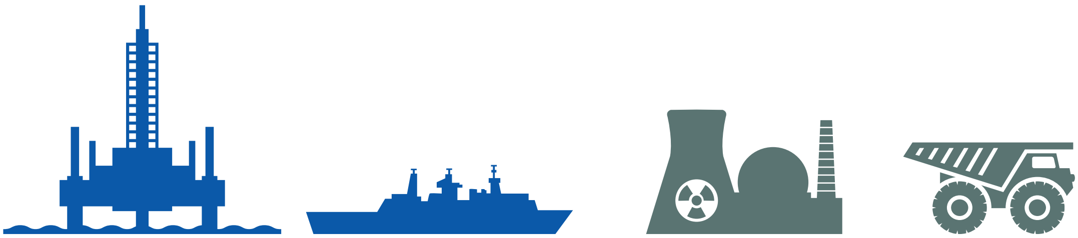
babcock

trusted to deliver™



trusted to deliver

Babcock International Group PLC

Annual Report and Accounts 2014

trusted to deliver

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

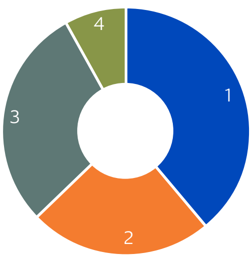
Operating in the UK and overseas, we are trusted to deliver complex and critical support to the defence, energy, emergency services, transport, education and telecommunications sectors. We pride ourselves on our long-term customer focused relationships and ultra-reliable engineering excellence.

Forward-looking statements
Certain statements in this Annual Report and Accounts are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 64 to 71 which set out some of these risks and uncertainties. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this Annual Report and Accounts regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the time of preparation of this Annual Report and Accounts and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

Contents

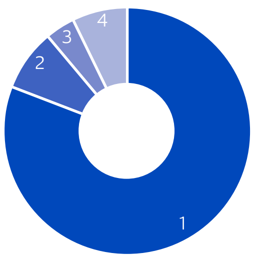
Delivering complex and critical support

Revenue by division (%)



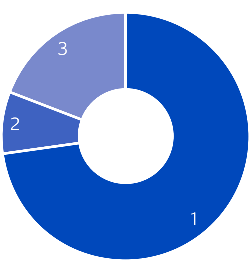
1. Marine and Technology	39%
2. Defence and Security	24%
3. Support Services	29%
4. International	8%

Customer by geography (%)



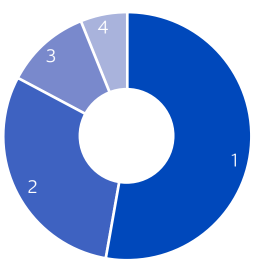
1. UK	81%
2. Africa	8%
3. Canada	4%
4. Rest of the World	7%

Public/Private split (%)

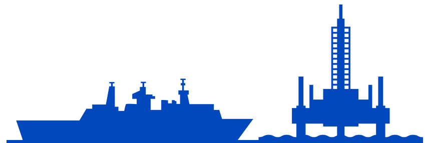


1. Public	73%
2. Regulated	8%
3. Private	19%

Customer by category (%)



1. UK Defence	53%
2. UK Civil	30%
3. International Civil	11%
4. International Defence	6%



Marine and Technology

Divisional CEO	Archie Bethel
Employees	10,262
Description	Marine and Technology is the UK's leading maritime support business and the largest provider of through-life engineering support services to the Royal Navy. With an unmatched range of engineering and technical skills, the division delivers a wide array of cradle-to-grave engineering services to defence, commercial marine and energy markets in the UK and internationally.
Principal activities	**Naval Marine** Submarine through-life support, refit and refuelling, warship maintenance and refit, Queen Elizabeth class aircraft carrier assembly and naval base management. **Energy and Marine Services** Engineering support to the oil and gas, offshore renewables and commercial marine markets. **Technology** Specialised systems and technical services that improve our customers' capability in international defence and commercial sectors. **International** Through-life support of Victoria Class submarines in Canada and ANZAC Class frigates in Australia. Surface ship maintenance, repair and overhaul in New Zealand.
Key customers	Royal Navy, Australian Government, New Zealand Government, Canadian Government, Defence Equipment and Support, BAE Systems, Rolls-Royce, Navantia, Daewoo Shipbuilding and Marine Engineering, Hyundai Heavy Industries, BP and Shell.

See p20 for the Operating review

Defence and Security

John Davies

6,352

Defence and Security is a major support provider to all three Armed Forces delivering leading-edge training, infrastructure and asset support. The division trains c 50,000 servicemen pa and provides management and support to c 17,000 military vehicles, including the MoD's white and construction vehicle fleets.

Air
Elementary, basic and fast jet training and support to aircraft including the Sea King, Apache, Hawk, Lynx, Grob and Tucano.

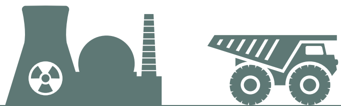
Land
Vehicle fleet management for the MoD's white fleet and construction fleets. Army technical and mechanical trade training and maintaining the operational training vehicle fleet.

Sea
A range of training for the Royal Navy and other international navies including sea safety and firefighting training.

Infrastructure
Integrated estate management and infrastructure support to the MoD in the UK and Germany.

British Army, Royal Air Force, Royal Navy, Defence Infrastructure Organisation, BAE Systems, international ministries of defence.

See p26 for the Operating review



Support Services

Kevin Thomas

9,768

Support Services has leading positions across several civil markets. The division has three core capabilities; it teaches vital skills, manages critical assets and delivers complex programmes for civil government and blue chip commercial organisations. The division is the UK's largest nuclear support company and the leading provider of apprentice training.

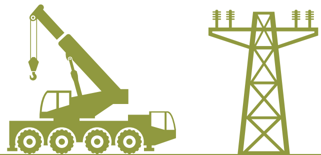
Teaching vital skills
Management and delivery of apprentice training for Network Rail and training delivery for Volkswagen Group and the London Fire Brigade (LFB).

Managing critical assets
Support to assets, including baggage handling systems, broadcast support, vehicle fleets for the emergency services and the mining and construction industries, and estate management.

Delivering complex programmes
Nuclear decommissioning, major rail track renewal and the upgrade of high-voltage overhead power lines and communications infrastructure.

Central government, commercial organisations, including BMW and EDF, emergency services including the Metropolitan Police and LFB, bodies operating in regulated sectors including the Nuclear Decommissioning Authority and Network Rail.

See p32 for the Operating review



International

Peter Rogers

1,678

Babcock is a leading supplier of engineering support services to the energy, mining and construction industries in southern Africa. With a presence in both Oman and the United Arab Emirates the division is also building local partnerships to expand Babcock's presence in the region.

Africa
Sole distributor of heavy Volvo equipment for the mining industry and DAF equipment for the infrastructure and transport industries.

Construction, erection and maintenance of high voltage power lines.

Engineering support to Eskom power stations.

Crane hire to the infrastructure and construction sectors.

Middle East
Support to Royal Air Force of Oman. Monitoring and developing opportunities for other Babcock services in the region.

Volvo, DAF, Eskom, mining and construction companies and The Royal Air Force of Oman.

See p38 for the Operating review

Chairman's statement

A consistent focus on creating value

Statutory results

Group revenue
£3,321.0m + 10%
2013: £3,029.4m

Operating profit
£233.1m + 15%
2013: £203.5m

Profit before tax
£218.8m + 20%
2013: £181.8m

Basic earnings per share from continuing operations
50.1p + 14%
2013: 43.9p

I am pleased to report, once again, that Babcock has announced record results for the 2014 financial year. Our performance continues to demonstrate that we have the right business model, that we are operating in the right markets and have been following the right strategy to deliver growth. This in turn means we have been able to achieve our core objective of delivering consistent and sustainable value for our shareholders for well over 10 years.

