, wherever possible, to improve cost efficiency; this is extremely important for our customers, especially in today's economic climate. Our ability to manage and reduce costs is evident in many of our long-term relationships.

Added value – we want our customers to find us easy to do business with – open, approachable, flexible to deliver more than the basic contract requirements.

The results of our survey are being used to ensure that we are systematic and consistent in the delivery of customer service. They are also being used as the basis for establishing regular dialogue with our customers to ensure we identify any potential issues that might impair our relationships and resolve them in a timely manner. As necessary, we will commission independent reviews of our business partnering arrangements to identify areas that are working well and where further attention may be required. For example, to ensure a consistent approach across the Group, we seconded a Customer Relations Project Manager from the MoD to work with us in 2009/10 to replicate or use as a starting point the MoD's performance review with our key civilian customers. The first series of such civilian customer satisfaction reviews were satisfactorily completed in the first quarter of 2010 and some very useful benchmarks have been established for future measurement and progress, which will be taken forward and developed by a dedicated Babcock resource.

Environment

At Babcock, we are committed to continual improvement in our environmental performance. We recognise that environmental considerations are essential to delivering sustainable solutions to grow our business and meet the needs of our stakeholders.

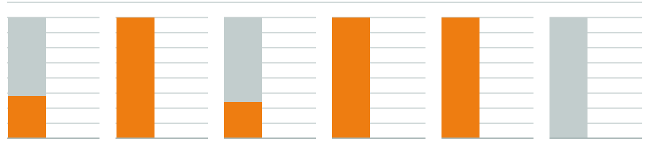
As a company, we aim to reduce our direct environmental impacts, particularly those associated with the use of natural resources and the generation of waste. We will seek to ensure that the environmental consequences associated with the provision of services to our customers are taken into account through appropriate assessments and audits. We will also encourage our customers to consider the environmental effect of their activities and advise them about sustainable solutions.

Environment KPI

%

Althought our ability to implement good environmental stewardship practices is on occasion set for us by customer requirements our target is to grow the percentage of revenuesin each business segment from contracts which are ISO 14001 accredited. 'Best practice' refers to activities where non-ISO 14001 compliant measures are being applied.

Best practice · Accredited



	Marine	Defence	Rail	Nuclear	Networks	Engineering and Plant
Best practice	65	–	70	–	–	100
Accredited	35	100	30	100	100	–

Carbon emissions reduction

We realise that we have a part to play in helping achieve the UK's commitment to reduce carbon emissions by 20% on 1990 levels by 2020 and understand that effective management of our carbon emissions is key. We have developed a comprehensive carbon management strategy that focuses on meeting the requirements of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and reducing the carbon footprint of our business activities, whilst providing comprehensive reduction solutions to our customers. We have embraced this opportunity to review our energy usage and cut our costs wherever possible by seeking accreditation under the Carbon Trust Standard. Our Infrastructure business achieved this accreditation in December 2009 and we aim to obtain accreditation for the Group as a whole.

Procurement

Last year, we reported that we were working with the MoD to complete the Sustainable Procurement Flexible Framework as part of its 2009 performance review. The Framework is a maturity model and covers five areas: People; Policy, Strategy and Communications; Procurement Process; Engaging Suppliers; and Measuring and Results. We are fully committed to the government's sustainable procurement agenda and completed our baseline assessment under the Framework in December 2009. We are developing an action plan and have set targets to improve our performance where required.

More generally, we have a duty to ensure that all of our customers' money is spent efficiently and contracts are managed effectively. Our customers also rely on us to manage a number of suppliers and sub-contractors on their behalf. This is why a wholesale review of our procurement processes across the Group has been undertaken this year and is ongoing.

Community

In many places our operations are the largest employer in the region. If we are to continue to recruit from our local communities we must maintain our reputation as a responsible employer. We therefore 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 in place 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 with the communities in which we operate through local community support programmes.

In South Africa, local management has identified three specific areas of support which will benefit the local communities as well as being key areas of concern for the country. These are education, HIV prevention and training and HIV orphan support.

In support of our major customer 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 we have provided support to a number of charitable causes and during the year we donated £197,000 (2009: £129,000).

Principal risks

In the course of our day-to-day operations we face a number of risks and uncertainties. The Board considers the matters described in this section to be principal risks that face the Group as it currently stands and that could adversely affect the business, results of operations, revenue, profit, cash flow, assets and the delivery of our growth strategy. Given the size, complexity and spread of our businesses and the continually changing environment in which the Group currently operates, this cannot be an exhaustive list of such risks.

Systems and procedures are in place across the Group intended to identify, assess and mitigate major business risks. The management of risk is an integral part of our operational review process and is supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee. Further details on our internal control processes are set out on page 63.

Risk

Health, safety and environmental issues

The working environments in which the Group operates are complex and, in some instances, can be inherently dangerous. Some of our activities, if not appropriately managed, could have an adverse effect on the environment which could reasonably be avoided.

Our commitment to our employees and the nature of our business and our customers mean that our ability to manage these issues is a key element of our business reputation and success.

Impact

Damage to our reputation would affect our ability to win and retain contracts and attract and retain our staff and therefore adversely affect the financial performance of the Group.

Action

The Executive Committee and the Board review health, safety and environmental performance regularly and satisfactory performance on these matters is one of the performance criteria included in executive bonus schemes. A Safety Leadership Team comprising the Executive Directors and all divisional Managing Directors meets regularly to set policy and procedures and to monitor performance and agree corrective actions where necessary. For further details of our approach to Health, Safety and Environment see pages 37 and 38 and page 40.

Risk

The Group is dependent on a number of key people

The Group operates in highly technical and complex businesses and is dependent on recruiting, retaining and developing highly skilled, qualified and experienced engineers and project management staff. The marketplace for such staff remains highly competitive.

Impact

The Group's operations could be constrained by a lack of suitably qualified and experienced employees in key areas.

Action

We seek to make our businesses attractive places to work by offering competitive remuneration packages aimed at long-term employee retention as well as appropriate training and development opportunities. In the past few years we have extended both our graduate and apprentice recruitment and development programmes and we continue to improve our management development programmes.

Risk

The Group's ethical reputation could be damaged

We pride ourselves on our 'trusted to deliver'™ reputation. This is a key factor in our ability to win, complete and retain contracts and is an important element in our ability to build and maintain long-term relationships with our customers.

Impact

Any damage to our reputation could have an adverse effect on the Group's future results and financial position.

Action

We insist on the highest standards of honesty, integrity and performance in all aspects of business. We have an ethical policy in place that defines the level of behaviour we expect. The policy is formally re-emphasised to senior management every year and they formally confirm compliance. We have established a 'whistleblower' hot line so all employees can anonymously express any concerns they have about the way the business is being operated. We maintain regular dialogue with customers and carry out customer surveys to ensure we identify any potential threats to our customer relationships and act on them.

Risk

Information technology

The Group relies on the use of complex software for the management of engineering, commercial and financial data. The Group and its customers are dependent on the resilience of the applications' software, the data processing facilities and the network infrastructure linking the sites where we operate.

Impact

A serious failure in any of these areas would have a significant adverse effect on our businesses.

Action

During the year we appointed a Group Chief Information Officer to be responsible for and to develop the Group's extensive IT systems. The Group's businesses have detailed disaster recovery plans in place. We have also established a Group data centre which has in-built high resilience levels with a physically separate disaster recovery facility. This will increasingly form the hub of all shared IT services.

Risk

The Group is reliant on large contracts from a limited number of major customers

A significant proportion of the Group's revenue comes from large contracts placed by a limited number of major customers such as the Ministry of Defence, Network Rail, and National Grid. These customers are affected by budgetary, regulatory or political constraints which could have a significant impact on the size, scope, timing and duration of contracts and orders under them. In addition, because of their size, these customers have considerable bargaining power and the ability to cancel contracts at short notice.

Impact

The loss, expiration, delay, suspension, cancellation or termination of a number of these large contracts, or any damage to the relationship with any of our major customers, could have a material adverse effect on the Group's future results and financial position.

Action

We make it a priority to have a close understanding of our customers and their needs and objectives. Our aim is to develop and maintain long-term co-operative working relationships with them, and to ensure the financial success or failure of contracts is fairly shared. We aim to position our businesses in markets where the risk of adverse changes to the size, scope, timing and duration of contracts is low.

Management regularly reviews contract performance and Executive Committee members are closely involved in ensuring the strength of customer relationships.

Risk

Maintaining growth through continuing bid success

Our ability to achieve growth and deliver value for our shareholders relies on our ability to win new contracts and retain existing contracts on expiry. Our ability to manage the bid process successfully is vital. Bid processes can be long and are often subject to delays, changes or abandonment by the customer, all of which are outside our control. The significant financial and manpower costs of these bids are generally not recoverable if bids are unsuccessful or the tenders are withdrawn or aborted by the customer.

Impact

Failure to win significant new contracts will materially affect the Group's future results and its ability to achieve its strategic growth objectives.

Action

All bids are subject to continuous monitoring and review by senior Group and divisional executives to ensure resources are appropriately focused so the chances of success and the financial returns are acceptable. The final submission of any significant bid or re-bid requires formal approval from one or more Executive Directors.

Risk

Poor contract performance

The continuing financial success of the Group depends on our ability to meet or exceed the contractual requirements of our customers. On many contracts we employ sub-contractors or work with other commercial partners and so are reliant on their performance as well as that of our own employees to meet the key performance indicators and financial standards expected.

Impact

Failure to meet contractual performance criteria either directly or through sub-contractors and the resultant damage to our reputation could have an adverse effect on the Group's future results and financial position.

Action

Each division has procedures in place to monitor the ongoing performance of each contract and these are discussed at operational reviews with Group Executive management. The financial performance of all significant contracts is reviewed quarterly by Group Finance.

Principal risks continued

Risk

The Group derives a large proportion of its revenues from national and local government activities

Our largest customer is the Ministry of Defence. We also have significant contracts with private sector companies who are strongly influenced by political and regulatory considerations. As such our businesses are susceptible to changes in government policy, budget allocations and the political environment.

Impact

The termination or significant amendment of any of our large contracts arising from changes in the factors noted could have an adverse effect on the Group's future results and financial position.

Action

We seek to maintain a regular dialogue with our customers and others within government departments to ensure we fully understand at both Group and divisional levels the considerations that are affecting budgetary and policy decisions and the changing political environment.

Risk

The Group has experienced growth through acquisitions, the financial and strategic benefits of these acquisitions may not be realised

Since 2001 the Group has grown through a series of acquisitions. This is expected to continue as the Group seeks to meet its strategic objectives. The integration of operations and employees is a complex process and post-acquisition performance may not be at the levels anticipated. The Group may not be able to integrate the operations of acquired businesses with existing operations as rapidly as expected or without encountering other difficulties.

Impact

The diversion of management attention to integration issues and other difficulties encountered could adversely affect the Group's business. Post-acquisition performance may not meet the financial performance expected and could therefore not justify the price paid and could adversely affect the Group's future results and financial position.

Action

We seek to carry out appropriate due diligence as far as we are able and carry out a detailed valuation process based on information available and our knowledge of the marketplace. All acquisition processes are overseen by the Board and no acquisition may be completed without their formal approval.

Risk

The Group operates large defined benefit pension schemes

The Group's defined benefit pension schemes are subject to three yearly formal actuarial valuations with annual updates. The latest adopted valuations form the basis for determining the level of cash contributions required for the schemes. These could vary adversely due to differences between the actual experience of the scheme and the valuation assumptions made which could result in increases in the cash requirements. The most significant differences can occur due to differences in the actual and assumed investment returns and changes in the allowance made for longevity. This may reduce the cash available to meet the Group's other obligations or business needs.

The Group must also comply with the requirements of IAS 19 for all of its defined benefit schemes. As a consequence of the requirements to use a corporate bond related discount rate to value the liabilities, variations will occur from year-to-year due to a mismatch with the investments held and because of variations in the yields available on corporate bonds and inflationary expectations. This may increase the pensions charge 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.

Action

We seek to maintain constructive and open relationships with the schemes' Trust Boards and to work with them to follow appropriate investment policies for the profile of their members as well as seeking other means of eliminating or mitigating risk.

As an example of how the Group is addressing this see the Financial review page 46, where we discuss the introduction of longevity swaps to reduce our exposure to the impact of increasing life expectancy which would otherwise increase the cash and accounting impact of the schemes over time. The Group has also agreed a consistent long-term investment strategy with the Trust Boards, which will help to mitigate investment risk. An investment sub-committee across the schemes has been established to implement the strategy efficiently and take advantage of opportunities as and when they arise. It will also provide the necessary framework to hedge the schemes' exposure to changes in inflation and interest rate to stabilise the impact on the Group's cash requirements and accounting entries.

The Group has also established a governance committee across the schemes to build on existing arrangements to ensure the Trust Boards follow a strong governance regime in running the schemes.

The Group maintains a suitable ongoing funding rate based on prudent assumptions agreed with the Trustee Boards. We have a Group Pensions Manager reporting to the Group Finance Director whose task is to keep such strategic matters under close review. He regularly reports to the Board. An annual review of the pension schemes is also conducted by the Board and the schemes form part of Board discussions at other times of the year. Further details of the Group's pension schemes are detailed in note 27 to the Group financial statements.

Risk

The material misstatement of financial results

The Group could materially misstate financial results through fraud or error if financial and operational controls are inadequate.

Impact

Misstatement of financial results could adversely damage the Group's reputation, affect its ability to operate and its future results and financial position.

Action

The Group has robust structures to mitigate or manage these risks, including a comprehensive financial policy and accounting standards manual with authority and approval mandates. All material commercial and contractual activities are overseen by Group executives and governed by the Group Policy and Procedures manual which sets out the Group's approach to doing business. These policies and procedures are backed up by a system of regular contract reviews conducted by Group Finance and a regime of internal audit, conducted by Ernst and Young which reports to the Audit and Risk Committee. Further detail of internal controls is given on pages 63.

Risk

Default of a significant debtor or counterparty

Impact

The failure of a significant debtor or counterparty could adversely effect the cash flow of the Group.

Action

All significant credit risks are reviewed by Group Finance and an Executive Director and, where appropriate and available, risk limitation actions are taken.

Risk

Liquidity risk

The Group relies on the ongoing provision of lines of credit from its relationship banks. Banking lines of credit could be withdrawn if legally binding covenants are not met.

Impact

The Group's ability to fund current and future obligations and future expansion could be adversely affected.

Action

The Group has committed lines of credit of £600 million through to 2012. An additional £400 million facility has been negotiated for up to 18 months to finance the proposed acquisition of VT Group plc. Borrowing ratios are comfortably within the banking covenants set out in financing agreements and are monitored on a regular basis. The conversion of profit to cash is a key performance indicator.

Risk

Interest and foreign exchange risk

Historically the Group has financed its operations through equity and bank debt. Some of the Group's debt is denominated in foreign currency. The interest rate charged on bank debt could increase significantly or foreign currency exchange rates could move materially against Sterling, the Group's base currency.

Impact

Adverse movements in interest and foreign exchange rates could impact Group profit and net assets causing a reduction in returns to shareholders.

Action

Interest rate risk is managed by the use of interest rate collars and swaps to ensure an appropriate mix of fixed and floating rate debt is maintained. Foreign exchange translation exposure is managed by restricting foreign borrowing to the value of assets denominated in the same currency or in the case of transactions in foreign currency, by the mandatory use of foreign currency contracts.

In addition to the principal risks described above, other risks that face the Group are described in the Prospectus issued by the Company dated 26 April 2010 in connection with the proposed acquisition of VT Group plc, including risks relating to that acquisition and risks that will face the enlarged Group. A copy of the Prospectus is available to view on our website www.babcock.co.uk.

Financial review

Financial highlights	2010	2009	Growth
Revenue	£1,895.5m	£1,901.9m	–
Operating profit	£164.2m	£147.3m	+11%
Profit before tax	£145.3m	£120.9m	+20%
Continued earnings per share	51.37p	41.90p	+23%
Full year dividend	17.60p	14.40p	+22%
Net debt	£302.3m	£351.5m	

Group income statement

The financial year to 31 March 2010 has been another excellent year for Babcock, one in which we have continued to deliver strong financial results despite the more difficult economic climate in which many of our key customers are operating. The strength of our business model and our ability to work in partnership with our customers to deliver shared efficiencies has proved beneficial.

For the Group as a whole whilst revenue remained at a similar level to last year at £1.9 billion (2009: £1.9 billion) the continuing strength of our Marine division and growth from a full year's contribution from the RSME contract in the Defence division have mitigated the adverse impact of weaker market conditions for the Engineering and Plant division in South Africa and the re-focusing of the Rail division.

Our increasing involvement in long-term contracts and through-life solutions for customers is enabling us to deliver and share in efficiency gains. In addition, our focus on delivering increasingly complex engineering support across the Group has supported the strong profit growth with operating profit increasing by 11%.

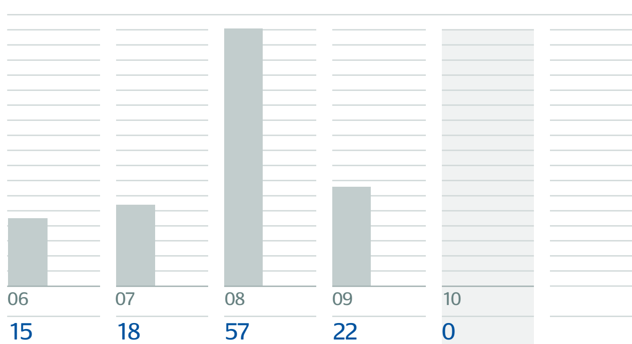
Bill Tame Finance Director. Focused on maintaining a secure financial position.

Bill Tame Finance Director

Revenue growth KPI

%

Revenue growth is defined as the increase in the Company's continuing revenue when compared to that of the previous year.



The Group operating margin benefited from our focus on contract efficiencies as well as improvement in performance in the Rail division and increased to 8.7% (2009: 7.7%) in line with margins at the half year. The Group's return on invested capital of 19.1% (2009: 20.1%) remains comfortably ahead of our weighted average cost of capital, a performance driven by focus on operating margins and optimisation of fixed and working capital.

2009/10 saw stability return to the UK credit market with the London Interbank Offered Rate (LIBOR) at or around 0.6% during the year compared to the Bank of England base rate of 0.5%. The total net charge for interest in the year was £18.4 million (2009: £26.2 million) covered 10.3 times (2009: 6.5 times) by earnings before interest, depreciation and amortisation (EBITDA) and comfortably within banking covenants.

Profit before tax increased by 20% to £145.3 million (2009: £120.9 million). The related charge to corporation tax of £25.3 million (2009: £23.1 million) represented 19% of the underlying (before amortisation of acquired intangibles and exceptionals) pre-tax profit before allowing for the benefit of a one-off prior year credit of £2.4 million.

The Group's underlying effective tax rate has remained stable at 19% benefiting from tax on income in overseas jurisdictions at rates below that of the UK. Based on currently known rates of taxation, we estimate a rate of no more than 23% is likely for 2010/11.

Post-tax profit from continuing operations increased by 23% to £120.0 million (2009: £97.8 million).

Operating profit after amortisation and exceptionals was £148.1 million compared to £133.1 million in the prior year. Profit before tax after amortisation and exceptionals was £129.2 million compared to £106.7 million in the prior year.

During recent years we have established a track record of delivering significant growth both organically and through a series of successful acquisitions and our commitment to delivering value for shareholders has been clearly demonstrated through continuous growth in both earnings per share and dividends. In 2010, continuing earnings per share increased by 23% to 51.37 pence per share (2009: 41.90 pence per share). Reflecting its confidence in the strength and underlying resilience of our business model, the Board has declared a second interim dividend for 2009/10 of 12.80 pence per share. This will make the total dividend payments for the year 17.60 pence (2009: 14.40 pence) an increase of 22%.

Cash flow and net debt

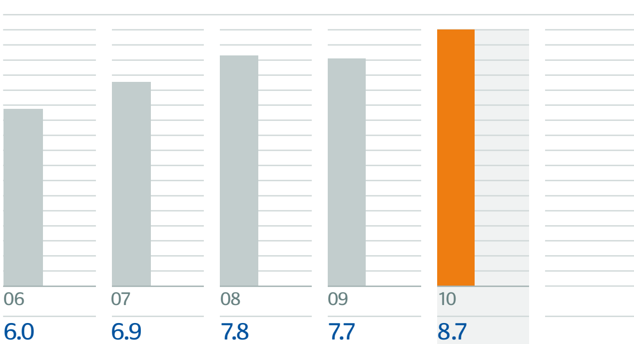
Our ability to generate cash, both in the absolute value of cash generated from operations and the relative conversion of cash from operating profit, has always been a key measure of the health of our business. Cash conversion in the year was 115% (2009: 115%) as a result of our ongoing focus on controlling working capital and capital expenditure.

We continue to use our strong cash generation to pay down debt and at the end of the year net debt stood at £302.3 million, compared with £351.5 million at 31 March 2009. During the second half we completed the acquisition of UKAEA Ltd for a consideration of £50 million including £13 million of cash, funded from existing debt facilities.

Operating return on revenue (ORR) KPI

%

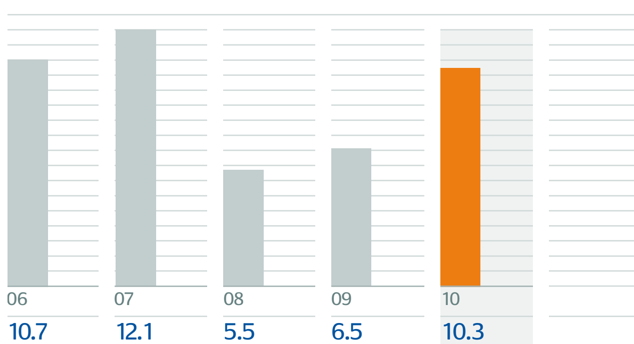
Operating return on revenue (ORR) is defined as operating profit expressed as a percentage of revenue.



EBITDA interest cover KPI

x

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



Financial review continued

Capital expenditure of £25.0 million (including finance leases of £5.0 million) represented 1.0 times depreciation and amortisation of non-acquired intangibles (2009: £19.3 million and 0.8 times) and was predominantly in support of major contracts in Marine, Networks and Engineering and Plant together with the development of Group-wide IT systems.

After cash paid in respect of acquisitions of £37.9 million (2009: £66.2 million), interest, tax and dividend payments, the net cash in flow was £49.2 million (2009: £29.3 million).

In addition to the £600 million revolving credit facility the Group currently has available until 2012, £100 million of US private placement loan notes (of seven and ten year duration) were issued in January 2010 to provide a more diversified funding structure and reduce our reliance on bank lending.

With net debt at £302.3 million (2009: £351.5 million), financial gearing ratios comfortably within covenanted levels and our financing position remains secure. At 31 March 2010 net debt to EBITDA was 1.6 times (2009: 2.0 times).

Key Performance Indicators

The volatility created by IAS19 has made our KPIs on Return on Invested Capital and Gearing ratio unreliable as a measurement of performance or trend. In order to eliminate this volatility we have restated capital in both cases to exclude pension deficits and surpluses from all years' calculations. This will give controllable measures for management to monitor.

Acquisitions

On 2 November 2009 we announced the acquisition of UKAEA Ltd for which cash paid was £37.9 million. From the date of acquisition to 31 March 2010 UKAEA Ltd has contributed £16.6 million in revenue and £1.5 million in operating profit before amortisation.

On 23 March 2010 we announced a recommended offer for VT Group plc to be funded by cash and the issue of new ordinary shares. At completion the cash element of the offer will be funded from an agreed £400 million bridge financing facility and the Group's existing £600 million revolving credit facility underpinned by a £600 million 'backstop' facility.

Pensions

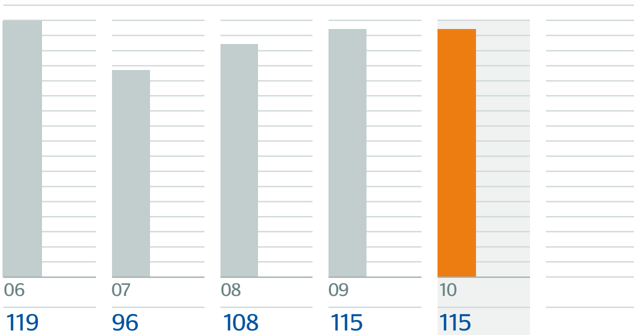
The Group is responsible for a number of large pension schemes and our main objective in managing these long-term pension liabilities has been to limit their cash impact on the Group. As a result, during 2009/10 we have put a number of actions in place and we continue to review other options to reduce the risk associated with these liabilities.

Pension scheme assets are now managed by a single cross-scheme committee which will ensure more responsive and efficient asset management which in turn should help to eliminate or reduce unrewarded risk such as inflation or interest rate movements.

Operating Cash Flow (OCF) conversion rates KPI

%

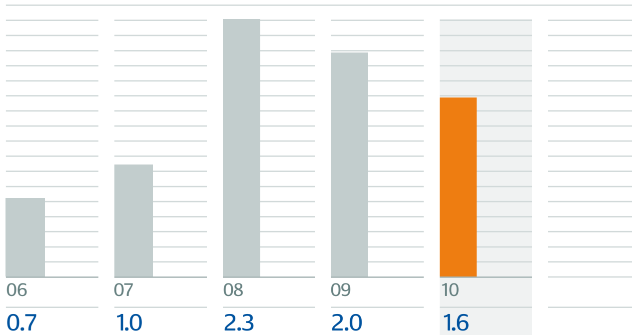
Operating cash flow (OCF) conversion rate is defined as cash generated by operations as a percentage of operating profit (post-exceptionals).



Net debt/EBITDA KPI

x

Net debt/EBITDA is calculated as net debt divided by earnings before interest, tax, depreciation and amortisation.



Longevity swaps are now in place on three of the Groups' defined benefit pension schemes to hedge our longevity risk on 45% of the schemes' liabilities. The longevity swaps had a negative balance sheet value at 31 March 2010 of £158 million. This represents the schemes' commitment to pay funds to the counterparty over a 50 year period relative to the mortality assumptions currently used in the actuarial valuation of the schemes. If the longevity of the scheme members improves, the initial negative value will decrease or, if the longevity does not improve, it will remain broadly at the current level subject to the volatility in market based valuation metrics. There was no impact on the 2009/10 income statement as a result of these transactions.

As determined by the triennial actuarial valuations, based on long-term assumptions and as formally agreed with the Trustees, the Group's funding payments to defined benefit schemes in 2009/10 was £46 million and in 2010/11 will be approximately £32 million, after allowing for pre-payments of £15 million made in 2009/10. Excluding pre-payments, annual cash contributions for 2009/10 were approximately £48 million and will be approximately £50 million in 2010/11. In addition, the Group has agreed to fund the incremental cost of the executed longevity swaps over a 20 year period at an annual cash cost of around £7 million.

The IAS 19 pension valuation for accounting purposes is based on a number of financial assumptions. The key assumptions include the interest rate used to discount the pension liabilities to their net present value, known as the discount rate. This rate is obtained from the market yield from AA corporate bonds at the financial period end and at 31 March 2010 was 5.5% (2009: 7.1%). The lower the discount rate the higher the calculated net present value of the liabilities. The significant drop in the rate between 31 March 2009 and 31 March 2010 caused by the disruption in credit markets has substantially increased the value of liabilities at 31 March 2010.

At 31 March 2010 under IAS 19, the Group's defined benefit pension liabilities and assets totalled approximately £2.3 billion (2009: £1.7 billion) and £2.0 billion (2009: £1.7 billion) respectively, giving a net balance sheet deficit before tax of £324.0 million (2009: £50.7 million surplus). After allowing for tax, the net deficit at 31 March 2010 was £233.3 million (2009: £36.5 million surplus).

The impact of the defined benefit pensions on the Group income statement was as follows:

	2010 £m	2009 £m
Service cost	23.3	26.7
Expected return on plan assets	(113.1)	(127.4)
Interest on obligations	107.2	116.6
	(5.9)	(10.8)
Net charge	17.4	15.9

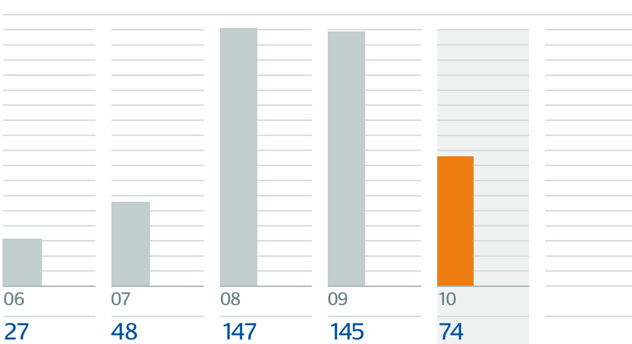
The above is before £1.4 million curtailment gain in 2009 following reductions in active membership during the year. There were no curtailment gains in 2010.

Volatility in the discount rate as well as in the estimated long-term inflation rate from period to period can have a material effect on the IAS 19 value of pension liabilities. This value, however, does not represent the basis upon which cash contributions are calculated. Cash contributions are based upon triennial valuations determined by longer term, scheme specific assumptions.

Gearing ratio KPI

%

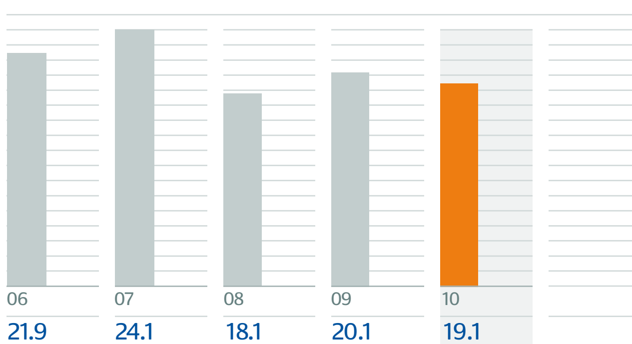
Gearing ratio measures the extent to which a company is funded by debt. Calculated as net debt, excluding retirement benefit deficits or surpluses, divided by shareholders funds.



Return On Invested Capital (ROIC) KPI

%

Return on invested capital (ROIC) is defined as net income divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt).



Directors and Company Secretary

Mike Turner CBE (61)

Chairman of the Board

Chairman of the Nominations Committee

Mike Turner was appointed Non-Executive Chairman of Babcock in November 2008 after retiring from his position as chief executive of BAE Systems plc. Until May 2010 he was chairman of the Defence Industries Council (DIC), and is a member of the UK government's Apprenticeship Ambassadors Network. He is a non-executive director of Lazard Limited and is senior independent non-executive director of GKN plc. He was last re-appointed as a Director at the Company's Annual General Meeting in 2008.

The Rt Hon Lord Alexander Hesketh PC KBE (59)

Non-Executive Deputy Chairman

Member of the Nominations Committee

Lord Hesketh joined the Babcock Board in October 1993 becoming Non-Executive Deputy Chairman in April 1996. He is a director of a number of other private companies. He was UK government Chief Whip in the House of Lords from 1991 to 1993 and, prior to that, was Industry Minister at the Department of Trade and Industry. Having served for more than nine years on the Board, Lord Hesketh offers himself for re-appointment annually in accordance with the Combined Code.

Peter Rogers (62)

Chief Executive

Peter Rogers joined Babcock as Chief Operating Officer in June 2002 and was appointed to the Babcock Board in June 2002. He became Chief Executive of Babcock in August 2003. He is a former director of Courtaulds PLC and Acordis BV. He is also a non-executive director of Galliford Try PLC. He was last reappointed as a Director at the Company's Annual General Meeting in 2008.

Bill Tame (55)

Finance Director

Bill Tame joined the Babcock Board as Babcock Group Finance Director in January 2002. He is a former finance director of Scapa Group PLC before which he worked for Courtaulds PLC and is currently a non-executive director of Carclo PLC. He was last reappointed as a Director at the Company's Annual General Meeting in 2008.

Archie Bethel CBE (57)

Chief Executive, Marine Division

Archie Bethel was appointed to the Babcock Board as an Executive Director with effect from 1 May 2010. He joined the Babcock Group in January 2004, and was appointed Chief Executive of the Marine Division on its formation in mid-June 2007. He is a Chartered Mechanical Engineer and in 2003 was elected a Fellow of the Royal Academy of Engineering. Since 2004, he has been vice-president and honorary treasurer of the Institution of Mechanical Engineers. Having been appointed by the Board since the last Annual General Meeting, he will offer himself for reappointment as a Director at the Company's forthcoming Annual General Meeting in July.

Kevin Thomas (56)

Chief Executive, Support Services Division

Kevin Thomas was appointed to the Babcock Board as an Executive Director with effect from 1 May 2010 having joined the Babcock Group in June 2002. Prior to 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. Having been appointed by the Board since the last Annual General Meeting, he will offer himself for re-appointment as a Director at the Company's forthcoming Annual General Meeting in July.

Sir Nigel Essenhigh GCB (65)

Independent Non-Executive Director

Member of the Remuneration Committee

Member of the Audit and Risk Committee

Member of the Nominations Committee

Sir Nigel Essenhigh joined the Babcock Board as a Non-Executive Director in March 2003. Until his retirement from the Royal Navy in late 2002 he was First Sea Lord and Chief of the Naval Staff. He is chairman of NGC UK Limited, Northrop Grumman Corporation's UK holding company and chief executive of Northrop Grumman Information Systems Europe Limited. He was last reappointed as a Director at the Company's Annual General Meeting in 2009.

Justin Crookenden (47)

Independent Non-Executive Director

Chairman of the Remuneration Committee

Member of the Audit and Risk Committee

Member of the Nominations Committee

Justin Crookenden joined the Babcock Board as a Non-Executive Director in December 2005. He qualified as a chartered accountant, and as a former investment banker worked at UBS, Barclays de Zoete Wedd and Credit Suisse First Boston, where he was managing director, UK Investment Banking. He was last reappointed as a Director at the Company's Annual General Meeting in 2009.

Sir David Omand GCB (63)

Independent Non-Executive Director

Member of the Remuneration Committee

Member of the Audit and Risk Committee

Member of the Nominations Committee

Sir David joined the Babcock Board on 1 April 2009. He was the first UK Security and Intelligence Coordinator, responsible for the professional health of the intelligence community, national counter-terrorism strategy and 'homeland security', and was the UK government's Chief Crisis Manager for civil contingencies. He served for seven years on the Joint Intelligence Committee. He was previously 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. He was Principal Private Secretary to the Defence Secretary during the Falklands conflict, and was the UK Defence Counsellor in NATO Brussels for three years. He left government service in 2005. He is a visiting professor in the department of War Studies, King's College London. He was last reappointed as a Director at the Company's Annual General Meeting in 2009.

John Rennocks (64)

Senior Independent Non-Executive Director

Chairman of the Audit and Risk Committee

Member of the Remuneration Committee

Member of the Nominations Committee

John Rennocks joined the Babcock Board as a Non-Executive Director in June 2002. He is a former finance director of Corus Group PLC and is chairman of Diploma PLC, Nestor PLC and Intelligent Energy Holdings PLC. He is a non-executive director of JPMorgan Overseas Investment Trust PLC and Inmarsat PLC. He was last reappointed as a Director at the Company's Annual General Meeting in 2008.

Albert Dungate (53)

Group Company Secretary and General Counsel

Albert Dungate is a Solicitor. He has been Group Company Secretary and General Counsel since February 2002. He was formerly General Counsel and Company Secretary of Arjo Wiggins Appleton PLC. He is Secretary to the Board and to the Audit and Risk, Remuneration and Nominations Committees.

Directors' report

The Directors present their report and the audited financial statements of the Group and the Company for the financial year ended 31 March 2010. The Directors' report is made up of pages 15 to 82 of this Annual Report, including:

- The Business review – pages 16 to 49 – describing the Group's activities, likely future developments, the principal risks and uncertainties facing the Group, key performance indicators and details of any important events since 31 March 2010;
- The Statement on Corporate Governance – pages 60 to 64 – describing how the Company meets the requirements of the Combined Code and dealing with internal controls;
- The report of the work of the Audit and Risk Committee on pages 65 to 66; and
- The Remuneration report on pages 67 to 82,

each of which is to be treated as part of the Directors' report.

Annual General Meeting

This year's Annual General Meeting will be held at Chandos House, 2 Queen Anne Street, London W1G 9LQ on Thursday, 8 July 2010, at 11 am. The notice of meeting with an explanation of the business to be conducted at it is being sent separately to shareholders (or made available to view online at www.babcock.co.uk for those who have elected or been deemed to have elected simply to receive notices of availability of documents).

Results and dividends

The profit attributable to shareholders for the financial year was £106.0 million (2009: £72.0 million). An interim dividend of 4.80p per 60p ordinary share was declared in the year (2009: 4.00p). The Directors have declared a second interim dividend of 12.80p on each of the ordinary shares of 60p entitled thereto be paid on 9 July 2010 to those shareholders on the register at the close of business on 18 June 2010 (the 'Record Date'). This second interim dividend is in lieu of a final dividend for the year to 31 March 2010 and will not apply to any shares that may be issued by the Company as part consideration for the acquisition of the issued and to be issued share capital of VT Group plc pursuant to the recommended acquisition announced on 23 March 2010. A final dividend of 10.40p was paid in respect of the year to 31 March 2009.

Directors

Biographies of the current Directors of the Company are to be found on pages 50 and 51. Archie Bethel and Kevin Thomas were appointed to the Board as Executive Directors only with effect from 1 May 2010. They did not, therefore, serve as Directors at any time during the year under review.

During the financial year the Directors who served were as follows:

Director	Service in the year to 31 March 2010
Mike Turner (Chairman)	Served throughout the year
Alexander Hesketh (Deputy Chairman)	Served throughout the year
Peter Rogers (Chief Executive Officer)	Served throughout the year
Bill Tame (Finance Director)	Served throughout the year
John Rennocks (Senior Independent Non-Executive)	Served throughout the year
Nigel Essenhigh (Non-Executive)	Served throughout the year
Justin Crookenden (Non-Executive)	Served throughout the year
David Omand (Non-Executive)	Served throughout the year
Dipesh Shah (Non-Executive)	Served from 1 April 2009 to 9 July 2009, when he retired from the Board

Reappointment of Directors at the 2010 Annual General Meeting

Directors submit themselves for reappointment by shareholders at the first Annual General Meeting following their appointment by the Board and at least every three years thereafter. This is in accordance with the Combined Code and the Company's Articles of Association.

The Directors submitting themselves for reappointment at this year's Annual General Meeting will be Alexander Hesketh, Archie Bethel and Kevin Thomas. Alexander Hesketh has been a Director since 1993 and he submits himself for reappointment on an annual basis as required by the Combined Code due to his length of service. Archie Bethel and Kevin Thomas are submitting themselves for reappointment as it will be the first Annual General Meeting following their appointment as additional Directors by the Board.

Each of the other Directors has been reappointed within the past three years.

Alexander Hesketh does not have a service agreement with the Company with an unexpired term, but has a letter of appointment that is terminable at will at any time. Archie Bethel and Kevin Thomas each have service agreements entitling them to receive not less than 12 months' notice of termination of employment by the Company.

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.

Significant shareholdings

As at 6 May 2010, 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	%
Schroders plc	20,123,434	8.76
Lloyds Banking Group plc	14,822,544	6.45
FMR LLC	11,775,905	5.13
Legal & General Group Plc	11,570,044	5.04
JPMorgan Chase & Co	11,376,214	4.95
Ameriprise Financial Inc	11,330,063	4.93
Standard Life Investments Limited	10,644,424	4.63
Ignis Investment Services Limited	9,813,214	4.27
UBS Investment Bank	9,575,297	4.17

Employee share schemes

The Approved Employee Share Ownership Plan

The Company has an Approved Employee Share Ownership Plan, which is open to all UK employees (including Executive Directors) who meet the necessary service criteria. Under the Plan, employees can buy Company shares in the market out of pre-tax income. The Plan allows the Company to award free and/or matching shares to participants, though the Company has not yet done so. Shares are bought 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.

The 2009 Performance Share Plan ('the PSP')

This Plan was established with shareholder approval in 2009. It is used to make performance-linked share awards to Executive Directors and senior employees in the form of nil price options to acquire shares in the Company. Further details of the plan are set out in the Remuneration report.

The Company Share Option Plan ('the CSOP')

This Plan was also introduced last year with shareholder approval. It permits the granting to employees of 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.

The Babcock 2003 Long-Term Incentive Plan ('the L-TIP')

This Plan was used from 2003 to 2008 to make performance-linked share awards to the Executive Directors and senior employees in the form of options granted at a nominal or nil price. Further details of the Plan are to be found in the Remuneration report.

The Babcock 1999 Approved Executive Share Option Scheme and the Babcock 1999 Unapproved Executive Share Option Scheme ('the 1999 Schemes')

Option grants under these Schemes were performance-linked. No grants under these Schemes have been made to Directors since 2003 or to other employees since 2004. The Schemes expired on 29 July 2009.

Shares intended to go towards satisfaction of the share awards and options granted under the PSP, CSOP, L-TIP and 1999 Schemes are held by the trustees of the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The trustees of these Schemes do not intend to exercise the voting rights attached to the shares held by them. As at 10 May 2010 the total number of ordinary shares in such trusts was 364,053, which represented 0.16 % of the Company's issued share capital. Shares are also held by the trustees of the Approved Employee Share Ownership Plan mentioned above. The trustees of that plan only exercise any voting rights attached to those shares in accordance with directions from the employee 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 page 115.

Authority to purchase own shares

At the Annual General Meeting in July 2009, members authorised the Company to make market purchases of up to 22.95 million of its own ordinary shares of 60p each. That authority expires at the forthcoming Annual General Meeting in July 2010 when a resolution will be put to renew it so as to allow purchases of up to a maximum of 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 9 July 2009 (the date the current authority was granted) to the date of this Report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made in the year to 31 March 2010, 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 page 115.

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 £197,000 (2009: £129,000) to charitable organisations. Donations were typically of relatively small individual amounts made to a wide 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 £87,000 in trade creditors at 31 March 2010 (representing 32 creditor days) and £703,000 in trade creditors at 31 March 2009 (representing 34 creditor days).

Qualifying third party indemnity provisions

Under their respective Articles of Association, the Directors of the Company and of Group subsidiary companies are, and were during the year to 31 March 2010, entitled to be indemnified by respectively the Company and those UK subsidiaries 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 subsidiary of the Company) on 6 and 8 November 2007, which were in force at the date of approval of this Report. The Company also entered into deeds with the two former independent Directors of International Nuclear Solutions PLC on 22 January 2008, under which the Company agreed to pre-pay any reasonable costs or expenses incurred by those Directors that are not pre-paid by the Company's directors and officers insurance policy in respect of any claim made against them and which is connected with their positions as Directors of International Nuclear Solutions PLC. If the Director does not successfully defend any such claim, the Director must repay the Company the amount so pre-paid. 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 across different businesses, which contracts together are essential to the business of the Group as a whole. Certain other companies in the Group have contractual or other arrangements with third parties which, though not essential to the Group's business as a whole, are essential to their own respective businesses, namely National Grid (Networks division), Network Rail (Rail division) and, in South Africa, Eskom and Volvo.

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 be triggered by a takeover of the Company. The following agreements are those 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 following a takeover bid.

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. In 2005, the period of the Agreement was extended and it will now expire in 2013.

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 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, and 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, and 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 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.

Networks

Joint Venture Agreement dated 24 November 2006 between (1) Babcock Networks Limited, (2) AMEC Group Limited and (3) Mott MacDonald Limited to form the unincorporated joint venture known as the Energy Alliance.

On 16 March 2007, Babcock Networks Limited, AMEC Group Limited and Mott MacDonald Limited, acting jointly and severally as the Energy Alliance, entered into the Area Alliance Agreement with National Grid Electricity Transmission PLC for the provision of services to upgrade National Grid's transmission network as part of its Capital Investment Programme.

Under the terms of the Energy Alliance joint venture agreement, if any party undergoes a change of control, then the other parties may suspend or exclude that party from further participation in the joint venture and by extension the Area Alliance Agreement.

Defence

Joint Venture Agreement dated 16 November 2005 between (1) Babcock Support Services Limited and (2) DynCorp International LLC to form Babcock DynCorp Limited

On 16 November 2005, Babcock DynCorp Limited entered into the Regional Prime Contract (East) with The Secretary of State for Defence acting through the agency of Defence Estates to provide property maintenance and capital works across the MoD Estate in the East of England.