Central to our successful and long-term track record of growth is our strategy. During this year the Board has reviewed and discussed the strategy, ensuring all options for growth, including acquisitions, are carefully considered. On 27 March 2014, we were therefore delighted to be able to recommend to shareholders the acquisition of the Avincis Group, a leading provider of specialist aviation mission critical services. The acquisition, which shareholders voted whole heartedly in favour of on 16 April 2014 and which completed on 16 May 2014, is fully in-line with our strategy and marks another exciting development in our Company's history. Peter discusses the strategic rationale and the new growth opportunities Avincis brings to the Group on pages 16 –17.

This year underlying basic earnings per share increased by 13% to 70.3 pence (2013: 62.2 pence) and the Group continued to deliver strong cash flows, achieving a cash conversion rate of 103% (2013: 119%). Looking forward, the order book and bid pipeline remain strong giving us excellent visibility of future revenue and further growth opportunities.

The Board's confidence in the long-term future of our business remains strong and we are therefore delighted to recommend a 14% increase in the final dividend per share for 2014 of 16.4 pence per share (2013: 14.4 pence per share. This will give a total dividend for the year of 21.4 pence per share (2013: 19.0 pence per share), an

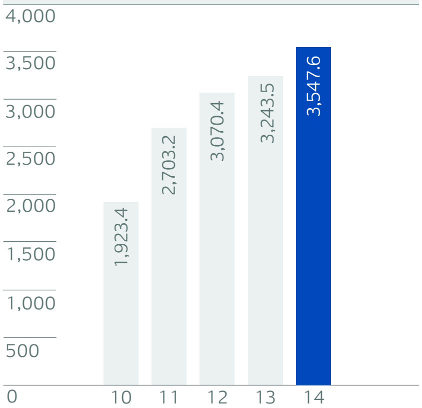
Underlying results

Throughout the Overview and Strategic report, unless otherwise stated, revenue, operating profit, operating return on revenue, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items and include the Group's share of joint ventures (jv) and include investment income arising from IFRIC 12 (Accounting for Service Concession Arrangements).

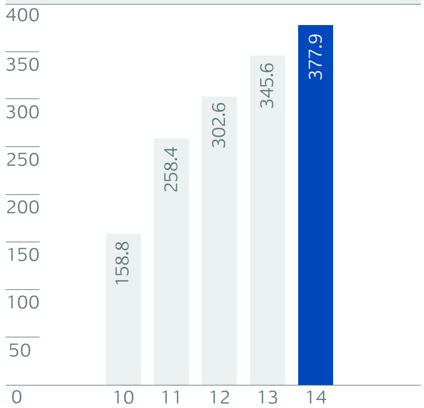
Collectively these adjustments are made to derive the underlying operating results of the business. A reconciliation of statutory to underlying results is set out on page 44.

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

Total revenue
£3,547.6m + 9%



Operating profit
£377.9m + 9%



increase of 13%. The final dividend will be paid on 12 August 2014 to shareholders on the register at 4 July 2014.

As a result of the new ordinary shares created by the Rights Issue in respect of the acquisition of Avincis, which started trading on 7 May 2014, the dividend numbers and the comparatives referred to above have been adjusted accordingly.

Babcock has had a consistent dividend policy for a number of years that, over the medium-term, the dividend should be covered on average between 2.5 and 3 times by underlying basic earnings per share. Following completion of the Avincis acquisition and taking into account the availability of distributable reserves and cash as well as the enlarged Group's working capital and investment requirements, the Board intends to maintain this policy.

trusted to deliver

In the current economic environment, our focus on using the depth and breadth of our engineering and technical knowledge and expertise to do what is right for our customers, meeting or exceeding their expectations, sets us apart from many in our sector. Our 'trusted to deliver' reputation is key to the ongoing success of our business. As Chairman, I believe it is my, and the Board's, responsibility to maintain this reputation by ensuring we adhere to the highest standards of corporate governance and risk management across our operations. In the Chairman's corporate governance statement on page 74, I discuss in more detail how we seek to achieve these standards. To safeguard our future we need to govern our business with openness, honesty and transparency, values that I believe are embedded within the culture of our Company.

The Board

During this year we have made no changes to the Board. However, I am delighted to welcome Jeff Randall to Babcock as a Non-Executive Director with effect from 1 April 2014. As a business journalist and broadcaster, Jeff will bring a wealth of experience and a distinct and fresh perspective to our proceedings.

In accordance with corporate governance best practice, Justin Crookenden intends to retire from the Board on 30 November 2014 after serving nine years as an independent Non-Executive Director. Justin will step down as Chairman of the Remuneration Committee with effect from the AGM and Jeff Randall will assume this role. Justin has helped guide the Group through a period of substantial growth and transformation and has made a significant contribution to the effectiveness of the Board.

In May this year, the Board was saddened to learn of the death of Gordon Campbell. Gordon joined Babcock in 2000 as Chief Executive and was Chairman from 2001 to 2008. During that time he was the driving force in the transformation of the Group and the driving force behind the strategy that is still delivering success today.

Our people

Each year, on behalf of the Board, I am proud to thank all those who work for Babcock for their continued hard work and dedication. Over the years, our people have been central to our success. I am delighted that we continue to take on young people, as apprentices, trainees or graduates, and train them in vital engineering and business skills to support the long-term future of our organisation. In support of this, and UK industry more widely, we have joined the 5% Club and have committed to having 5% of our workforce on structured training schemes over the next five years.

Reporting

For the first time this year, as required by the new narrative reporting regulations, pages 1 to 71 of the annual report form our Strategic report, which is intended to provide readers with a fair, balanced and understandable explanation of the company's strategy, business model, key risks and performance. We believe we have met these requirements and have continued to describe the Group's activities with clarity and transparency.

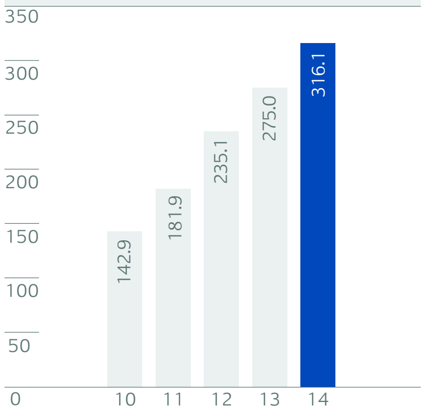
Looking forward

The Board remains confident that the Group has excellent long-term growth prospects. We have further strengthened the growth opportunities available to us through a series of acquisitions, most notably that of Avincis, as well as a number of significant contract wins. We therefore believe the outlook remains positive and we look forward to making further strong progress in the 2014/15 financial year.

Mike Turner CBE
Chairman

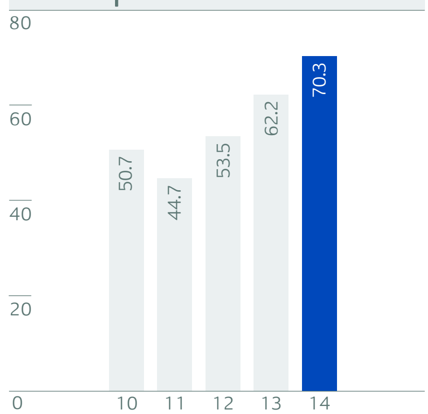
Profit before tax

£316.1m + 15%



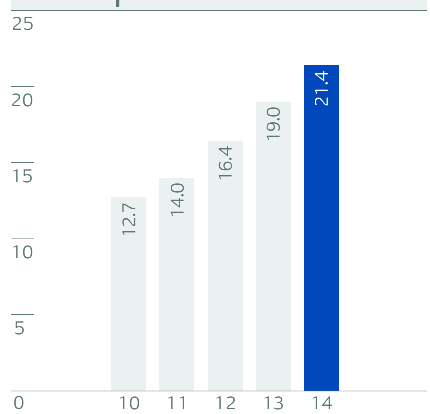
Basic earnings per share

70.3p + 13%



Full year dividend (as adjusted for Rights Issue)

21.4p + 13%



Our business model and strategy

How we deliver value

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

We believe our business model and strategy, founded on our trusted to deliver reputation, set us apart from others in our sector and have been the corner-stone of our success in recent years. They are vital to ensuring we continue to deliver value in the future.