Under the terms of the Babcock DynCorp joint venture agreement, if either party undergoes a change of control, the other party may require that party to sell its shares in the joint venture at a fair value.

Group

Borrowing facilities

The Company is party to the following credit facility agreements each of which 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.

£600 million Facility agreement originally dated 9 May 2007 between the Company, as borrower, The Governor and Company of the Bank of Scotland, J.P. Morgan plc, Lloyds TSB Bank plc, and The Royal Bank of Scotland plc, as mandated lead arrangers, The Royal Bank of Scotland plc, as facility agent, and a syndicate of other financial institutions as original lenders as since amended and restated.

The facility was originally established in part to fund the acquisition of Devonport Management Limited in 2007 and in part to provide funds for general corporate purposes.

Backstop Facilities Agreement dated 23 March 2010 between the Company as borrower, J.P. Morgan plc and Lloyds TSB Bank plc, as mandated lead arrangers, Lloyds TSB Bank plc, as facility agent and JP Morgan Chase Bank, N.A. and Lloyds TSB Bank plc as original lenders.

The Backstop Facilities Agreement provided for two facilities in a maximum aggregate principal amount of £600 million comprising a £295 million term loan facility ('Facility A') and a £305 million revolving loan ('Facility B'). Facility A may be used towards financing the acquisition of shares in VT Group plc pursuant to the recommended acquisition announced on 23 March 2010 ('the VT Acquisition'), including the payment of the cash price, financing the costs of the VT Acquisition, financing the consideration payable in respect of the surrender or cancellation of options or awards over VT Group shares and repaying indebtedness of the VT Group that exists at the date of the VT Acquisition. Facility B was to be used towards refinancing any indebtedness incurred under the Existing Facility Agreement and general corporate and working capital purposes of the Combined Group, however upon execution of the amendment and restatement of the above mentioned £600 million Facility Agreement on 22 April 2010, Facility B was cancelled.

Bridge Facility Agreement dated 23 March 2010 between the Company as borrower, J.P. Morgan plc and Lloyds TSB Bank plc, as mandated lead arrangers, Lloyds TSB Bank plc, as facility agent and JP Morgan Chase Bank, N.A. and Lloyds TSB Bank plc as original lenders.

The Agreement provides for a term loan facility in a maximum aggregate principal amount of £400 million (the 'Facility'). The Company may use the Facility towards financing the VT Acquisition, including the payment of the cash price, financing the costs of the VT Acquisition, financing the consideration payable in respect of the surrender or cancellation of options or awards over VT shares and repaying indebtedness of the VT Group that exists at the date of the Acquisition. It may also use the Facility towards refinancing any indebtedness incurred under the above-mentioned £600 million Borrowing Facility Agreement for the purposes of funding the VT Acquisition.

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 per cent. Series A Shelf Notes due 21 January 2017 (the 'Series A Shelf Notes'); and (b) £40 million 5.405 per cent. 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, and will rank, pari passu with all other unsecured and unsubordinated 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.

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.

Matters more fully dealt with in other sections of the Annual Report and Accounts

Some other matters that have to be covered in a Directors' report are dealt with in other sections of this Annual Report and Accounts (and are to be treated as incorporated into this Report), namely:

Directors' share interests: These are to be found in the table on page 75.

Employees: The Company's approach to employee matters (including employee communication, public interest disclosure, ethical standards and its policy on disabled employees and employee involvement) are dealt with in the Corporate responsibility section on pages 38 and 39. In the year ended 31 March 2010, the Group employed an average of 16,637 staff worldwide, approximately 91.5% of whom were located in the UK.

Principal subsidiary, joint venture and associated undertakings: These are shown on page 131.

Treasury management, financial risk management and the use of financial instruments: This is covered on page 45 and in note 2 to the Group financial statements.

Changes in asset values: These are dealt with in the financial statements.

Acquisitions and disposals: Information regarding the Group's acquisition during the course of the year is set out in note 31 on pages 121 and 122 and they are also referred to in the Business review appearing on pages 16 to 49. A description of the VT Acquisition is set out on page 48. There were no disposals during the year.

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.

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 Services 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, 229,687,601 ordinary shares of 60p each have been issued and are fully paid up and are quoted on the London Stock Exchange.

During the year ended 31 March 2010, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 112,642 new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. 0.16% of the issued share capital is currently held within employee share trusts for use in satisfying employee share options or share awards. There are no securities in issue which carry special rights with regard to control of the Company.

The VT Acquisition: On 23 March 2010, the boards of the Company and VT Group plc ('VT') announced the recommended acquisition of the entire issued and to be issued share capital of VT ('the VT Acquisition'). The terms of the VT Acquisition will entitle VT's shareholders to acquire (in the aggregate) up to approximately 130 million ordinary shares of 60p each in the capital of the Company, which entitlement will be satisfied by the issue of new fully paid up shares to be listed on the London Stock Exchange that will on issue rank pari passu in all respects with the existing ordinary shares of 60p each in the capital of the Company, except that no final or second interim dividend for the year to 31 March 2010 will be paid on them.

Appointment and powers of Directors

A Director is appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors acting as a Board also have the power to appoint a Director, but any person so appointed must be put up for reappointment by shareholders at the first Annual General Meeting following his or her appointment by the Board.

Subject to its Articles of Association and relevant statutory law and to any directions as may be given by the Company in general meeting by special resolution, the business of the Company is managed by the Directors, who may exercise all powers of the Company that are not required to be exercised by the Company in general meeting.

Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. They are available for inspection online at www.babcock.co.uk and can also be seen at the Company's registered office.

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).

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 ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

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 estimates that are reasonable and prudent;
- state that the Group's financial statements comply with IFRS and that with regard to the Company's financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

Each of the Directors confirms that to the best of his knowledge:

- the Group financial statements (set out on pages 84 to 124) 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; and
- the Business review contained on pages 16 to 49 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.

The Directors are responsible for keeping proper accounting records that 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.

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 control

The Board, through the Audit and Risk Committee, has reviewed the assessment of risks and the internal control framework that operates in the Group and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board of Directors.

The Combined Code

The Board's statement as to compliance with the principles and provisions of the Combined Code on Corporate Governance of the Financial Reporting Council ('the Combined Code') is set out on pages 60 to 64. As required by the Listing Rules of the Financial Services Authority, the auditors have considered the Directors' statement of compliance in relation to those points of the Combined Code which are specified for their review.

Approval of report

The Directors' report for the year ended 31 March 2010, from pages 15 to 66 of this Annual Report document, has been approved by the Board of Directors on 10 May 2010 and signed on its behalf by:

Albert Dungate
Company Secretary

10 May 2010

Statement on Corporate Governance

Compliance statement

The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the Combined Code on Corporate Governance as adopted by the Financial Reporting Council (www.frc.org.uk/corporate) and most recently revised in June 2008 ('the Combined Code'). The Company considers that it complied with the provisions of section 1 of The Combined Code during the year under review and continues to do so, subject to the comments concerning the effect of the appointment of two new Executive Directors on 1 May 2010 under 'The Board, Board balance and refreshing of the Board' below.

This statement sets out how the principles of good governance in the Combined Code have been applied during the year under review and how they continue to be applied.

Chairman and Chief Executive functions

There is a clear division of responsibilities between the Chairman and Chief Executive which is set out in a statement of their respective roles and responsibilities approved by the Board. A copy of this is available on the Company's website (www.babcock.co.uk).

Senior Independent Director

Mr Rennocks is, and was throughout the year, recognised by the Board as the Senior Independent Director to whom concerns can be conveyed by shareholders if they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive or Finance Director.

The Board, Board balance and refreshing of the Board

The Board is currently made up as follows:

Director	Appointed
Mike Turner (Non-executive Chairman)	Appointed 1 June 2008, became Chairman 1 November 2008

Independent Directors	Appointed
John Rennocks (Non-Executive)	13 June 2002
Nigel Essenhigh (Non-Executive)	4 March 2003
Justin Crookenden (Non-Executive)	1 December 2005
David Omand (Non-Executive)	1 April 2009

Non-Independent Directors	Appointed
Peter Rogers (Executive)	1 June 2002
Bill Tame (Executive)	25 January 2002
Alexander Hesketh (Non-Executive)	6 October 1993
Archie Bethel (Executive)	1 May 2010
Kevin Thomas (Executive)	1 May 2010

Balance

One of the Main Principles of the Combined Code is that there should be a balance of executive and non-executive directors (particularly independent directors) and that, as a supporting principle, at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent non-executive directors. The Company complied with these principles throughout the year under review. With the appointment of two new Executive Directors on 1 May 2010, it is recognised that there is a now a need to appoint at least one new independent non-executive director to ensure resumed compliance with these principles; this will be addressed as a priority.

Refreshing of the Board

A new Chairman (Mike Turner) was appointed in 2008. A new independent Non-Executive Director (David Omand) was appointed on 1 April 2009 and a long-serving Non-Executive (Dipesh Shah) retired from the Board on 9 July 2009. The other independent Non-Executive Directors have served between four and half years and eight years in office. On 1 May 2010 two new Executive Directors were appointed (Archie Bethel and Kevin Thomas). As noted above, it is also the intention to appoint at least one new independent non-executive director as a priority.

The Board considers that between them its members provide an appropriate balance of skills, understanding and experience, both of the Company's businesses and of the wider, political, commercial and industrial worlds pertinent to the Group's operations and strategy, and that it has steadily refreshed itself over the years at a pace appropriate to the Company's size and development and in a way that is in the best interest of shareholders.

Directors are normally reappointed at the first Annual General Meeting following their appointment by the Board and subsequently have to offer themselves for reappointment at least every three years. It is the Company's policy to review rigorously the reappointment of Non-Executive Directors who have served more than six years.

As required by the Combined Code, the Board explains, in notes accompanying the notice of meeting, why it recommends the re-election of the Non-Executive Director proposed for re-election at the forthcoming Annual General Meeting, Alexander Hesketh. The Chairman confirms in those notes, as required by the Combined Code, that, having formally evaluated his performance, the Board is of the view that Lord Hesketh continues to be effective and to demonstrate commitment to his role, including commitment of time for Board and, where applicable, committee meetings and other duties.

Board procedures and attendance

During the year to 31 March 2010, there were ten scheduled meetings. Attendance at those meetings was as follows:

Director	Scheduled Board meetings attended
Mike Turner	10
Alexander Hesketh	10
Peter Rogers	10
Bill Tame	9*
John Rennocks	10
Dipesh Shah (retired 9 July 2009)	3
Nigel Essenhigh	10
Justin Crookenden	10
David Omand	10

* One meeting missed due to illness.

In addition, there were special Board or Board Committee meetings to consider and approve certain arrangements relating to the VT Acquisition. These were either attended by all Directors or, where this proved not to be possible due to the short notice nature of the meetings, a Director unable to attend was provided with the papers for the meeting and his views obtained by the Chairman and/or the Chief Executive before the meeting.

There is a formal schedule of matters reserved to the Board and matters which the Board has delegated to Committees or to the authority of one or more Executive Directors which is periodically reviewed. The Board has, for example, given authority for the holding of ad hoc meetings of any two Directors to deal with matters generally in accordance with delegated authorities approved by the Board, including a Finance Committee. It also from time to time establishes special committees for specific purposes, for example in connection with specific acquisitions.

The Board retains responsibility, inter alia, for the setting and regular review of overall strategy for the Group, the approval of budgets, the making of business acquisitions or divestments and the approval of group policies and material changes to them. It maintains general oversight of performance against budgets, progress in the implementation of group strategy and the ethical, social, health, safety, environmental and governance culture and processes of the Group either directly or through special committees. Debate and discussion at Board and committee meetings is open, challenging and constructive with Directors benefiting from regular presentations by functional or operational management and the submission of regular written reports.

The Chairman regularly meets Non-Executive Directors without Executive Directors or other managers present.

All Directors have full and timely access to information.

Evaluation

During the year, a review of the performance of the Board as a whole, its committees and individual Directors (including the Chairman) was carried out using the services of an independent facilitator, Professor Stuart Timperley, who conducted a series of confidential interviews with each Board member, the Company Secretary and members of senior management. He then reported his findings to the Chairman and the whole Board at a meeting which discussed those findings. Professor Timperley has conducted two earlier such reviews for the Company. The benefit of his prior acquaintance with certain of the Directors and other interviewees, provided the basis for an open and full dialogue and gave him a, perhaps unique, ability to understand the needs of the Company and the Board. Apart from conducting such reviews, Professor Timperley has on occasion provided personal mentoring to one or two members of the senior management team.

Change in Chairman's significant external commitments

During the year, Mike Turner's significant external commitments changed in that he was appointed as a non-executive director of GKN plc on 1 September 2009. The Board is satisfied that this commitment has no impact on the discharge of his responsibilities to the Company.

Board Committees

(Details of the membership and operation of the Audit and Risk Committee and its work can be found on pages 65 and 66 and of the Remuneration Committee in the Remuneration report on pages 67 to 82.)

Nominations Committee

In the year to 31 March 2010, the Nominations Committee consisted of (unless otherwise stated, throughout the year):

Mike Turner (Committee Chairman)
Dipesh J Shah (to 9 July 2009)
John Rennocks
Nigel Essenhigh
Alexander Hesketh
Justin Crookenden
David Omand

Membership of this Committee is open to all the Non-Executive Directors provided that at its meetings there is a majority of independent Non-Executive Directors. Its terms of reference are available on the Company's website. During the year, the Committee did not need to meet formally. Discussions relating to management changes, succession planning and development were held from time to time in the course of Board meetings and were the subject of a full and formal presentation to the Board at one of those meetings.

Whistleblowing arrangements

These arrangements are dealt with in the Corporate responsibility section on page 37.

Non-audit fees

The Audit and Risk Committee Chairman must authorise any engagement of auditors on non-audit work that would entail their being paid fees in excess of 20% of the audit fee in any year. Before giving that authority, he considers potential conflicts and the possibility of actual or perceived threats to the independence of the external auditors. Authority is given only when he considers it is in the Company's interest to do so.

Contact with shareholders

The Group has a full-time Head of Investor Relations whose role is to ensure that there is regular dialogue between the Company, its principal shareholders and the wider market so that there is a clear understanding of their respective views and that investors have a good understanding of the Company and its management. The Chief Executive and the Finance Director regularly meet institutional shareholders and analysts. Reports of these meetings are sent to the Board, which also receives at each of its meetings an Investor Relations Report from the Head of Investor Relations. The Annual General Meeting is also used as an opportunity for communication with shareholders. All of the Company's Directors attended the 2009 Annual General Meeting.

The Company's website keeps shareholders abreast of developments. It is regularly updated with press releases and analyst presentations. Shareholders can register on the website to be sent news releases automatically.

Information and training for Directors

The Company makes arrangements for new Non-Executive Directors to receive detailed business briefings as regards the Group's operations and arranges induction visits to the Group's principal sites. Director training for new directors, when appropriate, is arranged with external providers. General Director training that might be of potential interest or relevance to Directors can be arranged on request, for which the Company is willing to pay. The Company Secretary briefs Board members about significant changes in the law 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 received copies of all minutes of meetings of the Group Executive Committee during the year and will also be receiving copies of the minutes of the principal divisional boards going forward. Directors regularly receive the operating reports sent to the Group head office by the business units.

Internal controls, control environment, procedures and monitoring

The Board acknowledges its overall responsibility for the Group's system of internal controls, and for monitoring its effectiveness.

There is a written delegation of matters from the Board to committees of one or more Directors. The Board retains responsibility for:

- setting overall strategy;
- approving annual budgets;
- authorising business acquisitions and disposals;
- approving significant contracts outside the ordinary course of business; and
- setting treasury and borrowing policy.

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 March 2010 and up to the date of the approval of the financial statements for that 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').

The internal control system is monitored through review visits by Group management and the internal audit service provided by Ernst & Young LLP, which acts under the overall control and direction of the Audit and Risk Committee. The system covers any material joint ventures or associates.

The Board through its Audit and Risk Committee reviews the effectiveness its internal control processes formally at least once a year. The Committee also reviews aspects of the system on an ongoing basis at its meetings as part of its review of internal audit reports and of risk management reports and against operational outcomes. It seeks the views of internal and external auditors upon the control system and how it compares with processes in other companies.

The system comprises principally:

- a risk identification, evaluation and management process;
- clear delegations and limits of authority;
- clear authorisation and review procedures;
- independent internal audits;
- regular review by the Audit and Risk Committee of risk registers, internal and external audit reports and fraud management reports;
- an independent whistleblowing hotline available to employees;
- regular divisional operating reviews attended by Group executive management;
- regular contract review meetings;
- monthly reporting of results against budget and forecast, with variances explained;
- an annual presentation on tax matters to the Board;
- regular reports to the Board on the Group's pension scheme exposures and risks;
- an annual report to the Board of the Group's insurance programme;
- monthly reports on disputes and litigation;
- a succession planning process;
- monthly reports to a Safety Leadership Team comprised of the Chief Executive and Divisional Managing Directors on health, safety and environmental matters; and
- bi-annual reports to the Board on health, safety and environmental matters.

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

Identification and evaluation of risks and control objectives

The identification and evaluation of risks and control objectives is also addressed on pages 42 to 45.

Budgets

Comprehensive systems are in place to develop annual budgets and medium-term financial plans. The budgets are reviewed by central management before being submitted to the Board for approval. Updated forecasts for the year are prepared at least quarterly. The Board is provided with details of actual performance each month compared with budgets, forecasts and the prior year, and is given a written commentary on significant variances from approved plans.

Audit and Risk Committee

The members

The members of the Committee, who each served throughout the year to 31 March 2010 (all of whom are independent Non-Executive Directors) were and continue to be:

Director	Committee meetings attended
John Rennocks (Chairman)	4 out of 4
Nigel Essenhigh	4 out of 4
Justin Crookenden	4 out of 4
David Omand	4 out of 4

Biographical details of the members are set out on pages 50 and 51.

Mr Rennocks is a former Finance Director of Corus Group PLC and sits on several other audit committees. He is considered by the Board to have the necessary recent and relevant financial experience for his role as Committee Chairman.

How it operates

The Committee's formal terms of reference are available on the Company's website at www.babcock.co.uk. Its responsibilities include:

- appointing internal and external auditors and assessing their independence;
- deciding audit fees and approving fees in respect of non-audit services provided by the external auditor (or by any firm providing internal audit services);
- ensuring the provision of non-audit services does not impair auditors' independence or objectivity;
- agreeing the nature and scope of internal and external audits;
- reviewing the external auditor's management letter and management's response;
- ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company;
- considering management's response to any major external or internal audit recommendations;
- reviewing the Company's procedures for handling allegations from whistleblowers;
- reviewing the effectiveness of systems for internal financial control, financial reporting and risk management; and
- reviewing, and challenging where necessary, the actions and judgements of management, in relation to the interim and annual financial statements.

The Company Secretary is secretary to the Committee. The Committee invites the Group Chairman, Chief Executive, Finance Director and Group Financial Controller to attend its meetings. Non-Executive Directors not sitting on the Committee are also welcome to attend.

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 all or part of the Committee's meetings.

The Committee Chairman meets PricewaterhouseCoopers LLP and Ernst & Young in the absence of executive management, and other Committee members have the opportunity to do so.

What it did in the year

The Committee met formally four times in the year to 31 March 2010.

In the year, the Committee:

- reviewed the preliminary and interim statements of results, having considered any matters calling for significant judgement in their preparation;
- reviewed proposed announcements relating to preliminary and interim results;
- reviewed the financial statements for the year ended 31 March 2009 and the half year ended 30 September 2009, and internal and external auditors' comments in connection with them;
- evaluated the effectiveness of internal controls;
- considered reports specifically evaluating the scope for fraud in the Group's operations and misreporting of results by business units;
- reviewed internal audit reports from Ernst & Young LLP and external audit reports from PricewaterhouseCoopers LLP and duly considered any matters raised in them;
- considered the levels of audit fees and non-audit fees paid to auditors;
- agreed internal and external audit plans;
- reviewed the arrangements for confidential whistleblowing; and
- reviewed the Group risk standard and its implementation, together with Group risk reports.

External auditors

PricewaterhouseCoopers LLP have been the Company's external auditors since 2002. The Committee continues to be satisfied with their performance and independence. Rules on audit partner rotation ensure that fresh eyes are periodically brought to bear on the audit process with partners overseeing divisional level audits within the Group having also changed periodically. The Committee has robust discussions with PwC on fee proposals, which are re-evaluated periodically and following significant changes to the Group's size or structure. An evaluation of PwC's audit plan, audit performance and the audit process is carried out annually with open and frank feedback on audit performance and on how the audit process might be improved. There are no contractual obligations that restrict the Company's choice of auditors.

Remuneration report

This Remuneration report has been prepared on behalf of the Board by the Remuneration Committee. The Board considers that in all its activities the Remuneration Committee has adopted the principles of good governance as set out in the Combined Code 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'). The report is divided into audited and unaudited information. 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.

Committee members

The Committee members (each of whom served throughout the year and is an independent Non-Executive Director) were and continue to be:

Director	Meetings attended in the year to 31 March 2010
Justin Crookenden (Chairman)	6 out of 6
Nigel Essenhigh	6 out of 6
John Rennocks	5 out of 6
David Omand	6 out of 6

(Dipesh Shah (who retired as a Director of the Company on 9 July 2009 and retired from the Committee on 31 March 2009) served on the Committee throughout the year to 31 March 2009. Matters relating to remuneration in and for the year to 31 March 2010 were discussed in that prior period as disclosed in the Directors' Remuneration report for the year ended 31 March 2009, in which Mr Shah's attendance at its meetings was also reported.)

Biographical details of the members are set out on pages 50 and 51.

The Remuneration report will be submitted for shareholder approval at the Annual General Meeting on 8 July 2010.

How the Committee operates

The Committee now meets formally at least four times a year. The Committee also meets on an ad hoc basis as necessary.

The Company Secretary attends meetings as secretary to the Committee. The Group Chairman and the Chief Executive attend formal meetings by invitation of the Committee, but are not present when their own remuneration is being discussed. The Deputy Chairman attends some meetings as an observer.