Our business model

To see our business model in action see p8–15

What we do

We are trusted to deliver complex and critical support to infrastructure, equipment and training programmes. We thrive in complex environments and operate through output-based contracts. We design and implement innovative engineering and support solutions to ensure that our customers achieve the efficiency and value they require.

How we do it

Underpinning our capabilities are the breadth and depth of knowledge and experience of our workforce, as well as the unique infrastructure we own. These strengths, coupled with our track record of operational excellence, have enabled us to establish market leading positions and develop long-term embedded relationships with our customers. We are an organisation with clear customer empathy and a strong service culture.

Our strategic objective is to grow from our position both in the UK and overseas, thus delivering sustainable value for our shareholders.

To achieve our strategic objective, we have created and will grow a balanced portfolio of businesses based on our strategy.

Our strategy

Leading market positions	We expect our businesses to be one of the top three in their market sectors. This will ensure we achieve economies of scale and have strong competitive positions.
Preferred customer characteristics	We manage infrastructure, equipment and provide training for customers who own large strategically important assets, who prefer long-term partnerships rather than short-term transactional relationships. These customers tend to be governments, public bodies or private blue chip companies operating in highly regulated environments.
Customer focused long-term relationships	We focus on doing the right thing for our customers; we listen and seek to be flexible and responsive to their needs. We work collaboratively, often through partnerships or alliances, which ensure objectives are aligned.
Integrated engineering and technical expertise	We are able to integrate a broad range of engineering and technical expertise to provide services and training that are complex, critical and bespoke.
Balancing risk and reward	We operate through long-term, integrated output-based contracts which fairly balance risk and reward with our customers. Our target cost incentive fee contracts incentivise us to remove cost through pain-share/gain-share mechanisms.
Excellent health and safety record	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.

Delivering value

Employees

We create value for our employees by

- providing continuous professional development
- creating a safe working environment
- providing equal opportunities for all
- creating a rewarding place to work.

Our skilled workforce enables us to meet the operational requirements of our customers.

Customers

We create value for our customers by

- working through long-term collaborative relationships
- reducing the cost of delivering key services
- increasing asset availability or providing life-extensions
- providing knowledge and skills to manage complex transformation programmes.

Long-term successful relationships with our customers help create strong cash flows that are used to generate growth and shareholder value.

Shareholders

We create value for our shareholders by

- returning money to them through dividends
- strengthening the value of their underlying holding by investing in our business.

Our business model in action

Delivering complex and critical solutions

Babcock specialises in long-term, integrated output contracts that are complex, critical and bespoke in nature. We seamlessly combine a range of engineering and technical capabilities to provide a single integrated solution that supports our customers' vital operations or training requirements.

Our customers tend to operate in highly regulated environments and are responsible for delivering critical services. They require us to deliver programmes or projects with complex multiple objectives and constraints. We differentiate ourselves from others in our sector by designing, operating and delivering a complete, bespoke support solution for each contract. We are able to do this by bringing together a wide range of engineering and technical disciplines along with systems, project or programme management skills within our workforce.

Delivering complex and critical solutions is not achieved through short-term contracts. We take responsibility for achieving an agreed output over many years or we work with our customers over longer periods to ensure maximum availability or efficiency for their equipment, infrastructures or training programmes.

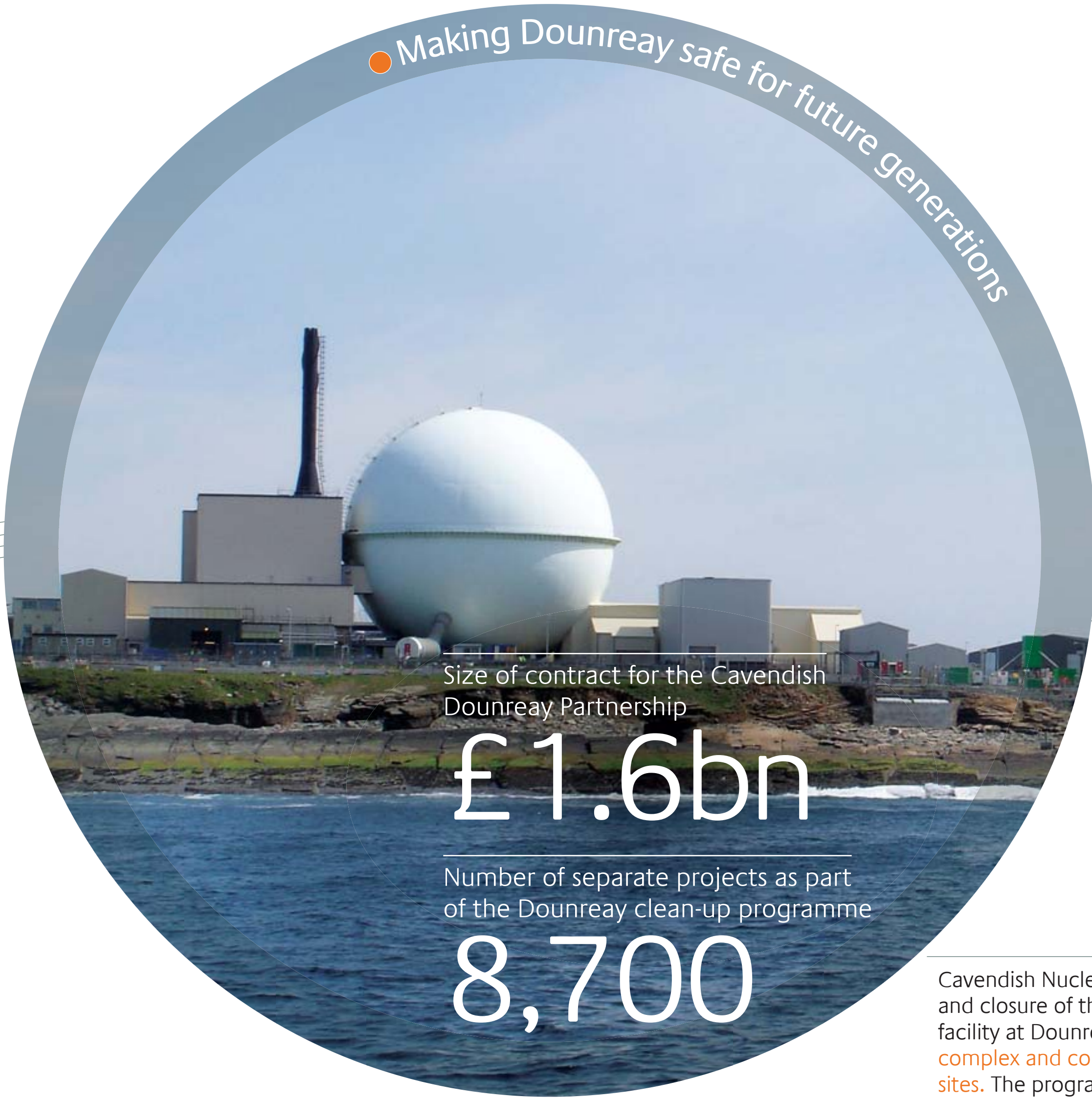
Who we create value for

By providing a complete solution, we create value for our customers by taking away from them the risk of managing multiple suppliers, allowing them to focus on the delivery of their core operations. Our ability to deliver complex and critical, integrated output-based contracts ensures we are operating in the higher value sectors of our markets, helping us deliver value for our shareholders.