During the year, the Committee received advice from Kepler Associates ('Kepler'). Kepler was appointed by the Committee at its meeting held on 18 December 2008 after a formal selection process conducted by the Committee. Kepler is formally retained, on the Committee's behalf, by the Company (acting through the Company Secretary). Kepler attends most of the Committee's meetings and provides, both during those meetings and directly to the Committee Chairman and/or Committee members, information, advice and guidance on all aspects of executive remuneration. That assistance has included the devising and structuring of overall total remuneration packages and of short- and long-term incentive plans (including the setting of targets and the scaling of vesting) that meet the objectives and policy set by the Committee. Kepler has also advised on and provided analysis and data for specific aspects of remuneration packages, market developments, emerging and best practice and the views of institutional shareholders. Apart from providing such advice, guidance and assistance in connection with remuneration proposals for review by the Committee, Kepler provides no other services to the Company.

During the year to 31 March 2010, the Committee undertook the following:

- Conducted the normal annual review of the basic salaries of Executive Directors and senior managers effective 1 April 2010;
- Set or discussed the terms of annual bonus schemes for each of the financial years to 31 March 2010 and 2011;
- Agreed with the Board new Terms of Reference for the Committee, reflecting best practice;
- Considered the extent to which remuneration packages for Executive Directors and senior managers might encourage undue risk-taking and the extent to which they are sensitive to risk;
- Assured itself that it has general oversight of the terms for those individuals within its remit, as defined in the Committee's Terms of Reference;
- Considered whether risk or compliance functions are appropriately remunerated;
- Approved the process for authorising the payments of the expenses of the Chairman and the Chief Executive;

- Kept itself abreast of the views of institutional shareholders and the special committees set up to review remuneration in the past year;
- Decided on the level of annual bonus payments to be made to Executive Directors and senior managers in respect of the years to 31 March 2009 and 31 March 2010;
- Decided upon the level of cash bonuses earned by senior managers (not Executive Directors) under cash-based long-term incentive schemes ending 31 March 2010;
- Finalised for approval by shareholders at the 2009 Annual General Meeting the terms of the new Performance Share Plan ('PSP') and a new Company Share Option Plan ('CSOP');
- Decided to whom and on what terms share awards should be made in 2009 under the PSP and CSOP with a Performance Period of 1 April 2009 to 31 March 2012;
- Exercised its powers to amend the rules of the 2003 Long-Term Incentive Plan ('L-TIP') so as to permit an assessment to be made of performance against TSR and EPS growth targets attached to awards made under that plan, at the discretion of the Committee, during the final month of the three-year performance period;
- Considered the level of vesting of the share awards made under the L-TIP in 2006 and 2007;
- Reviewed the targets to be attached to share awards to be made in 2010; and
- Issued shareholding guidelines for Executive Directors and other senior managers in receipt of share awards, and revised those guidelines.

In deciding to permit vesting and exercise of the 2007 L-TIP awards and payment of annual and other bonuses for performance periods ending on 31 March 2010 during the second half of the month of March 2010, the Committee had before it information sufficient to make a sound judgement as to the achievement of the relevant performance targets, without the need to shorten the performance period. It considered that as such awards and payments related to a performance period that expired on 31 March 2010 it would be appropriate to allow exercise and payment a few days before that date so that for tax purposes the benefit would fall to be taxed in the then current tax year. The only changes being made were as to the timing of the assessment of performance (and release of the reward) and to use unaudited figures as the basis for the assessment where relevant. In assessing TSR performance for the purpose of the share awards the Committee had regard to the fact that this test involves the use of an averaging of share prices over 12 months so the Committee felt that it could assess in late March performance to the end of March with confidence. In order, however, to protect shareholders against the small possibility that any amounts paid exceeded the amounts that would have been paid had the assessments been deferred until after 31 March and fully audited results been used, each employee who received payment of bonus in the month of March 2010 agreed that the Company could adjust his future salary or reduce future bonuses if this turned out to be the case (which it did not). As regards the vesting in March 2010 of the 2007 L-TIP awards only 50% of the shares obtained on exercise of their awards by Peter Rogers and Bill Tame were transferred to them on an unrestricted basis, meaning that the other 50% cannot be sold or disposed of before 11 June 2010 and were potentially liable to be forfeited, in whole or part, if, had the assessment of TSR and EPS growth relevant to those awards been made after the end of March 2010 and using audited results, fewer shares would have vested than vested in March 2010 (which was not the case).

What is the Company's remuneration policy?

The Committee's approach to setting the structure of remuneration packages for executives is designed to underpin the effective and proper management of risks and challenges and to reward executive management fairly if it is successful in continuing the track record of strong performance and long-term growth prospects enjoyed by Babcock and its shareholders over recent years.

The Committee's intention is that executives have remuneration packages that overall are fair and allow enhanced but fair rewards for the delivery of superior performance by allowing for the possibility of upper quartile total actual remuneration to be earned for upper quartile performance. As a result, base salaries for the Company's Executive Directors are around or below median, and there is an emphasis on the gearing of performance-related annual bonuses and share awards. The Committee believes this approach more closely aligns Directors' interests with those of shareholders and allows pay to be structured around delivery of strategic objectives and with risk and longer term consequences firmly in mind.

In order further to align the interests of management and shareholders, the Committee adopted shareholding guidelines in June 2009 that expected Executive Directors (and other members of the senior management team) to hold Company shares derived from the net proceeds of share awards (when added to any purchased by them). For Executive Directors the guideline value was originally set at150%, of their base salaries. This has since been increased to 200%.

Linkage of remuneration to strategic objectives, risk management and its alignment with shareholder interests

The Committee strongly believes that the remuneration of executives should be aligned with the long-term interests of shareholders and should support the key strategic and risk management objectives of the business. The linkage is achieved through the performance criteria (both financial and non-financial) used in the annual bonus and long-term incentive schemes. Examples include the following:

Objective	Annual bonus scheme metric	Long-term incentive metric
Delivering superior returns to our shareholders.	Financial measures focused on delivery of sustainable year-on-year delivery of budgets and especially on growth by rewarding superior earnings and/or profits growth whilst maintaining strict control of cash. Objectives linked to improvement of the financial performance of specific business areas.	Focus on delivery of top quartile performance and returns over the longer term.
Developing and maintaining leading market positions in the UK and selected overseas markets.	Specific non-financial objectives for: • the establishment or expansion of targeted domestic and overseas markets; • securing key business development milestones; • developing detailed strategic plans for expansion into target markets.	
Customer-focused, long-term relationships with strategically important customers.	Non-financial objectives linked to measuring and improving customer satisfaction.	
Development of the Group's long-term technical and management expertise.	Non-financial objectives: for example, the establishment of a more effective ongoing talent management and succession planning process. 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.
Maintenance of an excellent health, safety and environmental record.	General underpin giving Remuneration Committee complete discretion over the reduction or annulment of awards in the event of unsatisfactory performance.	
Balancing risk and reward.	A focus on year-on-year earnings or profit growth remains the prominent feature of the bonus schemes, placing a premium on delivery of sustainable growth, discouraging short term risk-taking and encouraging planning for and underpinning of future prospects. The use of financial metrics that are principally cash flow, profit and earnings driven rather than sales based discourages poor quality sales growth. The use of non-financial objectives reinforces links to key strategic steps or risk mitigation objectives. The requirement to defer 40% of any bonus into shares for two years exposes executives to the future impact of current year decisions.	The long-term schemes and annual bonus schemes are mutually reinforcing, with the long-term schemes increasing the personal exposure of executives to the potentially negative consequences of short-term thinking and, as a further control, by requiring for full vesting superior performance in returns to shareholders.

The Committee is satisfied that the incentive structure for Executive Directors does not raise environmental, social or governance issues by inadvertently motivating irresponsible behaviour.

Details of the structure of the annual bonus scheme and share schemes are set out in the following pages.

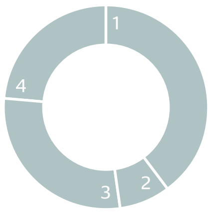
Remuneration report continued

Balance of remuneration

The balance of remuneration for Executive Directors is such that the major part of overall remuneration is subject to achieving performance conditions over both the short and long term. The reward mix for the Chief Executive, the Finance Director and other Executive Directors is shown in the charts below, with long-term incentive awards being valued on a fair value basis. The charts assume that PSP awards over shares have a value on grant equal to 150% of the Director's basic salary. The charts are based on fair values of (for Peter Rogers and Bill Tame) 72% and (for Archie Bethel and Kevin Thomas) 58% of salary for the annual bonus (including the mandatorily deferred share element as described below), and 59% of salary for the Performance Share Plan.

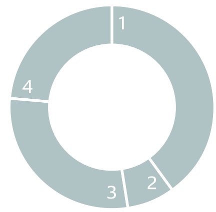
Chief Executive Officer

1	Base Pay	39.9%
2	Pension	7.9%
3	Annual Bonus	28.8%
4	Performance Share Plan	23.4%



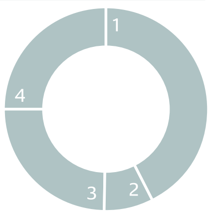
Finance Director

1	Base Pay	40.1%
2	Pension	7.6%
3	Annual Bonus	28.9%
4	Performance Share Plan	23.4%



Executive Directors

1	Base Pay	42.6%
2	Pension	7.8%
3	Annual Bonus	24.6%
4	Performance Share Plan	25.0%



Internal relativity

The Committee is sensitive to the need to set Executive Directors' remuneration having regard to pay and conditions in the Group as a whole and is advised as to proposals in that regard when reviewing executive salaries. It is satisfied that its approach is fair and reasonable in light of current market practice and is in the best interests of shareholders.

Basic pay

Basic pay is considered in the general context of total remuneration at companies that are comparable in terms of size (market capitalisation, revenues and number of employees) and other companies in the support services sector. Against these data sources taken as a whole, the fair value of the Company's total remuneration is around the median and basic pay is below median. Basic pay is normally reviewed annually.

The normal annual review of Executive Directors' pay for the year commencing 1 April 2009 resulted in an increase for the then existing Executive Directors (Peter Rogers and Bill Tame) of approximately 2%, which was in line with the increase in pay across the Group as a whole. For the current year commencing 1 April 2010, the Committee has approved the following:

Director	Basic pay at 1 April 2010[1] £'000	Basic pay at 1 April 2009 £'000
Peter Rogers (Chief Executive)	500	479.5
Bill Tame (Finance Director)	320	312
Archie Bethel (Chief Executive, Marine Division)	275	N/A
Kevin Thomas (Chief Executive, Support Services Division)	275	N/A

1. The salaries shown for Archie Bethel and Kevin Thomas took effect from 1 May 2010, the date of their appointment to the Board.

The increase for Peter Rogers was approximately 4% and for Bill Tame 2.5%. The greater increase in Peter Rogers's salary was to take account of the fact that his basic salary had fallen relatively against sector peers. The increase of 4% still leaves him below that median but the Committee thought it inappropriate in the current economic climate to make any larger increase. Where pay increases have been approved across the wider group they have been in the order of 2%–3% depending on business unit. The salaries for Archie Bethel and Kevin Thomas were set on their appointment to the Board on 1 May 2010.

Performance-related rewards

Annual bonus schemes

Following its detailed review of the structure of remuneration carried out in early 2009 and reported on last year, and to meet its framework for remuneration as described above, the Committee set maximum bonus opportunity for 2009/10 for Peter Rogers and Bill Tame at 150% of base salary.

Deferral: 40% of any annual bonus earned by Executive Directors and other senior executives must be deferred into Babcock shares for two years, with the shares being subject to potential forfeiture if the employee leaves in that time (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 the bonus is 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 will carry the right to dividends paid in the period of deferral payable only when the shares are released. There is no provision for the Company to match these deferred shares on any basis. The deferral is purely to ensure that a substantial part of the Director's bonus is exposed to the longer term impact of current year decision making and to align them with shareholders.

For the financial year 2009/10 the Committee set annual bonuses for Peter Rogers and Bill Tame structured as follows:

Element (maximum as % of base salary)	Performance level achieved	Peter Rogers earned (as a percentage of salary)	Bill Tame earned (as a percentage of salary)
Achieving budgeted PBT*(15%)	Maximum (above budget)	15%	15%
Achieving budgeted cash flow (15%)	Maximum	15%	15%
Growth in EPS** year-on-year (90%, for 20% growth)	Maximum (over 20% growth)	90%	90%
Non-Financial Objectives (30%)	Between target and maximum 85% (Rogers) 90% (Tame)	25.5%	27%
Total (150%)		145.5%	147%

* Profit before tax (before amortisation of acquired intangibles, but, unless the Committee otherwise decides, after exceptional items).

** Earnings per share (before amortisation of acquired intangibles, but, unless the Committee otherwise decides, after exceptional items) with maximum bonus only for year-on-year growth of 20% or more.

For divisional Managing Directors the annual bonus schemes include performance measures dependent on growth in divisional profits and/or achievement of budgeted divisional profits and cash flow according to the objectives for the division concerned and have non-financial metrics forming a significant part (20%) of the bonus opportunity.

The Committee intends to adopt a similar structure for bonus schemes for each of the Executive Directors for financial year 2010/11, with a maximum bonus opportunity of 150% for Peter Rogers and Bill Tame and 120% for Archie Bethel and Kevin Thomas (although the maxima differ, each scheme will have broadly the same proportionate split between financial and non-financial measures).

Long-term incentives

Between 2003 and 2008 (inclusive), qualifying Directors and certain senior Group employees were granted performance-related long-term incentives in the form of annual awards of nil-price options under the Babcock 2003 Long-Term Incentive Plan ('L-TIP'). Before 2003 they were granted performance-related market-priced share options under the Babcock 1999 Approved and Unapproved Executive Share Option Schemes.

Following the remuneration review last year, shareholders approved at the 2009 AGM a new 2009 Babcock Performance Share Plan ('PSP'). The first PSP awards were made in September 2009. PSP awards may, as was the case with the L-TIP, be granted in the form of performance-related, nil-cost options. They may also be combined with an award of performance-related HMRC approved options under the new Company Share Option Plan ('CSOP') (also approved at the 2009 AGM) in which case the total vesting potential across both awards is adjusted to take account of the CSOP award.

It is the intention of the Company that shares needed to satisfy executive options for Directors and generally awards under the L-TIP, CSOP and PSP will be purchased in the market to the extent that they are not already held in the Group's employee share trusts at the date the options or awards are granted or are exercised, unless it is in the interests of the Company to do otherwise and issue new shares. Details of the current holdings of shares by employee share trusts and outstanding share awards and options are contained in note 25 to the Financial Statements.

During the financial year to 31 March 2010, PSP awards were made to each of Peter Rogers and Bill Tame over shares having a market value on award of 150% of their qualifying basic salaries. In the same year, PSP awards and CSOP awards were made to Archie Bethel and Kevin Thomas, who were not Directors in the year to 31 March 2010. Their respective PSP and CSOP awards were linked so that in each case 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 150% of their then base salaries.

The vesting of these PSP awards (and, if applicable, CSOP awards) made to the Executive Directors and certain senior Group managers depends on Company performance. The performance criteria are set out in more detail on page 80. For certain other divisional senior managers, the performance targets attached to PSP Awards were set (wholly or in part) by reference to divisional profit targets and return on capital employed or operating cash flow, as appropriate to the division's business.

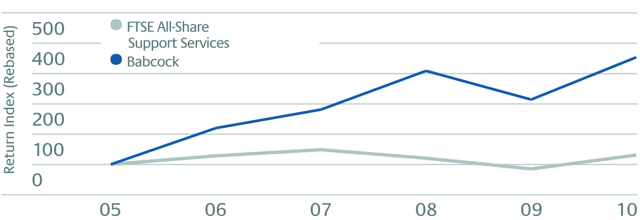
Further details of options, L-TIP awards, PSP awards and CSOP awards held by the Directors who served during the year under review (Peter Rogers and Bill Tame), and the performance criteria attached to them, are set out on pages 76 to 80.

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 2005 to 31 March 2010 relative to a holding of shares representing respectively the FTSE All-Share 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 All-Share Index (excluding investment trusts) is the same index as has been used for this purpose in earlier remuneration reports, as it 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.

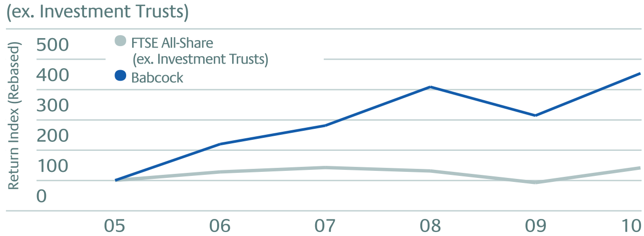
Over the five-year period, the Company has significantly out-performed both indices. An investment of £100 in the Company on 1 April 2005 would have been worth (assuming the dividends were reinvested in further Company shares) £451 at 31 March 2010.

Babcock International vs. FTSE 350 Support Services



Babcock International vs. FTSE 350 All-Share

(ex. Investment Trusts)



Directors' emoluments and compensation (audited)

Director	Salary or fee year ending 31 March 2010 £'000	Cash allowances (including pay in lieu of pension benefits)[2] £'000	Annual bonus £'000[3]	Benefits in kind[4] £'000	Total year ended 31 March 2010 £'000	Total year ended 31 March 2009 £'000
Chairman and Executive Directors						
Mike Turner (Chairman)[1]	255	–	–	–	255	119[1]
Peter Rogers (Chief Executive)	480	96	698	1	1,275	1,005
Bill Tame (Finance Director)	312	39	459	21	831	670
Non-Executive Directors						
Alexander Hesketh	60	–	–	–	60	60
John Rennocks	73	–	–	–	73	43
Nigel Essenhigh	48	–	–	–	48	37
Justin Crookenden	55	–	–	–	55	35
David Omand	48	–	–	–	48	–
Dipesh Shah (retired 9 July 2009)	13	–	–	–	13	40
Gordon Campbell (former Chairman to 31 October 2008)	–	–	–	–	–	281
Total	1,344	135	1,157	22	2,658	2,290

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 76 to 80.

The emoluments for Archie Bethel and Kevin Thomas are not shown in the above table as they were not Directors in the year to 31 March 2010.

Notes:

1. Mike Turner's remuneration for the year to 31 March 2009 included the then basic Director's fee at the rate of £35,000 per annum from 1 June to 31 October 2008, when he was appointed Chairman, and thereafter at the rate of £250,000, which was increased with effect from 1 April 2009 to £255,000.
2. For Peter Rogers, the entire cash allowance is pay in lieu of all pension benefits. For Bill Tame, the payment includes £25,000 in lieu of pension benefits on that part of his basic salary as exceeds the earnings cap for the pension scheme (see detailed explanation under Directors' pensions below) and £14,000 in respect of expenses connected with accommodation.
3. 60% of the amount shown has been paid in cash. The balance of 40% is to be deferred into Company shares for two years.
4. For Bill Tame benefits comprised medical insurance, home to work travel expenses and accommodation benefits. For Peter Rogers, they comprised medical insurance.

The fees for Lord Hesketh reflect his additional duties as Deputy Chairman. John Rennocks' fees reflect his additional duties as Chairman of the Audit and Risk Committee and as Senior Independent Director. Justin Crookenden's fees represent his additional duties as Chairman of the Remuneration Committee.

Bonus payments and benefits in kind paid to Directors are not pensionable.

Directors' pensions (audited)

Bill Tame participated in the Group pension scheme. He receives a salary supplement for earnings in excess of the applicable scheme earnings cap (see further below).

Peter Rogers receives a supplement equal to 20% of base salary in lieu of any pension benefits. It is separately identified in the table above.

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

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

Bill Tame is a member of the senior executive tier of the Babcock International Group Pension Scheme.

The accrual rate for him under the Scheme is one-thirtieth of salary within the applicable Scheme earnings cap for each year of service. Pension is calculated on his base salary up to the earnings cap in the 12 months prior to retirement at age 60 or above. Membership of the Scheme also entitles him to life assurance cover of four times base salary up to the earnings cap. The earnings cap adopted by the Scheme is the same as the former statutory earnings cap, index-linked in the same way. The Company takes out additional life assurance cover in respect of four times his salary in excess of the earnings cap.

Bill Tame's pension entitlements under the Scheme (defined benefit) are set out in the following table:

Director	Accrued pension at 31 March 2010 £ pa	Increase in accrued benefits excluding inflation during the year ended 31 March 2010 £	Change in accrued benefits after allowing for inflation £	Transfer value at 1 April 2009 £	Transfer value at 31 March 2010 £	Transfer value of increase in accrued benefits less Director's contributions £	Increase in transfer value less Director's contribution £
Bill Tame	34,156	5,578	4,721	467,680	664,616	69,231	190,756

1. Inflation has been taken as 3.4% for the purposes of calculating increases in transfer values and pension earned.
2. The transfer value of the increase in pension accrued is calculated in accordance with Actuarial Guidance Note GN11, and is stated after deducting members' contributions.
3. The figures in the above table make no allowance for the cost of death in service benefits under the Scheme.
4. The figures in the above table make no allowance for any benefits in respect of earnings in excess of the Inland Revenue earnings cap.
5. In calculating the above figures no account has been taken of any retained benefits which he may have from previous employments.
6. 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.

(Archie Bethel and Kevin Thomas, who were not Directors in the year under review, each only having become a Director on 1 May 2010, are members of the executive tier of the Scheme. They will accrue pension at the rate of one-forty-fifth of salary within the Scheme earnings cap applicable to them for each year of service. Pension is calculated on their base salaries (up to the earnings cap applicable to them) in the 12 months prior to retirement at age 65 or above. Membership of the Scheme also entitles them to life assurance cover of four times base salary up to the earnings cap. The Company takes out additional life assurance cover in respect of four times their salaries in excess of their earnings cap. They also each receive a salary supplement of 15% (including employer's national insurance contributions) of the excess of their earnings over the applicable Scheme earnings cap only contributing into the Company's pension scheme on their capped salaries. These supplements do not count for share award or bonus purposes.)

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. As from April 2006, this was replaced with a salary supplement of 15% of the excess (including employer's national insurance contributions), with him contributing into the Company's pension scheme only on capped salary. The value of this supplement in the year to 31 March 2010 was £25,000.