See p6 for more information

Alongside our colleagues in the Aircraft Carrier Alliance we are designing and integrating two 65,000 tonne aircraft carriers, the largest and most powerful ships ever constructed for the UK Royal Navy. Babcock is responsible for over 50% of the detailed design, modular manufacture of the bow section and a number of upper blocks and the final whole ship assembly and system integration in Rosyth.

Babcock provides critical support right across the RAF's pilot training scheme. We deliver aircraft maintenance, spares provision, flying instruction and airfield support, proving a complete solution for our customer.



Cavendish Nuclear is leading the clean-up and closure of the former nuclear research facility at Dounreay, one of the UK's most complex and contaminated industrial sites. The programme will require more than 8,700 separate projects handling and safely storing high, medium and low level nuclear waste until 2022–25 to make the site safe for future generations.

HMS Vengeance is undergoing a Long Overhaul Period (Refuel) at our facilities in Devonport, the only UK site capable of refuelling Royal Navy submarines. In this complex programme HMS Vengeance will become the first of its class to have a new state-of-the-art reactor control and instrumentation system, comprising 800 different parts, installed and commissioned by Babcock. A nuclear submarine like HMS Vengeance has over 87,000 items of equipment, making it one of the most complex machines ever constructed.

Our business model in action *continued*

The way we operate

We are set apart from others in our sector not only by the complexity and criticality of the contracts we deliver but also by the way in which we operate. Our trusted to deliver reputation is key to the success of our business.

Throughout our business we are committed to meeting or exceeding our customers' requirements. We can only achieve this goal if the people within our organisation take ownership of their own performance. We encourage this by maintaining a 'light-touch' corporate centre which involves delegating authority to customer facing representatives and devolving power to contract managers within the business units. This allows us to be responsive to our customers' requirements and changing operational environments. However, this is balanced by stringent central reporting structure and financial controls. These ensure we meet the financial KPIs and targets for each contract and achieve the required level of savings and efficiencies which will be shared with our customers.

We would not have achieved the success we have if we had not focused on developing a strong health and safety culture. Health and safety is always our first priority and we are committed to ensuring our employees, contractors or anyone visiting our sites goes 'Home Safe Every Day.'

Who we create value for

Consistent management of contract performance helps drive excellent financial performance and the delivery of strong cashflows. Over the years, we have used these cashflows to reinvest into our business, making a series of value enhancing acquisitions as well as investing in our facilities and our workforce. We have also maintained a consistent track record of sharing our success with our shareholders through our progressive dividend policy.

See p6 for more information

In September 2013 HMS Triumph successfully completed a Long Assisted Maintenance Period at Devonport on schedule, with changing demands that resulted in a 25% increase in the workload. As the docking period was nearing completion further work emerged. Babcock prides itself on being able to respond to changing operational environments and our team reacted quickly and assembled a wide range of skilled personnel to carry out these additional tasks, allowing us to return the submarine to operations ahead of schedule.

Through the Allenby Connaught PFI, Babcock provides wide-ranging transport services to the British Army across nine locations in Hampshire and Wiltshire. We are responsive to the needs of our customer and we have delivered 92% availability of military vehicles maintained by Babcock. We also provide vital deployed driver support to training exercises, passenger services to injured personnel and management of bulk fuel facilities.

Our commitment to responding quickly to our customers' needs, wherever that happens to be, was demonstrated when three engineers from Devonport worked on HMS Daring across three countries over a four week period. Focusing on a complex task within HMS Daring's weapons system, the team travelled to Singapore and Japan, and then sailed with her to South Korea while they completed and tested the system.

At Heathrow, where we operate and maintain the complex baggage system across all five terminals, Babcock is helping to ensure more bags travel with passengers than ever before. By focusing on the end-to-end journey of the bag through the airport, not just individual component performance, Babcock is ensuring it meets the requirements of Heathrow and its 70 million annual passengers.

Our business model in action *continued*

Focused on our customers

We are the UK's leading engineering support services company and we have achieved this by ensuring our customers' requirements come first. The performance of our contracts, our financial performance and the value of the Company all rest on our understanding of our customers' real needs and our ability to offer them effective and affordable solutions.

Our people take ownership of performance and are responsible for doing the right thing by our customers. These customers tend to be government departments, public bodies or large private companies who own or operate strategically important assets in highly regulated environments. They are all looking to tackle financial constraints whilst maintaining or improving service delivery.

Our mindset and behaviours focus on our customers, on understanding their key business drivers and on leveraging our considerable expertise to design and deliver bespoke support programmes. By listening to our customers we help them achieve better availability and value for money.

Babcock is differentiated from others operating in our markets because of the long-term embedded relationships we have with our customers. We are open and transparent and believe that it is only by working collaboratively with our customers, over a number of years, that we can meet or exceed all their expectations.

Who we create value for

We create value for our customers by delivering improved financial and operational performance. By building a trusted to deliver reputation we are able to grow with new and existing customers, helping to deliver long-term shareholder value.

See p6 for more information

Babcock is committed to delivering critical solutions to our customers, as demonstrated by the extensive remodelling and re-signalling works at Nottingham Station on behalf of Network Rail. Working 24 hours a day across four different sites during the hottest period of the 2013 heat wave, Babcock delivered the 37 day blockade on time as a result of round-the-clock operations and collaboration between Network Rail, Babcock Projects, SSL and Telent.

Eskom, South Africa's major utilities provider with whom we have a support service contract to provide outage maintenance as well as breakdown services, requested that Babcock consider ways of reducing outage costs. In response Babcock applied new project management strategies to a 686 MW coal fired boiler outage. Working in collaboration with our customer, we were able to improve weld repair rates, reduce the work crew by 57% and bring down the overall project cost by an impressive 21%.

To provide operational communications to UK armed forces across the globe the MoD requires a secure, reliable communications network. In delivering this service Babcock is responsive to the needs for higher data rates and increased availability whilst also improving financial efficiency. Throughout our time delivering the high frequency network we have increased system availability from 70% to 99% and delivered cost savings of over 30%.

Across the South West Regional Prime we have worked collaboratively with the Defence Infrastructure Organisation over the past 12 years to deliver over £100 million of savings as well as help them meet Government CO_2 targets. By implementing innovative energy reduction measures we have achieved a reduction of 1,500 tonnes of CO_2 and provided annual savings in energy costs of £250,000.

Our business model in action *continued*

Leadership position across selected markets

Through a series of major contract wins and a focused acquisition strategy we have established leadership positions in our market sectors. We own unique strategic infrastructures and, in an environment where engineering knowledge and skills are scarce, we have an unrivalled workforce with significant scale and depth of expertise.