The cost of providing additional life assurance cover was:

Director	2010 £'000	2009 £'000
Bill Tame	2	2

Non-Executive Directors (audited)

The Non-Executive Directors receive only fixed fees. These fees are reviewed against market practice from time to time by the Chairman and the Executive Directors, to whom the task has been delegated by the Board. Fees payable to the Chairman and Non-Executive Directors were last reviewed with effect from 1 April 2009 and are currently as follows:

Chairman	£255,000
Deputy Chairman	£60,000
Senior Independent Director	£60,000
Basic Non-Executive Director's Fee	£47,500
Chairmanship of Audit and Risk Committee	£12,500*
Chairmanship of Remuneration Committee	£7,500*

* Chairmanship fees are paid in addition to the basic applicable Non-Executive Directors' fee. No other additional fees are paid for membership of committees.

Directors' interests in shares (audited)

The table below shows the holdings of fully paid ordinary shares of 60p each of the Directors who served in the year to 31 March 2010 or who hold office at the date of this Report (including family interests) in the issued share capital of the Company. The interests were beneficial interests.

As noted above, the Committee's shareholding guidelines for Executive Directors 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 their annual basic salary (increased from last year's guideline of one and a half year's pay). The revised guidelines also now 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 currently meet these guidelines.

Director	At 31 March 2010[1]	At 1 April 2009
Chairman and Executive Directors		
Mike Turner	20,000	20,000
Peter Rogers	710,535	597,064
Bill Tame	375,046	304,035
Archie Bethel	100,798	N/A[1]
Kevin Thomas	93,557	N/A[1]
Non-Executive Directors		
Alexander Hesketh	1,667	1,667
Nigel Essenhigh	–	–
John Rennocks	–	–
Justin Crookenden	6,961	6,961
David Omand	–	–

1. For Archie Bethel and Kevin Thomas, who became Directors on 1 May 2010, the interest in shares shown is the interest in shares as at that date.

There were no changes in the above Directors' interests in shares between 31 March 2010 and 10 May 2010.

Directors' share-based rewards and options (audited)

Options

Details of the outstanding share options granted to Directors who served in the year to 31 March 2010 or who hold office at the date of this report are set out in the table below and the notes beneath it. All of the outstanding options are vested and exercisable.

Babcock 1999 Approved Executive Share Option Scheme

Director	Number of shares subject to options at 1 April 2009	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to options at 31 March 2010[1]	Exercise price (pence)	Exercisable from	Expiry date
Bill Tame	21,278	–	–	–	21,278	104.33	Jan 2005	Jan 2012
Kevin Thomas[1]					16,068	106.33	Nov 2005	Nov 2012

1. The information for Kevin Thomas is as regards the position at 1 May 2010, the date on which he took office as a Director.

These options vested according to comparative TSR performance over a three-year performance period. They were not subject to re-testing. The comparator group was the companies in the FTSE Engineering and Machinery Sector when the options were granted (which was the sector in which the Company's shares were then listed). There was no vesting unless the Company ranked above median performance, in which case 25% of the options vested. Full vesting was for top quartile ranking with proportionate vesting on a straight-line basis for a ranking between those points.

The exercise price was set at the average of the mid-market closing price of the Company's shares for the three business days preceding the date of the grant. This price was not discounted.

The options must be exercised before the tenth anniversary of the grant date, or earlier if there is a change of control, the Director leaves or dies, failing which they will lapse.

There were no changes in the above stated option position between 31 March 2010 and 10 May 2010.

Babcock International Group PLC Company share Option Plan 2009 ('CSOP')

Director	Number of shares subject to options at 1 May 2010[1]	Exercise price (pence)	Exercisable from	Expiry date
Archie Bethel	5,507	544.67	Sep 2012	Sep 2019
Kevin Thomas	2,368	544.67	Sep 2012	Sep 2019

1. The date on which Archie Bethel and Kevin Thomas took office as Directors.

The vesting of the above CSOP awards is subject to performance measures which are identical to those for the PSP awards granted to the above Directors on the same date. Details of those PSP awards and measures are set out on pages 78 and 80. The provisions of these CSOP options and those PSP Awards (i.e. those granted on 11 September 2009 to Archie Bethel and Kevin Thomas) 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 150% of their then base salaries (the 'Limit'). 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.

Share awards under the L-TIP (audited)

Details of outstanding share awards under the L-TIP ('L-TIP awards') in the form of nil-cost options made to Directors who served in the year to 31 March 2010 or who hold office at the date of this report are set out in the table below:

Director and date of award	Number of shares subject to award at 1 April 2009	Granted during the year to 31 March 2010	Exercised during the year to 31 March 2010[1]	Lapsed during the year to 31 March 2010	Number of shares subject to award at 31 March 2010[2]	Market value (in pence) of each share at date of award	Exercisable (subject to vesting and plan rules) from[2]	Expiry date
Peter Rogers								
24 July 2006	118,168	–	118,168	–	–	338.50	May 2009	Jul 2016
26 June 2007	74,528	–	74,528	–	–	556.80	March 2010	Jun 2017
19 June 2008	79,080	–	–	–	79,080	594.33	May 2011	Jun 2018
Bill Tame								
24 July 2006	69,423	–	69,423	–	–	338.50	May 2009	Jul 2016
26 June 2007	51,182	–	51,182	–	–	556.80	March 2010	Jun 2017
19 June 2008	51,402	–	–	–	51,402	594.33	May 2011	Jun 2018
Archie Bethel[2]								
19 June 2008					40,717	594.33	May 2011	Jun 2018
Kevin Thomas[2]								
19 June 2008					38,320	594.33	May 2011	Jun 2018

1. Exercise details in the table below.

2. For Archie Bethel and Kevin Thomas, the information given is as at and from 1 May 2010 when they took office as Directors.

3. The 2006 and 2007 L-TIP awards became fully vested and exercisable on 28 May 2009 and 26 March 2010 respectively having met the TSR and EPS performance criteria required (see below). The vesting date of L-TIP awards depends on the date of notification of the vesting. Following the change to the rules approved by the Committee as described on page 68 above, this can be, at the option of the Remuneration Committee, either in the final month of the performance period or after the announcement of results for the final year of the performance period. The above table assumes (unless stated otherwise) that the announcement is normally made in May and notification of vesting given in the same month. The Committee exercised the discretion to allow vesting and exercise of the 2007 LTIP in March 2010 as explained on page 68. However 50% of the shares obtained by Peter Rogers and Bill Tame on exercise are subject to restrictions on disposal until 11 June 2010 as also described on page 68.

The performance criteria attached to those of the above awards that have vested (namely those made in 2006 and 2007) were that half of the shares vested based on comparative TSR performance and half according to growth in earnings per share (EPS). For the TSR element, a ranking in the upper quartile (which was achieved) resulted in 100% vesting. The TSR calculation used a 12-month average for share prices adjusted for dividends paid during the period. The comparator group of listed companies for the 2006 award comprised AEA Technology, W.S. Atkins, Aggreko, Amec, Bodycote, Capita, Carillion, Cobham, Interserve, Laing (John), Mitie, Mouchel-Parkman, Rentokil Initial, Serco, VT Group and WSP Group. The comparator group for the awards made in 2007 comprised AEA Technology, W.S. Atkins, Aggreko, Amec, Bodycote, Capita, Carillion, Cobham, Interserve, Mitie, Mouchel-Parkman, Rentokil Initial, Serco, VT Group, WSP Group, Weir Group, Ashtead Group, Alfred McAlpine and Davis Service Group. For the other half of the 2006 and 2007 awards, vesting depended on growth in EPS (adjusted to exclude exceptional items and acquired intangible amortisation) over the performance period, with full vesting (which was achieved) where growth equalled or exceeded a real (i.e. growth in excess of the increase in the consumer prices index) compound annual growth rate of 8%.

The performance criteria attached to the unvested 2008 award are described further below on page 79.

Details of exercises of L-TIP awards in the year to 31 March 2010 made by Directors who served in that year were as follows (note that, as the awards were in the form of nil-cost options, no exercise price applied):

Director	Year of award	Date of exercise (and, if applicable, sale)	Total number of award shares exercised	Number of award shares sold on exercise	Market price on exercise (pence per share)	Total value of shares on exercise £
Peter Rogers	2006	09/06/09	118,168	48,591	494.04	583,791
	2007	29/03/10	74,528	30,634	580.37	432,537
Bill Tame	2006	09/06/09	69,423	28,556	494.04	342,974
	2007	29/03/10	51,182	21,038	580.37	297,044

The number of shares sold on exercise of the L-TIP awards by the above Directors were in each case just sufficient to cover income tax and employee national insurance charges arising on exercise, and dealing costs.

The Company's mid-market share price at close of business on 31 March 2010 was 602.50p. The highest and lowest mid-market share prices in the year ended 31 March 2010 were 642.00p and 399.50p respectively.

The L-TIP awards that vested during the year to 31 March 2010 were those granted in July 2006 and July 2007. The market value of those shares on award was 339.50p and 547.00p per share respectively.

On the date of vesting of the 2006 L-TIP award on 28 May 2009, the vested shares had a market value of 472.50p per share, being the mid-market closing price on that day.

On the date of vesting of the 2007 L-TIP award on 26 March 2010, the vested shares had a market value of 578.50p per share, being the mid-market closing price on that day.

Share awards under the PSP (audited)

Details of share awards under the PSP ('PSP awards') in the form of nil-cost options made to Directors who served in the year to 31 March 2010 or who hold office at the date of this report are set out in the table below:

Director and date of award	Number of shares subject to award at 1 April 2009	Granted during the year to 31 March 2010	Exercised during the year to 31 March 2010	Lapsed during the year to 31 March 2010	Number of shares subject to award at 31 March 2010[1]	Market value (in pence) of each share at date of award	Exercisable (subject to vesting and plan rules) from	Expiry date[2]
Peter Rogers								
11 September 2009	–	132,053	–	–	132,053	544.67	July 2012	July 2013
Bill Tame								
11 September 2009	–	85,924	–	–	85,924	544.67	July 2012	July 2013
Archie Bethel[1]								
11 September 2009					68,022	544.67	July 2012	July 2013
Kevin Thomas[1]								
11 September 2009					64,030	544.67	July 2012	July 2013

1. For Archie Bethel and Kevin Thomas, the information given is as at and from 1 May 2010 when they took office as Directors.

2. The expiry date can be extended by the Remuneration Committee to up to ten years from the date of grant, i.e. 2019.

Under the rules of the Plan, the Committee may designate a 'Notional Award Date' which is the date the award would have been made but for the Company being in a 'restricted period' at that time, which was the case with these awards (their Notional Award Date being16 July 2009).

All the L-TIP and PSP awards made to date to the current Directors have been made by the trustee of the Babcock Employee Share Trust as nil-cost options. The number of shares awarded under the outstanding unvested L-TIP awards had a value equal to 100% of the Director's qualifying annual salary at the date of the award and those awarded under the PSP had a value on award of 150% of that salary (value calculated in each case using the average of the mid-market closing price of the Company's shares for the three business days preceding the award date).

Subject to satisfaction of the performance criteria attached to the L-TIP and PSP awards (see below), the Directors may call for the release to them of the award shares during the respective exercise periods. 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 (unless the Committee otherwise decides) 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.

The performance conditions attached to the as yet unvested L-TIP and PSP awards are described below.

Performance measures attached to as yet unvested L-TIP and PSP awards

Performance is judged over the period of three financial years from the start of the financial year in which the award is made. Performance is measured at the end of the period and is not re-tested. The following two tables explain the targets attached to as yet unvested awards. (The tests applied to L-TIP awards that have previously vested but not yet been exercised are described under the table on page 77 above.)

L-TIP Awards not yet vested: 2008 L-TIP Awards (Performance period 1 April 2008–31 March 2011)

EPS growth test	Proportion of award vesting	Comparative TSR test	Proportion of total award vesting
Real compound annual growth of 8% or more	50%	Upper quartile ranking in peer group	50%
Real compound annual growth of 4%	12.5%	Ranking immediately above median	12.5%
Intermediate growth between the above points	Straight line basis between 12.5% and 50%	Intermediate ranking between the above points	Straight-line basis between 12.5% and 50%
Real compound annual growth of less than 4%	0%	At or below median ranking	0%

Notes:

EPS is adjusted to exclude exceptional items and acquired intangible amortisation.

Real EPS growth is that in excess of the change in the consumer prices index.

For the comparative TSR test, the comparator group of companies for the 2008 awards comprised the constituents of the FTSE 350 Support Services Index as at the date of grant – this was a peer group in the same FTSE sector as the Company and was chosen pending the full review of longer term incentives and the appropriate peer group going forward which was carried out in 2008/09.

The 2009 PSP awards (Performance period 1 April 2009–31 March 2012)

EPS growth test	Proportion of award vesting	Comparative TSR test	Proportion of total award vesting
Real compound annual growth of 11% or more (note: for awards to be made in 2010, this will increased to 12.5%)	50%	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	50%
Real compound annual growth of 4%	8.3%	TSR performance equivalent to the median for the peer group as a whole	8.3%
Intermediate growth between the above points	Straight-line basis between 8.3% and 50%	Intermediate ranking between the above points	Straight-line basis between 8.3% and 50%
Real compound annual growth of less than 4%	0%	Performance less than equivalent to median for the whole peer group	0%

Notes:

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, includes exceptional items.

Real EPS growth is that in excess of the change in the retail prices index.

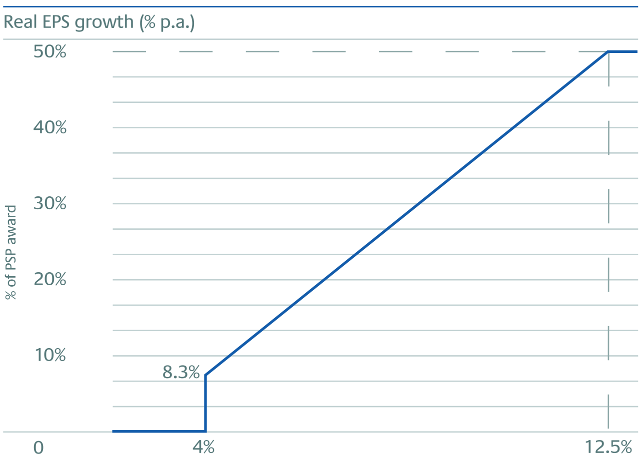
The share awards carry the right to receive on vesting any dividends that would have been paid in the period between grant and vesting (or, if the Committee so decides, a number of shares having a market value equivalent to the amount of the dividends when the dividend would have been paid), but this right applies only to the shares that actually vest under the award. The Committee intends that the current awards will receive such entitlement, if any, in cash.

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.

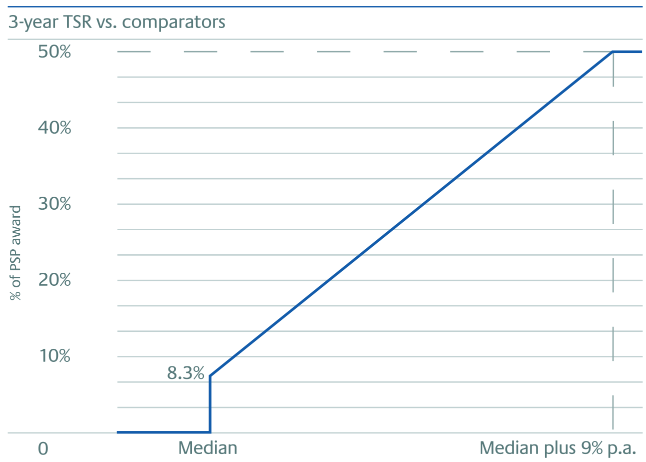
Proposed PSP awards to be made in 2010

The charts below illustrate the proposed vesting schedules for each element of the 2010 PSP award:

EPS element



TSR element



The Remuneration Committee reviews the performance conditions to be attached to future PSP 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.

Following a review ahead of any awards being made in 2010, the Committee has decided that for awards to which Company TSR and EPS growth performance measures are attached (which will include those made to Executive Directors) the approach taken shall be as used for the PSP awards made in 2009, but with maximum vesting in respect of the EPS growth test only if real annual compound growth is 12.5% or more over the performance period (1 April 2010 to 31 March 2013). This represents an increase from the 11% (real) target applied to the 2009 awards. The proposed measures are shown in the charts on page 80.

Why TSR and EPS for Executive Directors' share awards?

The Committee considers the use of two measures, in the proportions used for the LTIP and PSP awards described in the tables above, to be appropriate. The TSR performance measure is dependent on the Company's relative long-term share price performance and so provides strong alignment with shareholders' interests. The TSR calculation for both the LTIP and PSP awards 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 the 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.

TSR is used in conjunction with EPS growth, which is the primary internal benchmark of financial performance and ties in with the Company's strategic goals.

Service contracts

The following table summarises the key terms (apart from as to remuneration, on which see above) of the Directors' service contracts or terms of appointment:

Executive Directors

Name	Date of service contract	Notice period	Contractual retirement age
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	65
Bill Tame (Finance Director)	1 October 2001 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director	65
Archie Bethel (Chief Executive, Marine Division)	21 April 2010	12 months from Company, 6 months from Director	65
Kevin Thomas (Chief Executive, Support Services Division)	20 April 2010	12 months from Company, 6 months from Director	65

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.

If the Company terminates a Director's service contract the Company will 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 and Kevin Thomas) contain provisions that 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 basic 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 and Archie Bethel) also provide that if the Company terminates their appointment within12 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).

Chairman and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Expiry of present term of appointment (subject to re-election as required either under the Articles or the Combined Code)*
Mike Turner (Chairman)	1 June 2008	28 May 2008	AGM for 2011
Alexander Hesketh	6 October 1993	28 April 2010	AGM for 2011
John Rennocks	13 June 2002	15 May 2008	AGM for 2012
Nigel Essenhigh	4 March 2003	15 May 2008	AGM for 2012
Justin Crookenden	1 December 2005	15 May 2008	AGM for 2011
David Omand	1 April 2009	19 March 2009	AGM for 2012

* 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.

Outside directorships

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 2010 he received £38,000 by way of fees for that role. Bill Tame is a Non-Executive Director of Carclo PLC. During the period year to 31 March 2010 his fees for that role were £26,500.

This Remuneration report has been approved by the Board on 10 May 2010 and signed on its behalf by:

Justin Crookenden
Chairman of the Remuneration Committee

10 May 2010

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 2010 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 related notes. 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 58, 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 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.

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 2010 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 matter 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:

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, on page 59, in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent Company financial statements of Babcock International Group PLC for the year ended 31 March 2010 and on the information in the Directors' remuneration report that is described as having been audited.

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

10 May 2010

Group income statement

For the year ended 31 March 2010	Note	2010 Before acquired intangible amortisation and exceptional items £m	2010 Acquired intangible amortisation and exceptional items £m	2010 Total £m	2009 Before acquired intangible amortisation and exceptional items £m	2009 Acquired intangible amortisation and exceptional items £m	2009 Total £m
Total revenue		1,923.4	–	1,923.4	1,915.2	–	1,915.2
Less: joint venture revenue		27.9	–	27.9	13.3	–	13.3
Group revenue	3	1,895.5	–	1,895.5	1,901.9	–	1,901.9
Operating profit	3, 4, 5, 6	164.2	(16.1)	148.1	147.3	(14.2)	133.1
Share of loss from joint ventures	3	(0.5)	–	(0.5)	(0.2)	–	(0.2)
Operating profit including share of joint ventures		164.7	(16.1)	148.6	147.9	(14.2)	133.7
Joint venture share of interest		(1.1)	–	(1.1)	(0.8)	–	(0.8)
Joint venture share of tax		0.1	–	0.1	–	–	–
		163.7	(16.1)	147.6	147.1	(14.2)	132.9
Finance costs	7	(21.8)	–	(21.8)	(32.1)	–	(32.1)
Finance income	7	3.4	–	3.4	5.9	–	5.9
Profit before tax		145.3	(16.1)	129.2	120.9	(14.2)	106.7
Income tax expense	9	(25.3)	4.5	(20.8)	(23.1)	4.0	(19.1)
Profit for the year from continuing operations		120.0	(11.6)	108.4	97.8	(10.2)	87.6
Discontinued operations							
Loss for the year from discontinued operations	10	–	–	–	–	(13.3)	(13.3)
Profit for the year	5	120.0	(11.6)	108.4	97.8	(23.5)	74.3
Attributable to:							
Equity holders of the parent				106.0			72.0
Minority interest				2.4			2.3
				108.4			74.3
Earnings per share from continuing operations	12						
Basic				46.29p			37.42p
Diluted				46.10p			37.16p
Earnings per share from continuing and discontinued operations	12						
Basic				46.29p			31.59p
Diluted				46.10p			31.38p

Group statement of comprehensive income

For the year ended 31 March 2010	Note	2010 £m	2009 £m
Profit for the year (including discontinued operations)		108.4	74.3
Other comprehensive income			
Currency translation differences		10.7	6.3
Fair value adjustment of interest rate and foreign exchange hedges		–	(11.6)
Net actuarial loss in respect of pensions	27	(403.5)	(145.6)
Tax on net actuarial loss in respect of pensions and hedges		113.0	44.0
Other comprehensive income, net of tax		(279.8)	(106.9)
Total comprehensive income		(171.4)	(32.6)
Attributable to:			
Equity holders of the parent		(174.4)	(35.2)
Minority interest		3.0	2.6
		(171.4)	(32.6)