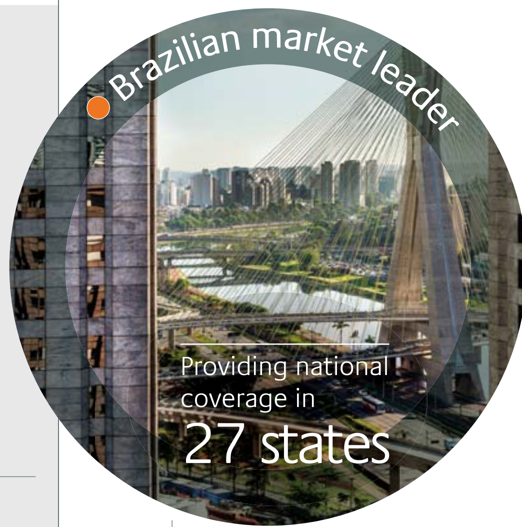
The unique infrastructures we own or operate for our customers are critical to the delivery of their operations. Alongside ship refit complexes, vital for the support of the Royal Navy's warship fleet, we own strategic nuclear facilities at Devonport, positioning Babcock as the only company able to deliver through-life engineering support to all classes of the UK's nuclear submarine fleet. Similarly, our ownership of the Rosyth dockyard makes us a key partner in the Aircraft Carrier Alliance and makes us well placed to deliver critical engineering support to commercial customers in the oil and gas markets.

Babcock is differentiated from others in our sector by the breadth and depth of knowledge of its workforce. We are uniquely placed in many sectors to meet the technical requirements of delivering large, complex, integrated contracts. Many of our customers rely on our highly specialised knowledge and experience to maintain or operate their critical equipment or infrastructures, as this depth of knowledge is no longer always available within their own organisations.

Who we create value for

As the UK's leading engineering support services company, we have the expertise to design and shape support solutions for new and existing customers, helping to create value for them and to drive long-term value for our shareholders.

See p6 for more information

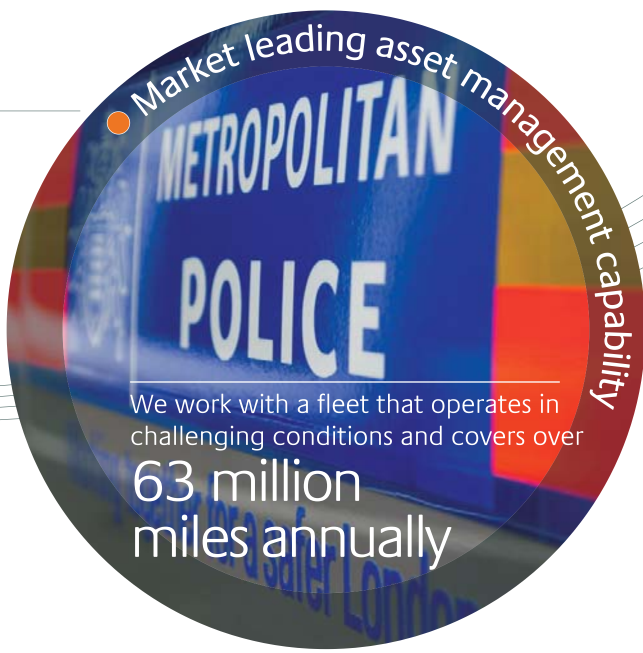


Our recently acquired Brazilian operation has been established since the 1960s and is the country's leading facilities management and engineering services organisation, providing national coverage in all 27 states for blue chip Brazilian companies. Our focus on management, quality and technical expertise allows us to maximise the value of our customers' assets through-life, across many critical industries in Brazil, including finance, telecommunications, data centres, mining and petrochemicals.

Babcock is increasing the availability of the Metropolitan Police's 4,000-strong vehicle fleet. We work with a fleet that operates in challenging conditions and covers over 63 million miles annually. By using our market leading asset management capability, we add value and deliver efficiencies including reducing the number and whole-life cost of these assets.

Babcock also manages the London Fire Brigade's vehicle fleet, making us a key partner in helping to create a safer London.

As sole provider of both deep and in-service maintenance in the UK, we are the recognised industry lead and the Royal Navy's strategic partner for submarine support. Our role is to maximise submarine availability and performance, and our highly skilled workforce and unique infrastructure have enabled the UK to maintain a Continuous-At-Sea-Deterrent for over 16,000 days, the longest period of '2-Boat Availability' ever.



We are the largest single provider of engineering apprenticeships to the British Army. Having worked with the Royal Electrical and Mechanical Engineers for 16 years, we are currently engaged in a five year contract to supply vocational, educational and training services through an engineering apprenticeship scheme to all trade groups within the organisation. This work is supported by a team of vocational coaches, trainers and assessors who are experts in their fields.

Securing long-term growth opportunities

We are delighted to report another successful year of broad-based growth across the Group. During this year, not only have we delivered strong financial results, we have also made considerable progress strengthening and growing our underlying businesses through major new contract wins, through acquisitions and by extending the breadth and depth of operational support we currently provide for our customers. All of this creates an even stronger platform for the future success of our business and supports our commitment to provide superior and sustainable returns for our shareholders.

A positive market environment

Our business model is ideally suited to the current market environment. Throughout this year, many of our customers have continued to experience significant financial constraints or budget cuts. Despite concerns expressed in the media that outsourcing to private companies creates risks for the delivery of critical services, we have seen our customers continue to consider outsourcing as a safe and effective way of achieving both financial efficiency and increased operational efficiency. We are well positioned, with stringent financial controls, a wealth of experience and demonstrable track record, to help our customers formulate the best support solutions for their operations. Throughout the operating review we describe activities and initiatives that, over the course of this year, have further strengthened our ability to support our customers.

Our strategy – driving growth

The continued success of the Group demonstrates the strength that our strategy and business model have brought to our operations. They define the way we do business and explain our focus on creating value: they set us apart from many others operating in our sector.

The future success of our business in both the UK and overseas will come from the significant opportunities we are currently bidding or tracking, as well as further new outsourcing opportunities we are helping to formulate and new market prospects we have been considering. The clear framework provided by our strategy guides not only the way we operate but, more importantly, ensures we pursue the right opportunities for growth, both organically and through acquisitions.

Over the previous pages we have set out our strategy and business model and have demonstrated, through examples of activities across our operations this year, of how we seek to create value. We have not changed our focus – we will continue to seek opportunities to develop from our position as the UK’s leading engineering support services company and grow in both the UK and overseas. The contracts we have won during the year, the opportunities we are bidding and the recent acquisitions we have undertaken all support this objective.

The examples on the previous pages also show our strategy in action. They set out how across our businesses we have continued to strengthen our market leading positions, demonstrating the unparalleled depth of knowledge and expertise our customers have come to rely on. They show how we focus on ensuring we meet or exceed our customers’ requirements, over the long-term, by understanding and recognising the criticality of their activities, and by using our technical expertise to ensure they get the right solution. Vitally, in today’s economic environment, we focus on ensuring our customers benefit from working with us. We seek to deliver cost saving solutions aligned to service improvement and our contracts are designed to ensure we both share in the success or failure.

Across the Group, health and safety is our first priority. We would not be able to maintain our market leading positions or have the scale of opportunities ahead of us if we did not also have an excellent track record and strive for continual improvement in all our health and safety activities.

Our strategy is key to our future success and only by remaining focused on it will we continue to build the underlying strength of our business. Over the course of the year all the contracts we have won, the opportunities we are bidding or tracking and the acquisitions we have under taken support and build on key elements of our strategy.

Driving organic growth

During the second half of the 2013/14 financial year, we were successful in winning new contracts and contract extensions with a value of around £3 billion and include:

- the management and decommissioning of the 12 Magnox nuclear sites in the UK, one of the biggest and most significant contracts to be let by the NDA
- the management of the London Fire Brigade's fleet of over 500 vehicles and 5,000 pieces of specialist equipment for the next 21 years
- the provision of overhead line electrification works for Network Rail as part of its vital investment in the UK's rail network
- the successful rebid and extension to the technical, commercial and apprentice training we deliver for the Volkswagen Group UK along with recruitment and administration services.