Group statement of changes in equity

For the year ended 31 March 2010	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Shareholder equity £m	Minority interests £m	Total equity £m
At 1 April 2008	137.6	148.1	30.6	50.6	(2.3)	(7.4)	357.2	3.6	360.8
Shares issued in the period	0.1	0.1	–	–	–		0.2	–	0.2
Total comprehensive income	–	–	–	(32.8)	(8.4)	6.0	(35.2)	2.6	(32.6)
Dividends	–	–	–	(27.9)	–		(27.9)	(1.8)	(29.7)
Share-based payments	–	–	–	1.9	–		1.9	–	1.9
Tax on share-based payments	–	–	–	(0.3)	–		(0.3)	–	(0.3)
Own shares	–	–	–	(7.5)	–		(7.5)	–	(7.5)
Net movement in equity	0.1	0.1	–	(66.6)	(8.4)	6.0	(68.8)	0.8	(68.0)
At 31 March 2009	137.7	148.2	30.6	(16.0)	(10.7)	(1.4)	288.4	4.4	292.8
At 1 April 2009	137.7	148.2	30.6	(16.0)	(10.7)	(1.4)	288.4	4.4	292.8
Shares issued in the period	0.1	0.1	–	–	–	–	0.2	–	0.2
Total comprehensive income	–	–	–	(184.6)	–	10.2	(174.4)	3.0	(171.4)
Dividends	–	–	–	(34.7)	–	–	(34.7)	(2.2)	(36.9)
Share-based payments	–	–	–	2.7	–	–	2.7	–	2.7
Tax on shared-based payments	–	–	–	0.5	–	–	0.5	–	0.5
Own shares	–	–	–	(2.1)	–	–	(2.1)	–	(2.1)
Net movement in equity	0.1	0.1	–	(218.2)	–	10.2	(207.8)	0.8	(207.0)
Equity at 31 March 2010	137.8	148.3	30.6	(234.2)	(10.7)	8.8	80.6	5.2	85.8

Group balance sheet

As at 31 March 2010	Note	2010 £m	2009 £m
Assets			
Non-current assets			
Goodwill	13	548.3	535.2
Other intangible assets	14	80.2	68.7
Property, plant and equipment	15	149.3	147.1
Investment in joint ventures	16	1.0	1.5
Loan to joint venture	16	13.3	12.0
Retirement benefits	27	–	90.9
Trade and other receivables	19	0.4	0.2
Deferred tax	17	84.9	2.8
		877.4	858.4
Current assets			
Inventories	18	84.2	94.4
Trade and other receivables	19	330.9	335.7
Income tax recoverable		1.9	4.6
Other financial assets	23	1.1	1.0
Cash and cash equivalents	20	189.6	123.6
		607.7	559.3
Total assets		1,485.1	1,417.7
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	25	137.8	137.7
Share premium		148.3	148.2
Capital redemption and other reserves		28.7	18.5
Retained earnings		(234.2)	(16.0)
		80.6	288.4
Minority interest		5.2	4.4
Total equity		85.8	292.8
Non-current liabilities			
Bank and other borrowings	22	329.1	356.5
Trade and other payables	21	12.3	16.0
Deferred tax	17	–	0.2
Income tax payable		0.2	–
Retirement liabilities	27	324.0	40.2
Provisions for other liabilities	24	37.1	35.4
		702.7	448.3
Current liabilities			
Bank and other borrowings	22	162.8	118.6
Trade and other payables	21	498.1	518.0
Income tax payable		6.9	15.2
Other financial liabilities	23	15.7	15.1
Provisions for other liabilities	24	13.1	9.7
		696.6	676.6
Total liabilities		1,399.3	1,124.9
Total equity and liabilities		1,485.1	1,417.7

The notes on pages 88 to 124 are an integral part of the consolidated financial statements.
The Group financial statements were approved by the Board of Directors on 10 May 2010 and are signed on its behalf by:

P L Rogers Director
W Tame Director

Group cash flow statement

For the year ended 31 March 2010	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	28	170.3	153.6
Income tax paid		(1.7)	(7.7)
Interest paid		(22.3)	(34.2)
Interest received		3.8	5.4
Net cash flows from operating activities		150.1	117.1
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures		–	(16.9)
Proceeds on disposal of property, plant and equipment		1.3	4.9
Purchases of property, plant and equipment		(16.8)	(17.0)
Purchases of intangible assets		(3.2)	(2.1)
Investment in and loans to joint venture		–	(13.3)
Acquisition of subsidiaries net of cash acquired	31	(37.9)	(66.2)
Net cash flows from investing activities		(56.6)	(110.6)
Cash flows from financing activities			
Dividends paid	11	(34.7)	(27.9)
Finance lease principal payments		(1.4)	(0.5)
Bank loans repaid		(130.5)	(20.7)
Loans raised		100.0	–
Dividends paid to minority interests		(2.2)	(1.8)
Net proceeds on issue of shares		0.2	0.2
Movement on own shares		(2.1)	(7.5)
Net cash flows from financing activities		(70.7)	(58.2)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		22.8	(51.7)
Cash, cash equivalents and bank overdrafts at beginning of year		6.3	56.5
Effects of exchange rate fluctuations		(0.1)	1.5
Cash, cash equivalents and bank overdrafts at end of year	30	29.0	6.3

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 historic cost convention as modified by the revaluation of certain financial instruments. 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 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 accounting 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

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 entity are eliminated to the extent of the Group's interest in the joint controlled entity.

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.

(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.

(c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract. 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. Profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed. An 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 along with the restructuring of businesses and asset impairments.

Transactions with minorities

The Group policy is to treat transactions with minorities as transactions with equity holders and therefore result in movements in reserves.

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.

(b) Acquired intangibles

Intangible assets, which are capable of being recognised separately and measured reliably on acquisition of a business, are capitalised at fair value on acquisition. These intangibles will include contracts and customer relationships. Where these assets have a finite life, they are amortised over the period in which they are expected to generate benefits, but generally not exceeding ten years. Customer contracts and relationships valued on acquisition are expected to generate higher benefits in the early years following such acquisition as the existing contracts unwind.

(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.

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 are 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.

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

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. 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

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 bases 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.

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.

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

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 2009/2010.

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.

Investments

The accounting for investments is decided on a case by case basis depending on whether the investment is held for resale or other strategic reasons.

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.

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

For foreign exchange contracts 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.

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 under the 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.

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.

Fair value adjustments on acquisitions are by nature subject to critical judgements. The size of recent acquisitions make them significant in Group terms.

Standards, amendments and interpretations to published standards that are not yet effective

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 2009 or later periods but which the Group has not early adopted.

a) Standards, amendments and interpretations effective in 2009 with minimal or no impact on the Group:

- IFRS 2 (amendment), 'Share based payments'.
- IFRS 8, 'Operating Segments'. IFRS 8 replaces IAS 14 'Segmental reporting', and requires a 'management approach' under which segmental information is presented on the same basis as that used for internal reporting purposes.
- IAS 1 (revised), 'Presentation of Financial Statements'.
- IAS 16 (amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows').
- IAS 19 (amendment), 'Employee Benefits'.
- IAS 20 (amendment), 'Accounting for government grants and disclosure of government assistance'.
- IAS 23 (revised), 'Borrowing costs'.
- IAS 24 (amendment), 'Related party disclosures', effective 1 January 2011.
- IAS 28 (amendment), 'Investments in associates', (and consequential amendment to IAS 32 'Financial instruments: presentation', and IFRS 7 'Financial instruments: disclosure').
- IAS 29 (amendment), 'Financial reporting in hyperinflationary economies'.
- IAS 31 (amendment), 'Interests in joint ventures', (and consequential amendments to IAS 32 and IFRS 7).
- IAS 32 (amendment), 'Financial instruments: presentation' and IAS 1 (amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'.
- IAS 36 (amendment), 'Impairment of assets'.
- IAS 38 (amendment), 'Intangible assets'.
- IFRIC 12, 'Service concession arrangements'
- IFRIC 14, 'IAS 19 – Prepayment of a minimum funding requirement', effective from 1 January 2011.
- IFRIC 16 (amendment), 'Hedges of a net investment in a foreign operation'.

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 3 (revised), 'Business combinations: revised', effective from 1 July 2009.
- IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations', (and consequential amendment
- to IFRS 1 'First time adoption'), effective from 1 July 2009.
- IFRS 9, 'Financial instruments', effective from 1 January 2013.
- IAS 27 (revised), 'Consolidated and separate financial statements', effective from 1 July 2009.
- IAS 39, Financial instruments: 'Recognition and measurement – Amendments for eligible hedged items' 1 July 2009.

c) Interpretations to existing standards that are not yet effective and are not anticipated to be relevant for the Group's operations:

- IFRIC 17, 'Distributions of non-cash assets to owners', effective from 1 July 2009.
- IFRIC 18, 'Transfers of assets from customers', effective from 1 July 2009.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010.

2. Financial risk management

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.

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.

The Group's main exposure to foreign currency fluctuations arises through its activities in South Africa where both translational and transactional exposure exist. It is Group policy not to cover the effects of exchange rate fluctuation on translation of the results of foreign subsidiaries into the Group's functional currency, Sterling. All material transactional exposures arising through trading in currencies other than the operation's functional currency must be eliminated by the use of forward cover contracts as soon as they are known of.

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.

Management of capital

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EDITDA (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).

Foreign exchange risk

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 £1.1 million (2009: Sterling to Euro £0.2 million).

Consequently, 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 (2009: £0.1 million). The reasonable shifts in exchange rates are based on historic volatility and range from 15% for Sterling to Euro to 30% for South African Rand to Euro and 30% Sterling to US Dollars.

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 cash flow of interest rate-sensitive instruments to a hypothetical parallel shift of the forward interest rate curves of ±50bp (2009: ±50bp), with pre tax effect from the beginning of the year. All other variables are held constant.

	2010		2009	
	£m +50bp	£m –50bp	£m +50bp	£m –50bp
Net results for the year	(0.8)	0.8	(0.9)	0.9
Equity	1.8	(1.8)	2.7	(2.7)

Liquidity risk

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.

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 2010				
Bank and other borrowings	162.8	2.2	226.9	100.0
Derivative financial instruments	5.9	5.7	2.3	0.7
Trade and other payables	498.1	3.0	4.0	7.1
At 31 March 2009				
Bank and other borrowings	118.6	0.6	355.9	–
Derivative financial instruments	4.7	5.3	4.4	–
Trade and other payables	518.0	5.9	3.9	8.2

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.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2010				
Forward foreign exchange contracts – cash flow hedges:				
– outflow	18.6	8.1	17.3	5.1
– inflow	18.0	8.1	16.8	4.9
Forward foreign exchange contracts – held for trading:				
– outflow	2.4	0.4	3.2	–
– inflow	2.6	0.5	2.9	–
At 31 March 2009				
Forward foreign exchange contracts – cash flow hedges:				
– outflow	6.3	–	–	–
– inflow	6.6	–	–	–
Forward foreign exchange contracts – held for trading:				
– outflow	1.9	–	–	–
– inflow	2.4	–	–	–

3. Segmental information

Following the adoption of IFRS 8 the segments have remained the same. The segments reflect the accounting information reviewed by the Chief Operating Decision Maker (CODM), who is the Chief Executive.

	2010 Group revenue £m	2010 Operating profit before acquired intangible amortisation, exceptional items £m	2010 Acquired intangible amortisation and exceptional items £m	2010 Group operating profit £m	2009 Group revenue £m	2009 Operating profit before acquired intangible amortisation, exceptional items £m	2009 Acquired intangible amortisation and exceptional items £m	2009 Group operating profit £m
Continuing operations								
Marine	958.3	112.9	(7.5)	105.4	892.9	89.3	(9.3)	80.0
Defence	383.8	32.8	(1.1)	31.7	338.4	28.9	(1.3)	27.6
Rail	150.7	(1.2)	(0.8)	(2.0)	228.9	(6.4)	(1.0)	(7.4)
Nuclear	115.9	13.0	(6.2)	6.8	106.7	13.0	(2.2)	10.8
Networks	112.6	4.1	(0.5)	3.6	119.4	7.0	(0.4)	6.6
Engineering and Plant	174.2	10.9	–	10.9	215.6	19.7	–	19.7
Unallocated	–	(8.3)	–	(8.3)	–	(4.2)	–	(4.2)
Total continuing operations	1,895.5	164.2	(16.1)	148.1	1,901.9	147.3	(14.2)	133.1
Finance cost		(21.8)	–	(21.8)		(32.1)	–	(32.1)
Finance income		3.4	–	3.4		5.9	–	5.9
Share of post-tax profit from joint ventures (net of tax)		(0.5)	–	(0.5)		(0.2)	–	(0.2)
Profit before tax		145.3	(16.1)	129.2		120.9	(14.2)	106.7
Income tax		(25.3)	4.5	(20.8)		(23.1)	4.0	(19.1)
Profit for the year from continuing operations		120.0	(11.6)	108.4		97.8	(10.2)	87.6
Discontinued operations								
Exceptional item		–	–	–		–	(18.4)	(18.4)
Income tax		–	–	–		–	5.1	5.1
Total for the year from discontinued operations		–	–	–		–	(13.3)	(13.3)
Total for the year	1,895.5	120.0	(11.6)	108.4	1,901.9	97.8	(23.5)	74.3

Inter divisional sales are immaterial.

The share of joint venture results not separately disclosed above are:

	2010				2009			
	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m
Continuing operations								
Defence	27.2	0.8	(1.0)	(0.2)	12.5	0.4	(0.5)	(0.1)
Rail	0.7	(0.2)	–	(0.2)	0.7	0.2	(0.3)	(0.1)
Engineering and Plant	–	(0.1)	–	(0.1)	0.1	–	–	–
Total continuing operations	27.9	0.5	(1.0)	(0.5)	13.3	0.6	(0.8)	(0.2)

Revenues of approximately £1.1 billion (2009: £1.1 billion) are derived from a single external customer. These revenues are attributable to the Marine, Defence, Nuclear and Rail segments.

3. Segmental information (continued)

The segment assets and liabilities at 31 March 2010 and 31 March 2009 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Marine	601.6	659.2	549.6	307.8	13.4	8.0
Defence	173.3	184.0	134.6	90.4	1.2	0.5
Rail	66.9	120.2	50.7	40.1	0.4	0.8
Nuclear	117.1	86.9	58.2	27.0	1.1	0.3
Networks	84.5	90.4	20.2	20.2	1.2	2.1
Engineering and Plant	115.7	119.7	54.5	77.6	7.2	4.5
Unallocated	326.0	157.3	531.5	561.8	0.5	3.1
Group total	1,485.1	1,417.7	1,399.3	1,124.9	25.0	19.3

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 and income and deferred tax which are included in the unallocated segment.

The segmental depreciation and amortisation of intangible assets for the years ended 31 March 2010 and 31 March 2009 are as follows:

	Depreciation		Amortisation of intangible assets	
	2010 £m	2009 £m	2010 £m	2009 £m
Marine	14.9	15.4	8.8	10.4
Defence	0.6	0.4	1.2	1.3
Rail	0.9	0.9	1.6	1.8
Nuclear	0.5	0.3	6.4	2.3
Networks	1.3	1.6	0.9	1.0
Engineering and Plant	3.4	2.5	–	0.1
Unallocated	0.7	0.6	–	–
Group total	22.3	21.7	18.9	16.9

	Revenue		Assets		Capital expenditure	
Geographic analysis	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
United Kingdom	1,668.6	1,658.6	1,337.6	1,273.4	16.6	13.1
Africa	165.9	204.3	115.6	120.3	7.0	4.2
North America	50.2	29.6	24.8	18.9	1.0	2.0
Rest of World	10.8	9.4	7.1	5.1	0.4	–
Group total	1,895.5	1,901.9	1,485.1	1,417.7	25.0	19.3

	2010 £m	2009 £m
Analysis of revenue by category		
Sales of goods	266.6	249.1
Sales of services	1,627.5	1,651.5
Rental income	1.4	1.3
	1,895.5	1,901.9

4. Operating expenses

	2010 £m	2009 £m
Continuing operations		
Cost of sales	1,650.1	1,699.2
Distribution expenses	8.1	6.4
Administrative expenses	89.2	63.2
	1,747.4	1,768.8

There has been a reclassification within 2009 operating expenses to better reflect the nature of the balance. The total remains unchanged.

5. Operating profit for the year

The following items have been included in arriving at operating profit for the year.

	Continuing operations	
	2010 £m	2009 £m
Employee costs (note 8)	640.5	615.1
Inventories		
– cost of inventories recognised as an expense	262.3	273.3
– (decrease)/increase in inventory provisions	1.2	(0.7)
Depreciation of property, plant and equipment (PPE)		
– owned assets	21.6	21.2
– under finance leases	0.7	0.5
	22.3	21.7
Amortisation of intangible assets		
– acquired intangibles	16.1	14.2
– software and development costs	2.8	2.7
	18.9	16.9
Profit on disposal of PPE	0.4	3.4
Operating lease rentals payable		
– property	14.8	13.4
– vehicles, plant and equipment	11.8	12.7
Research and development	1.5	0.7
Trade receivables impairment	(1.2)	1.1
Net foreign exchange (gains)/losses	0.7	0.6

There were no expenses in discontinued operations apart from the exceptional item disclosed in note 10.

5. Operating profit for the year (continued)

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	
	2010 £m	2009 £m
Audit fees:		
Fees payable to the Group's auditor for the audit of the parent entity and the consolidated financial statements	0.5	0.4
Fees for other services:		
The auditing of accounts of subsidiaries of the Company pursuant to legislation (including that of countries and territories outside Great Britain)	0.6	0.6
Tax	–	0.1
All other services	0.8	0.1
Total fees paid to the Group's auditor and network firms	1.9	1.2

Other services include £0.6 million of fees in relation to the proposed acquisition of VT Group PLC.

6. Operating exceptional items and acquired intangible amortisation

In 2010 there were no operating exceptional items (2009: nil).

In 2010 acquired intangible amortisation was £16.1 million (2009: £14.2 million). The acquisition of UKAEA Limited resulted in acquired intangible amortisation of £4.4 million all of which is included in the Nuclear segment.

7. Net finance costs

	2010 £m	2009 £m
Finance costs		
Bank loans and overdrafts	8.6	25.2
Finance leases	0.4	0.1
Interest rate hedges	7.8	1.2
Amortisation of issue costs of bank loan	1.3	1.3
Other	3.7	4.3
Total finance costs	21.8	32.1
Finance income		
Bank deposits	3.4	4.7
Interest rate hedge	–	1.2
Total finance income	3.4	5.9
Net finance costs	18.4	26.2

8. Employee costs

	2010 £m	2009 £m
Wages and salaries	552.2	536.8
Social security costs	50.4	46.6
Share-based payments (note 26)	2.7	1.9
Pension costs – defined contribution plans (note 27)	17.8	13.9
Pensions charge – defined benefit plans (note 27)	17.4	15.9
	640.5	615.1

The average number of people employed by the Group during the year were:

	2010 Number	2009 Number
Operations	14,288	14,200
Administration and management	2,349	2,189
	16,637	16,389

Emoluments of Executive Directors are included in employee costs above.

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.

	2010 £m	2009 £m
Salaries	7.8	7.7
Post-employment benefits	0.4	0.4
Share-based payments	1.8	1.7
	10.0	9.8

9. Income tax expense

	2010 £m	2009 £m
Analysis of tax charge in the year		
Current tax		
– UK current year charge	26.2	19.1
– Overseas current year charge	5.5	5.7
– UK prior year (credit)/charge	(6.7)	0.6
	25.0	25.4
Deferred tax		
– UK current year credit	(9.4)	(7.2)
– Adjustment in respect of prior year	4.3	–
– Overseas current year charge	0.9	1.5
– Overseas prior year credit	–	(0.6)
	(4.2)	(6.3)
Total income tax expense – continuing operations	20.8	19.1

The tax for the year is lower than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	2010 £m	2009 £m
Profit before tax – continuing operations	129.2	106.7
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 28% (2009: 28%)	36.2	29.9
Effects of:		
Expenses not deductible for tax purposes	1.1	1.5
Adjustments in respect of foreign tax rates	(11.0)	(8.1)
Adjustments to tax in respect of prior period	(2.4)	–
Other	(3.1)	(4.2)
Total income tax expense – continuing operations	20.8	19.1

10. Discontinued operations

In 2010 there are no discontinued operations. In 2009 the discontinued post-tax exceptional item of £13.3 million arose from settlement being agreed between Babcock and other parties with Tesco Stores Limited in relation to a business discontinued prior to the acquisition of Peterhouse Group plc.

	2010 £m	2009 £m
Financial performance of discontinued operations		
Costs on previously disposed of businesses	–	(18.4)
	–	(18.4)
Taxation	–	5.1
Total discontinued operations	–	(13.3)

11. Dividends

	2010 £m	2009 £m
Final dividend for the year ended 31 March 2009 of 10.40p (2008: 8.20p) per 60p share	23.7	18.7
Interim dividend for the year ended 31 March 2010 of 4.80p (2009: 4.00p) per 60p share	11.0	9.2
	34.7	27.9

In addition, the Directors are proposing a second interim dividend in respect of the financial year ended 31 March 2010 of 12.80p (2009 final dividend: 10.40p) per share which will absorb an estimated £29.4 million (2009: £23.8 million) of shareholders' equity. It will be paid on 9 July 2010 to shareholders who are on the register of members on 18 June 2010. These financial statements do not reflect this dividend payable.