Details of these and other contracts are set out within divisional reviews. The majority of the contracts we have won are with existing customers. This reflects the confidence they have in our ability to deliver complex and critical support as well as the deep understanding we have of their technical and operational requirements. Where we have won contracts with new customers, we have been able to do so by successfully transferring existing skills and capabilities.

Acquisitions supporting growth

Since we first began the transformation of Babcock into a Support Services company in the early 2000s, acquisitions have played a key role in our development.

We are very clear about our objectives when considering acquisitions of all sizes. Therefore, any business we acquire must align with our strategic objectives and have a similar business model to ours. We will use acquisitions as a way of:

- bringing new capabilities into the Group to strengthen or extend the services we are able to offer our customers
- entering new geographies where we believe the economic or market dynamics are creating opportunities to develop a Babcock business based on strengths and capabilities within our UK operations
- entering new market sectors which are fully aligned with our strategic objectives and business model.

We expect the businesses we acquire to have their own growth plans, which we can accelerate, as well as being capable of delivering value for our shareholders and acceptable returns on investment within a reasonable time period.

The acquisition of the Avincis Group (Avincis) is a clear demonstration of how we believe we can create value through acquisition. Although the acquisition takes the Group into a new sector – specialist helicopter and fixed wing services – the business is fully aligned with Babcock's existing strategy, meeting all our strategic objectives and with a business model we recognise. Avincis delivers mission-critical support and complex services in highly regulated environments. It is a leading provider of helicopter and fixed wing emergency services in Europe and Australia and a leading provider of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea.

The business is well positioned for growth and we can use our scale, capabilities and balance sheet to support and accelerate these plans. Through Avincis' strong presence in Europe we will also seek to develop some of our existing operations and capabilities into these new geographies. The enlarged Group will also benefit from a wider customer base and enhanced geographic presence.

In addition to Avincis, during the last financial year we also acquired four other new businesses.

- Conbras Engenharia Ltda, a privately owned company operating in the public and private facilities management sector of Brazil and
- National Training Institute (NTI), based in Oman, providing training solutions for customers in the energy, oil and gas and construction sectors in the Middle East.

Both are established businesses with well-regarded local management teams and strong reputations. We have identified Brazil and the Middle East as key growth markets and we will use these businesses as a base from which to develop a broader Babcock presence.

- Skills2Learn is a specialist virtual reality and e-learning based training business that will provide Babcock with a broader range of innovative training solutions that we can offer to customers and
- Context Information Security (ContextIS) provides specialist technical consultancy services in the cyber-security market. ContextIS has a strong reputation and capabilities which significantly enhance our ability to provide resilient solutions for our customers' requirements.

Excellent visibility and future growth prospects

Over the past year we have retained the excellent visibility we have of our future revenues which is a key feature of our business. This is based on the long-term contracts and partnering agreements which form the basis of our order book.

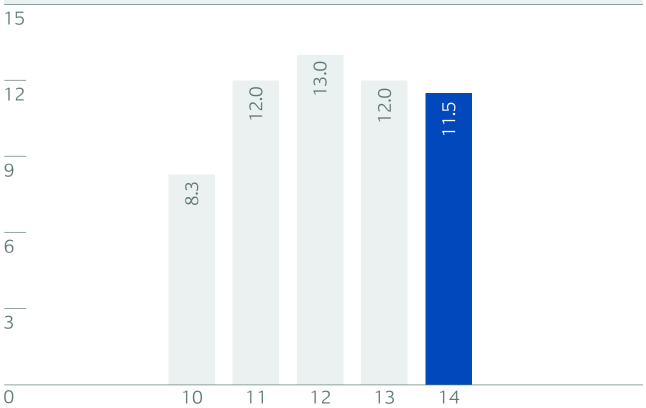
Chief Executive's review *continued*

The order book at the end of 2013/14 stood at £11.5 billion (2013: £12 billion), slightly down on the end of the previous financial year but stable on the 2013/14 half year position. With a number of significant contract announcements coming in the final quarter of the 2013/14 financial year and in the first part of the 2014/15 financial year that are still at preferred bidder stage, we expect the order book to increase significantly during the first half of this financial year, as final signature on these contracts is achieved. In addition, we continue discussions with the Ministry of Defence (MoD) about the introduction of the Maritime Support Delivery Framework within the Marine and Technology division, expected to complete in mid-2014 which is expected to add a further c £2 billion to the order book. As we start the 2014/15 financial year we have over 60% of Babcock's (excluding Avincis) anticipated revenue for this year already contracted and over 30% for the 2015/16 financial year.

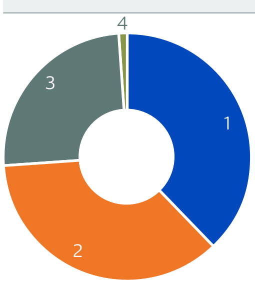
Going forward, the order book of Avincis, whose acquisition was completed on 16 May 2014, will also be added to the Group's total order book. At the end of December 2013, Avincis had an order book of £1.9 billion, which provided visibility of 85% of its anticipated revenue for its next financial year and 56% visibility for the year after.

Order book history (£bn)

£11.5bn



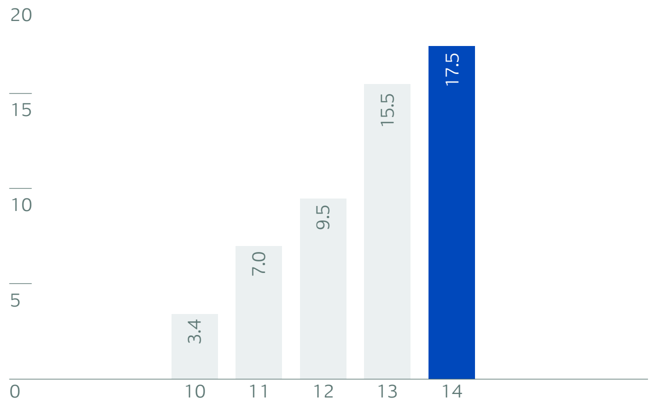
Order book by division (%)



1. Marine and Technology	38%
2. Defence and Security	36%
3. Support Services	25%
4. International	1%

Bid pipeline history (£bn)

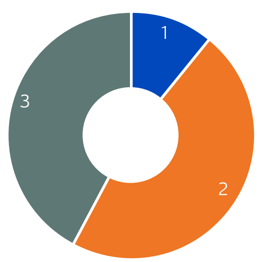
£17.5bn



The bid pipeline currently stands at £17.5 billion (2013: £15.5 billion). This is slightly below the declared bid pipeline of £18.5 billion announced at the time of the Interim Management Statement on 11 February 2014, adjusting for a number of recent contract announcements where our bids were unsuccessful, including Network Rail's switches and crossing frameworks and Tranche 1 of the Next Generation Estates Contracts.

With the significant value of bids recently announced that have not yet reached final contract signature, bids at preferred bidder stage, that will transfer to the order book during the first half, stand at c £3 billion.

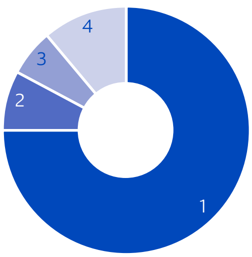
Bid pipeline by division (%)



1. Marine and Technology	11%
2. Defence and Security	47%
3. Support Services	42%

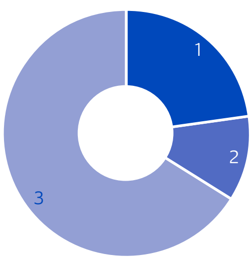
The majority of the bids in the pipeline continue to be new business, with rebids representing only 11%, and reflecting the complexity of the contracts we are competing for, 75% (2013: 74%) of the pipeline comprises bids with a total contract value of over £100 million. The bid pipeline is supported by tracking opportunities of c £14 billion.

Bid pipeline by contract size (%)



1. >£100m	75%
2. £100-£50m	8%
3. £50m-£25m	6%
4. <£25m	11%

Bid pipeline by contract type (%)



1. Preferred bidder/sole source	23%
2. Rebids and extensions	11%
3. New business	66%

The Avincis business also brings with it a pipeline of opportunities at both bidding and tracking stages which stood at c £5.9 billion at 31 December 2013. Of this we would expect around £600 million to be added to the bid pipeline. However, as bidding timetables for Avincis' contracts are significantly shorter than for traditional Babcock contracts, we expect a more rapid movement of bids from tracking into the pipeline and, if successful, into the order book.

Outlook

Our business model, the scale of our operations, the depth and breadth of our experience and our track record of delivering operational and financial efficiencies provide an excellent platform to benefit from the positive markets which continue to offer us medium and long-term opportunities in both the UK and overseas. The strength of the order book and bid pipeline continue to provide excellent visibility. During the year, the Group has won a number of important contracts and has made a significant investment in acquisitions, strengthening the existing capabilities of the Group as well as creating opportunities in new markets and geographies.

The acquisition of Avincis meets Babcock's strategic objectives as it brings into the Group a market-leading business with a strong growth platform and its combination with Babcock will generate even greater growth opportunities and value creation for our shareholders.

Building on the strong growth in revenue and earnings delivered in the 2013/14 financial year, the Board is confident the Group will continue to make further strong progress in the 2014/15 financial year.

Peter Rogers CBE
Chief Executive

Operating review

Marine and Technology

Building on long-term relationships and experience

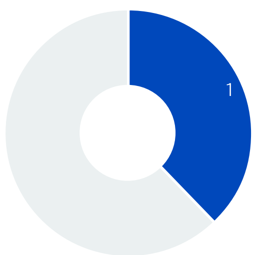
Key highlights

- Acquired ContextIS Ltd, provider of specialist technical consultancy services in the cyber-security market
- Structural assembly of first Queen Elizabeth Class aircraft carrier achieved with flooding of dock on target for mid-2014
- Deal negotiated to bring all Type 23 frigate refits to Devonport post-2015
- Successful float out of first Irish Offshore Patrol Vessel, Samuel Beckett
- HMS Vengeance new fuel installation complete and refit progressing on schedule
- Secured initial orders for UK Successor programme equipment development
- Expansion of work with various oil majors, including engineering of ‘walk to work’ systems for offshore platforms
- Successfully secured order for South Korean weapons handling and launch system, having been announced as preferred bidder last year
- Sword of Honour awarded to Rosyth for the eighth time
- Integration of LGE Process (acquired December 2012 for £21 million) with £195 million of orders won during 2013/14

KPI: p42

Order book % of Group

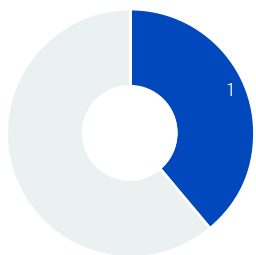
38%



1. Marine and Technology 38%

Revenue % of Group

39%



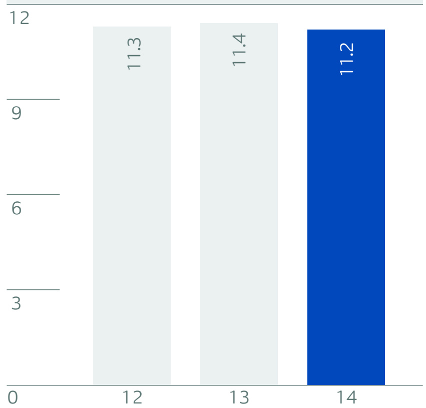
1. Marine and Technology 39%

Revenue growth KPI

+ 15%

Return on revenue (%) KPI

11.2%



Market overview

The UK market remains positive with long-term contracts in place to support critical Ministry of Defence (MoD) assets, and major programmes such as those for the Successor future deterrent submarine and Type 26 warship are creating significant opportunities that are well-suited to our capabilities.

The UK Royal Navy (RN) warship support market remains stable with the MoD's 2012–2022 Equipment Plan forecasting an expenditure of around £17.4 billion on surface ships over the next ten years. With the Surface Ship Support Alliance (SSSA) operating effectively, the RN's future plans present opportunities for vessel life-extension and capability enhancement. We anticipate the MoD will ultimately utilise the SSSA to support all complex warship platforms, safeguarding Babcock's market position. Increased activity and opportunity is evident in international naval markets, such as the United Arab Emirates (UAE) which are striving to implement a fleet-wide class management through-life support solution (similar to the SSSA).

The UK submarine market also presents Babcock with significant opportunities as the recognised lead support partner, with a planned MoD investment of around £35.8 billion over ten years. The MoD's plan for Her Majesty's Naval Base (HMNB) Clyde to become the main operating base for all classes of submarine along with the establishment of a Submarine Centre of Specialisation presents opportunities to develop our support offering at Clyde in our role as the lead industrial partner at the naval base. In addition, there is growing demand for submarine training in the UK and internationally. Along with growing our UK presence in this market, we are currently tracking and bidding a number of potential international training opportunities.

There are opportunities in the commercial marine, offshore renewables and oil and gas markets. This is reflected in a change to our divisional structure and the formation of a new Energy and Marine Services (EMS) business dedicated to growing our presence in these markets. The commercial marine market presents significant opportunities to build close relationships with customers and gain fleet contracts for vessel refits. The oil and gas market is a growth area for EMS. Ageing offshore production infrastructure and a predicted increase in demand for gas transportation is generating significant opportunities for the division. These are all aligned to our engineering, design and manufacturing capabilities.

Internationally, in Canada, we anticipate opportunities in the medium-term from the Government's National Shipbuilding Procurement Strategy which outlines planned expenditure of Can$36.6 billion. We have opportunities in the supply of complex equipment, design services and through-life support. We are pursuing a number of nearer-term opportunities for vessel support and life extension with the Canadian Coast Guard.

In Australia, the future submarine project continues to gain momentum. The implementation of the Rizzo and Coles Reviews continues to create opportunities for support solutions in both surface ship and submarine fleets, and our Group Maintenance Contract for the ANZAC Class is into its second year and performing well.

In New Zealand, a revised Dockyard Management Contract presents a significant opportunity for us to extend our current contract.

MoD 10 year surface ship spend
£17.4bn

MoD 10 year submarine spend
£35.8bn

Canada 20 year ship building programme
Can$36.6bn

Australia (annual maritime budget)
Aus$2.0bn

Percentage of revenues from overseas sources
21%

Operating review *continued*

Strategy

In the UK, as a result of our Terms of Business Agreement (ToBA) and our position on key MoD programmes, we have full visibility of the UK's submarine and surface ship plans. The ToBA is a long-term partnering agreement that provides the Marine and Technology division with a predictable, stable programme of work in surface ship and submarine deep maintenance and support, as well as maintaining our position as the MoD's strategic partner at the naval bases in Devonport and Clyde.

While continuing to support the current fleet, we are also involved in key development programmes such as that for the Successor submarines. In addition, we are in the process of negotiating the Maritime Support Delivery Framework (MSDF) contract that will underpin our operations at HMNBs Clyde and Devonport. We continue to seek opportunities and improvements in key programmes such as the Submarine Enterprise Performance Programme (SEPP) and the SSSA. A significant focus remains our role in the Aircraft Carrier Alliance which is working to deliver the RN's two Queen Elizabeth Class aircraft carriers, with the first ship due to be floated in 2014.