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

	2010 Number	2009 Number
Weighted average number of ordinary shares for the purpose of basic EPS	228,890,548	228,037,214
Effect of dilutive potential ordinary shares: share options	936,028	1,550,512
Weighted average number of ordinary shares for the purpose of diluted EPS	229,826,576	229,587,726

Earnings

	2010 Earnings £m	2010 Basic per share Pence	2010 Diluted per share Pence	2009 Earnings £m	2009 Basic per share Pence	2009 Diluted per share Pence
Continuing operations						
Earnings from continuing operations	106.0	46.29	46.10	85.3	37.42	37.16
Add back:						
Amortisation of acquired intangible assets, net of tax	11.6	5.08	5.06	10.2	4.48	4.45
Exceptional items, net of tax	–	–	–	–	–	–
Earnings before discontinued operations, amortisation and exceptionals	117.6	51.37	51.16	95.5	41.90	41.61
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	106.0	46.29	46.10	72.0	31.59	31.38
Add back:						
Amortisation of acquired intangible assets, net of tax	11.6	5.08	5.06	10.2	4.48	4.45
Exceptional items, net of tax	–	–	–	13.3	5.83	5.78
Earnings before amortisation and exceptionals	117.6	51.37	51.16	95.5	41.90	41.61

13. Goodwill

	2010 £m	2009 £m
Cost		
At 1 April	540.0	484.4
On acquisition of subsidiaries (note 31)	12.8	55.0
Exchange adjustments	0.3	0.6
At 31 March	553.1	540.0
Accumulated impairment		
At 1 April	4.8	4.8
Impairment charge	–	–
At 31 March	4.8	4.8
Net book value at 31 March	548.3	535.2

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 2% (effectively negative real growth allowing for inflation). A post-tax discount rate in the range 8% to 9% was grossed up for tax and 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 is approximately 8% to 9% (2009: 8.6%). The business with the least headroom (£13.2 million) in terms of impairment under the above assumptions is Rail where a 2% increase in the discount rate or a 22% reduction in third year budgeted profits could result in an impairment.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the business segment and country of operation. A segment level summary of goodwill allocation is presented below:

	2010 £m	2009 £m
Marine	295.2	294.9
Defence	95.1	95.1
Rail	30.6	30.6
Nuclear	73.4	60.6
Networks	52.6	52.6
Engineering and Plant	1.4	1.4
	548.3	535.2
United Kingdom	544.5	531.7
Africa	0.1	0.1
North America	3.7	3.4
	548.3	535.2

14. Other intangible assets

	Acquired intangibles £m	Software £m	Development costs £m	Total £m
Cost				
At 1 April 2009	107.2	16.2	3.2	126.6
On acquisition of subsidiaries (note 31)	27.1	–	–	27.1
Additions	–	3.2	–	3.2
Disposals	–	(0.2)	–	(0.2)
Exchange adjustments	–	0.2	–	0.2
At 31 March 2010	134.3	19.4	3.2	156.9
Accumulated amortisation and impairment				
At 1 April 2009	47.5	7.3	3.1	57.9
Amortisation charge	16.1	2.7	0.1	18.9
Disposals	–	(0.2)	–	(0.2)
Exchange adjustments	–	0.1	–	0.1
At 31 March 2010	63.6	9.9	3.2	76.7
Net book value at 31 March 2010	70.7	9.5	–	80.2
Cost				
At 1 April 2008	87.2	13.5	3.2	103.9
On acquisition of subsidiaries	20.0	0.6	–	20.6
Additions	–	2.1	–	2.1
At 31 March 2009	107.2	16.2	3.2	126.6
Accumulated amortisation and impairment				
At 1 April 2008	33.3	4.6	3.1	41.0
Amortisation charge	14.2	2.7	–	16.9
At 31 March 2009	47.5	7.3	3.1	57.9
Net book value at 31 March 2009	59.7	8.9	0.1	68.7

All amortisation charges for the year have been charged through cost of sales.

Acquired intangibles are the fair value of customer relationships and order books of acquired entities.

15. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2009 (restated – see note below)	56.9	3.9	168.0	228.8
Exchange adjustments	0.1	–	5.9	6.0
On acquisition of subsidiaries (note 31)	–	–	0.1	0.1
Additions	0.1	0.8	20.9	21.8
Capitalised borrowing costs	–	–	0.2	0.2
Disposals	(0.4)	–	(7.0)	(7.4)
At 31 March 2010	56.7	4.7	188.1	249.5
Accumulated depreciation				
At 1 April 2009 (restated – see note below)	16.8	0.6	64.3	81.7
Exchange adjustments	–	–	2.7	2.7
Charge for the year	3.6	0.3	18.4	22.3
Disposals	(0.2)	–	(6.3)	(6.5)
At 31 March 2010	20.2	0.9	79.1	100.2
Net book value at 31 March 2010	36.5	3.8	109.0	149.3
Cost				
At 1 April 2008	55.2	3.1	150.5	208.8
Exchange adjustments	0.1	–	3.7	3.8
On acquisition of subsidiaries	2.0	–	2.8	4.8
Additions	0.6	1.7	14.9	17.2
Disposals (restated – see note below)	(1.0)	(0.9)	(3.9)	(5.8)
At 31 March 2009 (restated – see note below)	56.9	3.9	168.0	228.8
Accumulated depreciation				
At 1 April 2008	13.3	1.1	48.5	62.9
Exchange adjustments	–	–	1.4	1.4
Charge for the year	3.7	0.2	17.8	21.7
Disposals (restated – see note below)	(0.2)	(0.7)	(3.4)	(4.3)
At 31 March 2009 (restated – see note below)	16.8	0.6	64.3	81.7
Net book value at 31 March 2009	40.1	3.3	103.7	147.1

A capitalisation rate of 4% was used to determine the amount of borrowing costs eligible for capitalisation.

There has been a reclassification between prior year costs and accumulated depreciation to properly reflect the disposal of an asset previously acquired through acquisition. The total balance remains unchanged.

Assets held under finance leases have the following net book value within plant and equipment:

	2010 £m	2009 £m
Cost	10.7	5.5
Aggregate depreciation	(4.1)	(3.3)
Net book value	6.6	2.2

16. Investment in and loan to joint ventures and other investments

	Investment in joint ventures		Loans to joint ventures		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
At 1 April						
– Net assets excluding goodwill	0.1	0.2	–	–	0.1	0.2
– Goodwill	1.4	0.2	–	–	1.4	0.2
– Loan to joint venture	–	–	12.0	–	12.0	–
	1.5	0.4	12.0	–	13.5	0.4
Loans to joint ventures	–	0.1	–	12.0	–	12.1
Investment in joint venture	–	1.2	–	–	–	1.2
Share of losses	(0.3)	(0.2)	–	–	(0.3)	(0.2)
Interest accrued	–	–	1.5	–	1.5	–
Interest received	–	–	(0.2)	–	(0.2)	–
Impairment of goodwill	(0.2)	–	–	–	(0.2)	–
At 31 March						
– Net assets excluding goodwill	(0.2)	0.1	–	–	(0.2)	0.1
– Goodwill	1.2	1.4	–	–	1.2	1.4
– Loan to joint venture	–	–	13.3	12.0	13.3	12.0
	1.0	1.5	13.3	12.0	14.3	13.5

Included within joint ventures are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2010							
Holdfast Training Services Limited	United Kingdom	29.4	(15.5)	13.8	0.7	(0.3)	74%
FSP (2004) Limited	United Kingdom	3.7	(3.6)	0.7	(0.2)	(0.2)	50%
Mouchel Babcock Education Services Limited	United Kingdom	3.0	(2.7)	13.4	0.1	0.1	50%
Other		–	–	–	(0.1)	(0.1)	
		36.1	(21.8)	27.9	0.5	(0.5)	

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2009							
Holdfast Training Services Limited	United Kingdom	23.2	(10.2)	7.4	0.3	(0.2)	74%
FSP (2004) Limited	United Kingdom	3.6	(3.7)	0.7	0.3	–	50%
Mouchel Babcock Education Services Limited	United Kingdom	2.6	(2.4)	5.1	0.1	0.1	50%
Other		0.5	(0.1)	0.1	(0.1)	(0.1)	
		29.9	(16.4)	13.3	0.6	(0.2)	

The joint ventures have no significant contingent liabilities to which the Group is exposed.

17. Deferred tax

	2010 £m	2009 £m
Deferred tax asset	84.9	2.8
Deferred tax liability	–	(0.2)
	84.9	2.6

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	ACT £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2009	(9.8)	3.1	(14.2)	9.3	14.2	2.6
Income statement credit	–	–	4.8	–	3.7	8.5
Tax credit to equity	–	–	113.0	–	0.5	113.5
Prior year adjustment	–	(3.1)	–	(1.2)	–	(4.3)
Transfer to corporation tax	10.9	–	(12.9)	(6.0)	(20.3)	(28.3)
Acquisition of subsidiaries (note 31)	–	–	–	–	(7.6)	(7.6)
Exchange differences	–	–	–	–	0.5	0.5
At 31 March 2010	1.1	–	90.7	2.1	(9.0)	84.9
At 1 April 2008	(8.9)	3.1	(39.8)	3.3	14.1	(28.2)
Income statement credit/(charge)	(0.9)	–	4.1	–	3.1	6.3
Tax credit to equity	–	–	40.7	–	3.3	44.0
Transfer to corporation tax	–	–	(19.2)	6.0	(0.7)	(13.9)
Acquisition of subsidiaries	–	–	–	–	(5.5)	(5.5)
Exchange differences	–	–	–	–	(0.1)	(0.1)
At 31 March 2009	(9.8)	3.1	(14.2)	9.3	14.2	2.6

The deferred tax asset in respect of 'other' includes an asset of £2.6 million (2009: £2.8 million) in respect of the Group's non-UK operations. In 2009 £0.2 million is disclosed separately in the Group's balance sheet, as it cannot be offset against the net overall UK deferred tax liability.

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:

	2010 £m	2009 £m
Deferred tax asset	(91.3)	(23.8)
Deferred tax liability	9.0	24.0
	(82.3)	0.2

Deferred tax expected to be recovered within 12 months:

	2010 £m	2009 £m
Deferred tax asset	2.6	8.3
Deferred tax liability	(5.0)	(4.5)
	(2.4)	3.8

17 Deferred tax (continued)

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses and advance corporation tax) of £52.7 million (2009: £82.4 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £7.5 million (2009: £33.0 million) of such losses, which may be carried forward indefinitely. No deferred tax has been recognised in respect of the remaining £45.2 million (2009: £49.4 million) due to the unpredictability of future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £129.0 million (2009: £95.0 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

18. Inventories

	2010 £m	2009 £m
Raw materials	21.3	24.1
Work in progress and long-term contracts	12.2	11.2
Finished goods and goods for resale	50.7	59.1
Total	84.2	94.4

19. Trade and other receivables

	2010 £m	2009 £m
Current assets		
Trade receivables	118.5	111.7
Less: provision for impairment of receivables	(4.2)	(5.7)
Trade receivables – net	114.3	106.0
Amounts due from customers for contract work	165.4	182.4
Retentions	5.4	9.7
Amounts owed by related parties (note 35)	7.7	12.8
Other debtors	12.1	7.5
Prepayments and accrued income	26.0	17.3
	330.9	335.7
Non-current assets		
Other debtors	0.4	0.2

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

As of 31 March 2010, trade receivables of £4.2 million (2009: £5.8 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £4.2 million (2009: £5.7 million). The individually impaired receivables mainly relate to debtors in Engineering and Plant. It was assessed that a portion of these receivables is expected to be recovered.

The ageing of the impaired receivables is as follows:

	2010 £m	2009 £m
Less than three months	–	–
Three to six months	–	–
Over six months	–	0.1
	–	0.1

19. Trade receivables and other (continued)

As of 31 March 2010, trade receivables of £16.3 million (2009: £22.8 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:

	2010 £m	2009 £m
Less than three months	12.9	13.2
Three to six months	2.3	8.9
Over six months	1.1	0.7
	16.3	22.8

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:

	2010 £m	2009 £m
Balance at 1 April	(5.7)	(4.4)
Provision for receivables impairment	(0.9)	(2.5)
Receivables written off during the year as uncollectable	0.4	0.2
Unused amounts reversed	2.1	1.4
Exchange differences	(0.1)	(0.4)
Balance at 31 March	(4.2)	(5.7)

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.

20. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	177.6	116.3
Short-term bank deposits (overnight)	12.0	7.3
	189.6	123.6

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2010		2009	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	170.0	170.0	105.8	105.8
Euro	10.9	10.9	5.6	5.6
US Dollar	2.8	2.8	5.6	5.6
South African Rand	0.7	0.7	1.1	1.1
Canadian Dollar	2.6	2.6	3.5	3.5
Australian Dollar	2.5	2.5	1.8	1.8
Other currencies	0.1	0.1	0.2	0.2
	189.6	189.6	123.6	123.6

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

	2010 £m	2009 £m
Current liabilities		
Contract cost accruals	142.8	121.1
Amounts due to customers for contract work	117.3	136.2
Trade creditors	105.9	138.5
Amounts owed to related parties (note 35)	0.1	0.6
Other creditors	16.5	16.7
Other taxes and social security	31.6	25.7
Accruals and deferred income	83.9	79.2
	498.1	518.0
Non-current liabilities		
Other creditors	12.3	16.0

There have been reclassifications within 2009 current liabilities to better reflect the nature of the balance. The total balance remains unchanged.

22. Bank and other borrowings

	2010 £m	2009 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Unsecured	160.6	117.9
	160.6	117.9
Finance lease obligations*	2.2	0.7
	162.8	118.6
Non-current liabilities		
Bank and other loans		
Unsecured	325.1	355.0
	325.1	355.0
Finance lease obligations*	4.0	1.5
	329.1	356.5

* 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 or foreign equivalents appropriate to the country in which the borrowing is incurred. The Group has entered into interest rate swaps and collars, details of which are included in note 23.

The carrying amount of the Group's borrowings are denominated in the following currencies:

			2010
	Total £m	Floating rate £m	Fixed rate £m
Currency			
Sterling	483.8	382.5	101.3
South African Rand	6.8	6.8	–
Other	1.3	1.3	–
	491.9	390.6	101.3

			2009
	Total £m	Floating rate £m	Fixed rate £m
Currency			
Sterling	462.9	461.2	1.7
South African Rand	11.5	11.5	–
Other	0.7	0.7	–
	475.1	473.4	1.7

The weighted average interest rates of Sterling fixed rate borrowings, which comprise finance lease obligations, are 5%. 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 2010	230.6	161.3	100.0	491.9
As at 31 March 2009	313.6	161.5	–	475.1

22. Bank and other borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	2010 %	2009 %
UK bank overdraft	1.5	1.5
UK bank borrowings	1.1	2.2
US private placement	5.2	–
Other borrowings	9.65–10.0	14.7
Finance leases	2.0–14.0	2.0–15.0

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2010		2009	
	Bank loans and overdrafts £m	Finance lease obligations £m	Bank loans and overdrafts £m	Finance lease obligations £m
Within one year	160.6	2.2	117.9	0.7
Between one and two years	–	2.2	–	0.6
Between two and five years	225.1	1.8	355.0	0.9
Greater than five years	100.0	–	–	–
	485.7	6.2	472.9	2.2

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 March in respect of which all conditions precedent had been met at that date.

	2010 £m	2009 £m
Expiring in less than one year	33.2	24.0
Expiring in more than one year but not more than five years	370.0	245.0
	403.2	269.0

The minimum lease payments under finance leases fall due as follows:

	2010 £m	2009 £m
Not later than one year	2.7	0.6
Later than one year but not more than five years	4.4	1.7
More than five years	–	–
	7.1	2.3
Future finance charges on finance leases	(0.9)	(0.1)
Present value of finance lease liabilities	6.2	2.2

In addition a £400 million bridge facility was signed on 23 March 2010 which may be used in the event of the recommended offer for VT Group plc being accepted by their shareholders. A £600 million backstop facility was also signed on 23 March 2010 in the event that the existing £600 million revolving credit facility did not receive the waivers required for utilisation on the proposed acquisition.

23. Financial instruments

Other financial assets and liabilities

				Fair value
		Assets		Liabilities
	2010 £m	2009 £m	2010 £m	2009 £m
Financial derivatives	1.1	1.0	2.4	0.1
Interest rate hedges	–	–	13.3	15.0
Total other financial assets and liabilities	1.1	1.0	15.7	15.1

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales and purchases denominated in foreign currencies, as the transaction occurs.

The Group enters into interest rate hedges to hedge interest rate exposure.

The fair values of the financial instruments are based on valuation techniques (level 2).

Interest rate hedges

The notional principal amount of the outstanding interest rate swap and collar contracts at 31 March 2010 was £160 million (2009: £200 million).

The Group held the following interest rate hedges at 31 March 2010:

	Amount £m	Fixed %	Maturity
Hedged			
Collar	10.0	Cap 6.25 and floor 5.25	20/07/2011
Collars	150.0	Cap 6.25 and floor 5.25	20/07/2012
Total interest rate hedges	160.0		

Fair value of financial assets and financial liabilities

The fair values of financial assets and liabilities at the balance sheet date were

		2010		2009
	Book value £m	Fair value £m	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	(329.1)	(328.9)	(356.5)	(356.4)
Loan to joint venture	13.3	6.9	12.0	6.2
	(315.8)	(322.0)	(344.5)	(350.2)
Fair value of other financial assets and financial liabilities				
Short-term borrowings	(162.8)	(162.8)	(118.6)	(118.6)
Trade and other payables	(517.3)	(515.4)	(549.2)	(547.2)
Trade and other receivables	333.2	333.2	340.5	340.5
Short-term deposits	12.0	12.0	7.3	7.3
Cash at bank and in hand	177.6	177.6	116.3	116.3
Other financial assets and liabilities	(14.6)	(14.6)	(14.1)	(14.1)
	(171.9)	(170.0)	(217.8)	(215.8)

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4.0% to 5.5% (2009: 4.0%).

24. Provisions for other liabilities

	Insurance provisions (a) £m	Property and other (b) £m	Total provisions £m
At 1 April 2009	4.8	40.3	45.1
On acquisition of subsidiaries (note 31)	–	0.2	0.2
Charged/(released) to income statement	(0.1)	7.2	7.1
Utilised in year	(0.2)	(2.0)	(2.2)
At 31 March 2010	4.5	45.7	50.2

Provisions have been analysed between current and non-current as follows:

	2010 £m	2009 £m
Current	13.1	9.7
Non-current	37.1	35.4
	50.2	45.1

(a) The insurance provisions arise in the Group's captive insurance companies, Chepstow Insurance Limited and Peterhouse Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

(b) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure. It also includes a redundancy provision of £6.0 million relating to the Rail and Nuclear segments.

Included within property and other provisions is £21.8 million expected to be utilised in approximately ten years. Other than this provision the Group's non-current provisions are expected to be utilised within two to five years.

25. Share capital

	Ordinary shares of 60p Number	Unclassified shares of 30p Number	Ordinary shares of 60p £m	Unclassified shares of 30p £m
Authorised:				
At 1 April 2009	306,219,012	1	183.7	–
Authorised during the year	–	–	–	–
At 31 March 2010	306,219,012	1	183.7	–
At 1 April 2008	306,219,012	1	183.7	–
Authorised during the year	–	–	–	–
At 31 March 2009	306,219,012	1	183.7	–

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2009	229,574,959	137.7
Shares issued	112,642	0.1
At 31 March 2010	229,687,601	137.8
At 1 April 2008	229,356,369	137.6
Shares issued	218,590	0.1
At 31 March 2009	229,574,959	137.7

Potential issues of ordinary shares

The table below shows options existing over the Company's shares as at 31 March 2010. They represent outstanding options granted under all the Company's Executive Share Option Schemes. Of the total number of shares shown, 161,318 are in respect of options granted by the trustee of the Babcock Employee Share Trust and 32,118 are in respect of options granted by the trustee of the Peterhouse Employee Share Trust, both are options to acquire shares already purchased or intended to be purchased in the market by the respective trustees. The balance of 446,859 shares is in respect of options granted by the Company to subscribe for newly issued shares.

Grant date	Exercise price Pence	Exercise period	2010 Number	2009 Number
08 July1999	122.50	08/07/2002 – 07/07/2009	–	11,604
09 September 1999	118.00	09/09/2002 – 08/09/2009	–	11,800
25 June 2001	99.33	25/06/2004 – 24/06/2011	23,789	28,096
31 January 2002	104.33	31/01/2005 – 30/01/2012	21,278	21,278
24 June 2002	124.50	24/06/2005 – 23/06/2012	206,135	224,291
27 November 2002	106.33	27/11/2005 – 26/11/2012	27,616	31,480
30 June 2003	115.60	30/06/2006 – 29/06/2013	139,109	153,049
06 July 2004	126.00	06/07/2007 – 05/07/2014	222,368	304,943
			640,295	786,541

Options granted to Directors are summarised in the Remuneration report on pages 67 to 82 and are included in the outstanding options set out above.

25. Share capital (continued)

A reconciliation of option movements is shown below:

	2010		2009	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 April	787	£1.21	1,570	£1.22
Forfeited/lapsed	–	–	(37)	£1.16
Exercised	(147)	£1.23	(746)	£1.23
Outstanding at 31 March	640	£1.21	787	£1.21
Exercisable at 31 March	640	£1.21	787	£1.21

Weighted average share price for options exercised during the year was 546.26p per share (2009: 489.3p per share).

During the year the Company acquired 339,644 ordinary shares (2009: 1,749,925) 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 2010 923,686 shares (2009: 2,517,578 shares) were disposed by the Trusts resulting from options exercised. At 31 March 2010, the Trusts held between them a total of 364,053 (2009: 948,095) ordinary shares at a total market value of £2,193,419 (2009: £4,072,068) representing 0.16% (2009: 0.41%) 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 grant and exercise of rights or awards 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 £2.7 million (2009: £1.9 million) all of which related to equity settled share-based payment transactions.

After tax, the income statement charge was £1.9 million (2009: £1.4 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

L-TIPs

Grant or modification date	2008 TSR 26/6/08	2008 EPS 26/6/08	2007 TSR 24/7/07	2007 EPS 24/7/07
Share price at grant or modification date (pence)	594.3	594.3	556.8	556.8
Vesting period (years)	3.0	3.0	3.0	3.0
Expected volatility	25%	25%	25%	25%
Option life (years)	10.0	10.0	10.0	10.0
Expected life (years)	3.0	3.0	3.0	3.0
Expected dividends expressed as dividend yield	2.8%	2.8%	2.8%	2.8%
Expectations of meeting performance criteria	n/a	40%	n/a	100%
Fair value per option (pence)	448	546	370	512
Correlation	32%	n/a	18%	n/a

CSOP and PSP

	CSOP		PSP Main		PSP Funding	
Grant or modification date	2009 TSR 11/9/09	2009 EPS 11/9/09	2009 TSR 11/9/09	2009 EPS 11/9/09	2009 TSR 11/9/09	2009 EPS 11/9/09
Share price at grant or modification date (pence)	560.5	560.5	560.5	560.5	560.5	560.5
Vesting period (years)	3.0	3.0	3.0	3.0	3.0	3.0
Expected volatility	26%	26%	26%	26%	26%	26%
Option life (years)	4.0	4.0	4.0	4.0	4.0	4.0
Expected life (years)	3.0	3.0	3.0	3.0	3.0	3.0
Expected dividends expressed as dividend yield	2.8%	2.8%	Holders receive dividends	Holders receive dividends	Holders receive dividends	Holders receive dividends
Expectations of meeting performance criteria	n/a	40%	n/a	40%	n/a	40%
Fair value per option (pence)	62.0	94.0	268.0	560.5	204.0	465.0
Correlation	45%	45%	45%	45%	45%	45%

The number of PSP and CSOPs awarded in 2009 were 1,093,492 and 336,358 respectively. The number of L-TIPs awarded in 2008 were 427,218 and in 2007 were 396,227.

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.

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:

	2010 £m	2009 £m
Defined contribution schemes	17.8	13.9

Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2010 £m	2009 £m
Retirement benefits – funds in surplus	–	90.9
Retirement benefits – funds in deficit	(324.0)	(40.2)
	(324.0)	50.7

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 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	First Engineering Scheme
Date of last formal actuarial valuation	31/03/08	01/04/07	31/03/06	31/12/07
Number of active members at 31 March 2009	3,426	938	1,014	506
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£850.0m	£468.9m	£448.3m	£185.2m
Level of funding	95%	103%	98%	102%
Principal valuation assumptions:				
Excess of investment returns over earnings increases	2.0%	1.65%–2.4%	1.75%	2.0%
Excess of investment returns over pension increases	3.0%	1.6%–3.25%	2.75%	2.5%

As a result of the level of surplus the Group's required contribution to the Babcock International Group Pension Scheme is currently suspended in respect of the majority of active members until at least the results of the next formal valuation are available. The Group does however make voluntary payments to the Scheme.

The employer's future service contribution rate for the vast majority of members in the Devonport Royal Dockyard Pension Scheme is 20.5% of pensionable pay with additional payments of £5 million per annum to meet the funding deficit plus £4.8 million per annum to fund the deficit relating to the longevity swap entered into during the year. The contribution rate for the Rosyth Royal Dockyard Pension Scheme is 16.4% and the First Engineering Scheme is 17.1%. Where 'salary sacrifice' arrangements are in place the employer effectively meets the employees' contributions, in addition. The employer cash contributions forecast for next year are: the Devonport Royal Dockyard Pension Scheme £16.9 million, the Babcock International Group Pension Scheme £6.4 million, the Rosyth Royal Dockyard Pension Scheme £5.8 million and the First Engineering Scheme £2.4 million. £15 million has already been paid into the Devonport Royal Dockyard Pension Scheme in 2009/10 in respect of next year's contributions.

The Babcock Holdings (USA) Inc Pension Plan is for employees of US subsidiaries of Babcock Holdings (USA) Inc. A full actuarial valuation of the Scheme was carried out as at 31 December 2008. The Company made a contribution of £0.2 million during the year to 31 March 2010. The plan was frozen as of 31 January 2003 and therefore no active members existed as at 31 March 2010.

27. Retirement benefits and liabilities (continued)

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.

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:

	2010 (weighted average) %	209 (weighted average) %
Rate of increase in pensionable salaries	3.0	3.2
Rate of increase in pensions	3.1	2.7
Discount rate	5.5	7.1
Inflation rate	3.4	2.7
Expected return on plan assets	7.2	7.4
Total life expectancy – future pensioners (years)	85.2	84.5

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:

	2010		2009	
	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m
Equities	9.0	905.1	9.0	608.8
Property	8.0	129.9	8.0	117.9
Bonds – corporate	5.5	223.3	7.1	181.6
Bonds – government	4.6	82.6	4.0	81.0
Liability matching bonds	5.3	744.7	6.1	661.1
Cash plus infrastructure	8.0	16.2	8.0	14.2
Funds awaiting investment	7.1	35.7	7.3	38.3
Active position of longevity swap		(157.7)		–
Fair value of assets		1,979.8		1,702.9
Present value of funded obligation		(2,303.8)		(1,652.2)
Net (liabilities)/assets recognised in the balance sheet		(324.0)		50.7

The amounts recognised in the Group income statement are as follows:

	2010 £m	2009 £m
Current service cost	(23.3)	(26.7)
Interest on obligation	(107.2)	(116.6)
Expected return on plan assets	113.1	127.4
Charge before settlements and curtailments	(17.4)	(15.9)
Curtailment gain	–	1.4
Total included within operating profit	(17.4)	(14.5)

27. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2010 £m	2009 £m
Actual return less expected return on pension scheme assets	375.5	(383.0)
Experience (losses)/gains arising on scheme liabilities	(41.6)	6.1
Change in assumptions relating to present value of scheme liabilities	(579.7)	231.3
Reimbursement right	(157.7)	–
At 31 March	(403.5)	(145.6)
Cumulative recognised income and expense at 31 March	(490.0)	(86.5)

Analysis of movement in the Group balance sheet

	2010 £m	2009 £m
Fair value of plan assets		
At 1 April	1,702.9	1,983.8
Expected return	113.1	127.4
Actuarial gains/(loss)	375.5	(383.0)
Reimbursement rights (longevity swaps)	(157.7)	–
Employer contributions	46.0	68.6
Employee contributions	5.9	5.8
Benefits paid	(105.9)	(100.5)
Exchange differences	–	0.8
At 31 March	1,979.8	1,702.9
Present value of benefit obligations		
At 1 April	1,652.2	1,841.6
Service cost	23.3	26.7
Interest cost	107.2	116.6
Employee contributions	5.9	5.8
Actuarial loss/(gain)	621.3	(237.4)
Curtailment gain	–	(1.4)
Benefits paid	(105.9)	(100.5)
Exchange differences	(0.2)	0.8
At 31 March	2,303.8	1,652.2
Net (deficit)/surplus at 31 March	(324.0)	50.7
Actual return on plan assets		
Year ending 31 March	488.6	(255.6)

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets	1,979.8	1,702.9	1,983.8	1,200.9	1,143.9
Present value of benefit obligations	2,303.8	1,652.2	1,841.6	1,147.8	1,114.6
(Deficits)/surpluses at 31 March	(324.0)	50.7	142.2	53.1	29.3

History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Difference between the expected and actual return on scheme assets	375.5	(383.0)	(158.0)	(9.5)	121.3
Percentage of scheme assets at 31 March	19%	(22%)	(8%)	(1%)	11%
Experience gains/(losses) of scheme liabilities	(41.6)	6.1	(15.7)	(13.1)	(22.1)
Percentage of present value of scheme liabilities at 31 March	(2%)	0%	1%	1%	2%
Total amount recognised in the Group statement of comprehensive income	(403.5)	(145.6)	43.0	8.7	42.2
Percentage of present value of scheme liabilities at 31 March	(18%)	(9%)	2%	1%	4%

The changes to the Group balance sheet at March 2010 and the charges to the Group income statement for the year to March 2011, if the assumptions were sensitised by the amounts below, would be:

	Balance sheet 2010 £m	Income statement 2011 £m
Initial assumptions	(324.0)	24.3
Discount rate moves up or down by 0.1%	±35.8	±0.7
Inflation rate moves up or down by 0.1%	±23.3	±1.4
Equity return moves up or down by 0.1%	–	±0.8
Total life expectancy changes by half a year up or down	±31.1	±1.9
Real salaries move up or down by 0.25%	±26.6	±2.9

28. Reconciliation of operating profit to cash generated from operations

	2010 £m	2009 £m
Cash flows from operating activities		
Operating profit	148.1	133.1
Depreciation of property, plant and equipment	22.3	21.7
Amortisation of intangible assets	18.9	16.9
Equity share-based payments	2.7	1.9
Profit on disposal of property, plant and equipment	(0.4)	(3.4)
Operating cash flows before movement in working capital	191.6	170.2
Decrease/(increase) in inventories	22.7	(7.0)
Decrease/(increase) in receivables	23.6	(9.9)
(Decrease)/increase in payables	(72.4)	2.1
Increase/(decrease) in provisions	4.8	(1.8)
Cash generated from operations	170.3	153.6

29. Movement in net debt

	2010 £m	2009 £m
Increase/(decrease) in cash in the year	22.8	(51.7)
Cash flow from the decrease/(increase) in debt and lease financing	31.9	21.2
Change in net funds resulting from cash flows	54.7	(30.5)
New finance leases	(5.0)	(0.2)
Foreign currency translation differences	(0.5)	1.4
Movement in net debt in the year	49.2	(29.3)
Net debt at the beginning of the year	(351.5)	(322.2)
Net debt at the end of the year	(302.3)	(351.5)

30. Changes in net debt

	At 1 April 2009 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 31 March 2010 £m
Cash and bank balances	123.6	52.9	13.4	–	(0.3)	189.6
Bank overdrafts	(117.3)	(43.5)	–	–	0.2	(160.6)
Cash, cash equivalents and bank overdrafts at end of year	6.3	9.4	13.4	–	(0.1)	29.0
Debt	(355.6)	30.5	–	–	–	(325.1)
Finance leases	(2.2)	1.4	–	(5.0)	(0.4)	(6.2)
	(357.8)	31.9	–	(5.0)	(0.4)	(331.3)
Total	(351.5)	41.3	13.4	(5.0)	(0.5)	(302.3)

31. Acquisitions

On 2 November 2009 the Group acquired 100% of the share capital of UKAEA Limited for a consideration of £51.3 million, inclusive of costs. UKAEA operates in nuclear site management, operations and decommissioning and it has a number of established advisory roles.

The goodwill arises from the experience, knowledge and location of the workforce along with the market position of the entities involved.

Details of the assets acquired and the goodwill are as follows:

	UKAEA £m
Cost of acquisition	
Purchase consideration	49.6
Direct costs	1.7
Total purchase consideration and costs	51.3
Fair value of assets acquired (see below)	38.5
Goodwill	12.8

31. Acquisitions (continued)

Net assets and liabilities arising from the acquisition are as follows:

	UKAEA Book value of assets acquired £m	UKAEA Provisional fair value acquired £m
Acquired intangibles*	–	27.1
Property plant and equipment	0.3	0.1
Deferred tax	–	(7.6)
Cash, cash equivalents and bank overdraft	13.4	13.4
Inventory	0.2	0.2
Current assets	12.1	12.2
Current and non-current liabilities	(6.7)	(6.7)
Provisions	–	(0.2)
Net assets acquired	19.3	38.5

* Acquired intangibles are: customer relationships and order book.

Cash outflow to acquire businesses net of cash acquired:

	UKAEA £m
Total purchase consideration plus costs	51.3
Cash, cash equivalents and bank overdrafts	(13.4)
Cash outflow this period	37.9

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2009 are:

	Since date of acquisition £m	For full year £m
Revenue		
UKAEA	16.6	35.5
Operating profit (before amortisation of acquired intangibles)		
UKAEA	1.5	1.2

On 21 April 2008 the Group acquired 100% of the share capital of S&H for a consideration of £72.1 million, inclusive of costs. S&H is a specialist engineering design, project manager and provider of through-life support for the defence and nuclear industries. There have been no changes to the fair value of the net assets and liabilities as previously presented. The total cash outflow for acquisitions, net of cash acquired, was £66.2 million and the total goodwill acquired was £55.0 million.

32. Operating lease commitments – minimum lease payments

	2010		2009	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:				
Within one year	14.0	7.6	13.0	7.7
Later than one year and less than five years	38.6	6.1	40.7	8.6
After five years	37.1	–	40.3	–
	89.7	13.7	94.0	16.3

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.

33. 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. 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.

34. Capital and other financial commitments

	2010 £m	2009 £m
Contracts placed for future capital expenditure not provided in the financial statements	0.6	1.6

35. Related party transactions

(a) The following related parties either sell to or receive services from the Group. There are no companies related by common directorships in the current year but there were in prior years. For details regarding loans to joint ventures see note 16.

	2010 Sales to £	2010 Purchases from £	2010 Year end debtors' balance £	2010 Year end creditor balance £
Joint ventures				
Debut Services (South West) Limited	123,593,000	–	17,000	–
Holdfast Training Services Limited	61,228,000	485,000	6,976,000	65,000
Mouchel Babcock Education Services Limited	–	–	–	–
First Swietelsky Operation and Maintenance	5,479,000	–	685,000	–
First Swietelsky Joint Venture High Output	27,492,000	–	–	–
			7,678,000	65,000

	2009 Sales to £	2009 Purchases from £	2009 Year end debtors' balance £	2009 Year end creditor balance £
Joint ventures				
Debut Services (South West) Limited	121,120,000	–	81,000	–
DynCorp-Hiberna Limited	14,761,000	–	35,000	–
Holdfast Training Services Limited	21,470,000	–	4,820,000	–
Mouchel Babcock Education Services Limited	1,402,000	–	355,000	–
First Swietelsky Operation and Maintenance	6,235,000	–	1,846,000	–
First Swietelsky Joint Venture High Output	34,573,000	–	2,939,000	–
Related by common directorships				
BAE Systems PLC	21,473,000	2,478,000	2,705,000	625,000
BVT Surface Fleet Limited	71,219,000	–	–	–
British Nuclear Fuels PLC	9,804,000	–	–	–
			12,781,000	625,000

All transactions noted above arise in the normal course of business.

(b) Babcock Employee Share Trust and Peterhouse Employee Share Trust
During the year the Company sold ordinary shares through the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. Further information is given in note 25 on page 114.

(c) Defined benefit pension schemes
Please refer to note 27 for transactions with the Group defined benefit pension schemes.

36. Post balance sheet events

(a) Dividend

Details on dividends are given in note 11. There are no further material events subsequent to 31 March 2010 that require disclosure.

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 2010 which comprise the Company balance sheet and the related notes. 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 58, 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 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.

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 2010;
- 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 Directors' 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 Directors' 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 matters

We have reported separately on the Group financial statements of Babcock International Group PLC for the year ended 31 March 2010.

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

10 May 2010

Company balance sheet

As at 31 March 2010	Note	2010 £m	2009 £m
Fixed assets			
Investment in subsidiary undertakings	3	359.1	359.1
Tangible fixed assets	4	0.3	0.3
		359.4	359.4
Current assets			
Debtors	5	636.6	527.6
Cash and bank balances		12.0	48.9
		648.6	576.5
Creditors – amounts due within one year	6	214.9	104.0
Net current assets		433.7	472.5
Total assets less current liabilities		793.1	831.9
Creditors – amounts due after one year	6	325.1	355.0
Net assets		468.0	476.9
Capital and reserves			
Called up share capital	7	137.8	137.7
Share premium account	8	148.3	148.2
Capital redemption reserve	8	30.6	30.6
Profit and loss account	8	151.3	160.4
Shareholders' funds – equity interests		468.0	476.9

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 10 May 2010 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 and in accordance with applicable United Kingdom Accounting Standards and in compliance with the Companies Act 2006. 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.

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.

(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.

1. Significant accounting policies (continued)

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 income statement 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 as the Company has taken advantage of the exemption under 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 is £23.3 million (2009: £107.6 million).

Audit fees and expenses paid to the Company's auditors was £0.1 million (2009: £0.1 million).

3. Investment in subsidiary undertakings

	2010 £m	2009 £m
Investment in shares	359.1	359.1

The value of the Company's investments include an impairment in the year of £nil (2009: £0.2 million). The cumulative impairment is £0.2 million (2009: £0.2 million).

4. Tangible fixed assets

	Leasehold property £m
Cost	
At 1 April 2009	0.5
Additions	–
At 31 March 2010	0.5
Accumulated depreciation	
At 1 April 2009	0.2
Charge for the year	–
At 31 March 2010	0.2
Net book value at 31 March 2010	0.3
Net book value at 31 March 2009	0.3

5. Debtors

	2010 £m	2009 £m
Trade debtors	0.4	0.4
Amounts owed by subsidiary undertakings	629.6	522.5
Deferred tax	4.8	4.3
Prepayments and accrued income	1.8	0.4
	636.6	527.6

6. Creditors

	2010 £m	2009 £m
Amounts due within one year		
Bank loans and overdrafts	110.7	–
Trade creditors	0.1	0.7
Amounts owed to subsidiary undertakings	86.3	85.9
Derivative financial instruments	13.3	15.0
Accruals and deferred income	4.5	2.4
	214.9	104.0
Amounts due after one year		
Bank loans	325.1	355.0
Amounts owed to subsidiary undertakings	–	–
	325.1	355.0

The Company has £724 million (2009: £624 million) of Sterling bank facilities of which £435.8 million (2009: £355 million) was drawn at the year end. The interest rate applying to bank loans is 1.1% (2009: 2.2%) and is linked to LIBOR whilst the interest rate applying to overdrafts is 1.5% (2009: 1.0%) and is linked to LIBOR.

7. Share capital

	Ordinary shares of 60p Number	Unclassified shares of 30p £m	Ordinary shares of 60p £m	Unclassified shares of 30p £m
Authorised:				
At 1 April 2009 and at 31 March 2010	306,219,012	1	183.7	–

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2009	229,574,959	137.7
Shares issued	112,642	0.1
At 31 March 2010	229,687,601	137.8

8. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 1 April 2009	148.2	30.6	160.4
Shares issue in the period	0.1	–	–
Share-based payments	–	–	2.7
Tax on share-based payments	–	–	0.5
Movement on ESOP	–	–	(2.0)
Fair value adjustments to interest rate hedges (net of tax)	–	–	1.2
Retained profit for the year – profit for the year	–	–	23.3
– dividends	–	–	(34.8)
At 31 March 2010	148.3	30.6	151.3

9. Operating lease commitments

The Company has an operating lease commitment for land and buildings as at 31 March 2010 with an annual commitment expiring after more than five years of £2.2 million (2009: £2.2 million).

10. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities of £334.3 million (2009: £370.1 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 2010 these amounted to £54.8 million (2009: £53.7 million), of which the Company had counter-indemnified £45.0 million (2009: £47.6 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 second interim dividend of 12.80p per 60p ordinary share (2009: 10.40p per 60p ordinary share) and it will be paid on 9 July 2010 to shareholders registered on 18 June 2010.

Principal subsidiaries, joint ventures and associated undertakings

Marine

- Babcock Design & Technology Limited
- Babcock Marine Holdings (UK) Limited
- Babcock Marine (Rosyth) Limited
- Rosyth Royal Dockyard Limited
- Devonport Royal Dockyard Limited
- Babcock Marine (Clyde) Limited
- LSC Group Limited
- Frazer-Nash Consultancy Limited
- Appledore Shipbuilders (2004) Limited
- Strachan & Henshaw Australia (PTY) Limited (Australia)
- Strachan & Henshaw Canada Inc (Canada)
- Babcock Integrated Technology Limited

Defence Services

- Air Power International Limited
- Babcock Support Services Limited
- Acetech Personnel Limited
- Babcock Airports Limited

Nuclear

- BNS Nuclear Services Limited
- UKAEA Limited

Rail

- Babcock Rail Limited

Networks

- Babcock Networks Limited

Engineering and Plant Services

- Babcock Africa (Pty) Limited (South Africa)
- Babcock Africa Services (Pty) Limited (South Africa)
- Babcock Ntuthuko Engineering (Pty) Limited (75% owned) (South Africa)
- Babcock Eagleton Inc. (USA)

Others

- Babcock UK Holdings Limited
- Babcock Holdings Limited
- Babcock International Holdings BV (Netherlands)
- Babcock International Limited
- Babcock Investments Limited
- Babcock Management Limited
- Babcock Overseas Investments Limited
- Babcock Support Services (Investments) Limited
- Chepstow Insurance Limited (Guernsey)
- PHG Insurance Limited (Guernsey)

Joint Ventures

- FSP (2004) Limited
- Mouchel Babcock Education Services Limited
- Holdfast Training Services Limited (74%)

Investments

- Dounreay Site Restoration Limited
- Research Sites Restoration Limited

Due to restrictions on control the above entities are treated as investments.

All undertakings are wholly owned unless otherwise stated. With the exception of Babcock UK Holdings Limited, which is owned by the Company, all Group undertakings are owned by subsidiary undertakings.

All undertakings are incorporated and operated in Great Britain unless otherwise stated. Undertakings located overseas operate principally in the country of incorporation.

Shareholder information

Financial calendar

Financial year end	31 March 2010
2009/10 preliminary results announced	11 May 2010
Annual General Meeting	8 July 2010
Second interim dividend payment date (record date 18 June 2010)*	9 July 2010

*This is being paid in lieu of a final dividend: see 'Results and dividends' on page 52.

Registered office and company number

33 Wigmore Street
London W1U 1QX

Registered in England
Company number 2342138

Registrars

Capita Registrars
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Woodsome Park
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Huddersfield HD8 0GA

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(calls cost 10p per minute
plus network extras – lines are open
8.00 am to 4.30 pm Monday to Friday)
Tel (from overseas): +44 20 8639 3399
Email: ssd@capitaregistrars.com
www.babcock-shares.com

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.

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Principal UK bankers

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135 Bishopsgate
London EC2M 3UR

The Lloyds Banking Group
Level 7 – Bishopsgate Exchange
155 Bishopsgate
London EC2M 3YB

Investment bankers

JPMorgan Cazenove
10 Aldermanbury
London EC2V 7RF

Stockbrokers

JPMorgan Cazenove
10 Aldermanbury
London EC2V 7RF

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 £25 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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Continuing revenue	1,895.5	1,901.9	1,555.9	988.3	836.7
Operating profit	148.1	133.1	110.2	62.8	46.6
Share of profit/(loss) from joint ventures	(0.5)	(0.2)	–	0.4	(0.1)
Profit before interest	147.6	132.9	110.2	63.2	46.5
Net interest and similar charges	(18.4)	(26.2)	(25.6)	(6.2)	(5.2)
Profit before taxation	129.2	106.7	84.6	57.0	41.3
Income tax expense	(20.8)	(19.1)	(14.9)	(11.0)	(8.2)
Profit from continuing operations	108.4	87.6	69.7	46.0	33.1
Discontinued operations	–	(13.3)	–	(0.8)	(3.2)
Profit for the year	108.4	74.3	69.7	45.2	29.9
Minority interest	(2.4)	(2.3)	(2.4)	(1.8)	(0.2)
Profit attributable to shareholders	106.0	72.0	67.3	43.4	29.7
Non-current assets	877.4	858.4	836.1	327.2	273.4
Net current assets/(liabilities)	(88.9)	(117.3)	(18.6)	(96.0)	(48.0)
Non-current liabilities and provisions	(702.7)	(448.3)	(456.7)	(24.0)	(54.8)
Total net assets	85.8	292.8	360.8	207.2	170.6
Shareholders' funds	80.6	288.4	357.2	205.6	170.2
Minority interest	5.2	4.4	3.6	1.6	0.4
	85.8	292.8	360.8	207.2	170.6
Earnings per share – basic	46.29p	37.42p	29.99p	21.10p	14.49p
Dividend per share (proposed)	17.60p	14.40p	11.50p	8.05p	6.00p

Design and production
Radley Yeldar – www.ry.com

FSC
Forest Stewardship Council. This ensures there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

ISO 14001
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