We are working closely with the MoD to ensure that all warships are effectively supported by the SSSA, and anticipate opportunities from the ability to offer enhanced value for money in the provision of additional services. We are progressively expanding our current combination of class management, maintenance and design services to include equipment supply and support and are drawing on this experience to pursue contracts with selected foreign navies.

Alongside building our market leadership in the UK naval market, we are increasingly applying our engineering expertise to commercial marine and energy markets and continue to identify and pursue new growth opportunities using our through-life model to support high integrity, complex marine assets and infrastructure. By establishing long-term relationships with commercial marine customers we can provide significant added value to their refit and operations and maintenance programmes, and continue to deliver an engineering, design and manufacturing offering to the offshore renewables and oil and gas markets.

Internationally, our strategy is to leverage our UK track record, while supporting the growth strategies of our international operations by delivering innovative solutions that give us a competitive advantage.

In Canada, while advancing our submarine support capabilities, we continue to investigate opportunities that draw on our strong UK track record for service delivery performance, including the provision of support to the Canadian Coast Guard, training solutions to the Royal Canadian Navy, and engineering and design services to the commercial marine sector.

In Australia, we are utilising key experts from our existing submarine programmes to grow a significant position in the Future Submarine Enterprise. Our contract for the ANZAC Class enables us to leverage our reputation for defence sustainment in new areas, as well as in offshore oil and gas support vessels. In New Zealand, we continue to concentrate on the national defence market and are investigating opportunities in other service-orientated markets.

Beyond these core international operations we selectively target major naval programmes, such as the South Korean submarine project, where Babcock has distinctive technology and know-how.

Financial review

The division reported a total increase in revenue of 15% to £1,377.3 million (2013: £1,201.6 million). Organic growth, before acquisitions and at constant exchange rates, was 13%. Organic growth was driven by increased volumes in the UK on the Queen Elizabeth aircraft carrier programme and the refit of HMS Ocean as well as increased work programmes in Canada on the submarine programme. The division also saw an increase in commercial activities for oil and gas customers. The acquisition of LGE, completed in the final quarter of the 2012/13 financial year delivered strong growth this year, increasing from £9.7 million to £42.5 million, contributing to the division's total growth.

Total operating profit for the division increased by 13% to £153.9 million (2013: £136.6 million), of this 11% was organic growth. This results in an operating margin for the division of 11.2%, broadly in line with the previous year (2013: 11.4%). Margins achieved for technology, commercial and international activities remain strong, balancing UK naval marine margins of around 10%.

Operational review

We retain a strong market position in the through-life support of the UK submarine fleet as sole provider of both deep and in-service maintenance. We are a crucial member of SEPP and together with the MoD, BAE Systems and Rolls-Royce we continue to deliver on-going reductions in operating costs while maximising UK submarine fleet availability.

In the past year we have successfully supported both the Trafalgar and Vanguard Class submarines through our Devonport and Clyde operations. HMS Vengeance's three and a half year, £350 million Long Overhaul Period (Refuel), is well underway at Devonport, with the new fuel installation complete and the refit progressing on schedule. We are also supporting the Astute Class into service, delivering a range of products and services from weapons handling and launch systems to crew training. We continue to support the design phase of the Successor future deterrent submarine programme and are actively involved in the long-term technical engineering support as well as providing the key tactical weapons launch system for the programme.

Following the announcement in 2013 that the MoD had identified both Devonport and Rosyth as its preferred locations for submarine dismantling, our Nuclear Operations team continues to develop the infrastructure design and safety case for the programme. Once regulatory approval is received, the next stage will be the demonstration of the dismantling process on one of the defueled submarines at Rosyth. Babcock has received indication that approval may take 18 to 24 months. Following a successful demonstrator project, the dismantling of the submarines is planned to take place at both our Rosyth and Devonport facilities.

Our UK surface ship activities continue to include the delivery of the Queen Elizabeth (QE) Class aircraft carriers as a partner in the ACA. With the structural assembly phase of the first QE Class, HMS Queen Elizabeth, now complete, focus has shifted to fitting out the assembled ship with vital electrical and mechanical systems. The next planned significant milestone is the flooding of the dock in mid-2014 when the ship will float for the first time. Meanwhile, work on the second of the QE Class, HMS Prince of Wales, is well underway at all the Alliance build facilities including our facilities in Rosyth and Appledore. During the year the ACA agreed a revised target cost contract with the MoD to complete both the QE Class aircraft carriers. This includes a 50:50 risk share arrangement to provide greater cost performance incentives. The maximum risk for Babcock is unchanged and will be limited to the loss of our profit opportunity. The revised contract reflects the increased maturity of the build programme and the greater certainty this provides for the final cost.

In addition to its work on the QE Class project, our Appledore facility is involved in the design, construction and commissioning of two Offshore Patrol Vessels for the Irish Department of Defence, with the first ship now delivered.

We are working with the MoD and our partners to bring all support for complex surface ships, including the QE Class and replacement frigates, into the SSSA; sustaining and growing our future position. This year we have successfully delivered four vessel refits for the RN and work is underway on a further four, including deep maintenance of the principal RN helicopter carrier, HMS Ocean.

We have been successfully managing the delivery of services at HMNBs Devonport and Clyde under the Warship Support Modernisation Initiative (WSMI) for the past 12 years. Under the framework of our 15-year ToBA, this contract is to be superseded by the MSDF which is currently being discussed with the MoD. This new five-year contract is expected to be secured by mid-2014 and will create a platform for us to deliver further cost savings and operational improvements while providing a mechanism for us to develop our role in both naval bases.

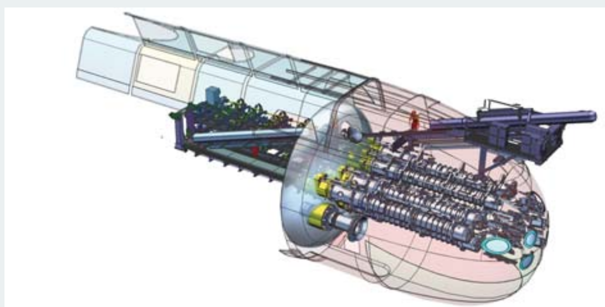
We continue to pursue and secure work in key commercial markets utilising our unique mix of engineering skills and facilities. This is something we will progress further over the coming year, while continually developing and enhancing both our skills base and facilities to meet growing demands.

In the past year, work began on 74 subsea modules for BP's Quad 204 project and we aim to build on this success by securing further contracts with other major players in the North Sea. In the commercial marine market we achieved a challenging vessel refit programme for Bibby Offshore on its Polaris Dive Support Vessel and have expanded our position in the UK oil and gas offshore support market through the provision of 'walk to work' contracts for various oil majors, most notably TOTAL. We have also seen continued growth in our concept design partnership with Shell. The continued integration of LGE Process, acquired in 2013, has been a particular success, with a year one order book exceeding £130 million and an increase in staffing levels in the order of 30%. Our services to South Korea through this sector and, in parallel, in developing key systems for South Korea's new class of submarines, have grown significantly during the year and are progressing well.

Weapons handling and launch systems in Korea

South Korea is in the process of establishing an indigenous submarine programme and has looked internationally for specialist knowledge to deliver some of the complex systems that are required. Working with the lead Korean shipbuilder, we are designing and manufacturing the weapons handling and launch system for the South Korean submarine programme. By providing technology transfer through training courses and manufacturing information, we will enable the majority of equipment manufacture to be done locally. We also provide liquid gas handling and storage systems (following the integration of LGE Process) to an important and increasing customer base in South Korea.

See p14 for more information on our market leading positions



Submarine weapons handling system

Operating review *continued*

Our independent Technology Consultancy group has achieved continued organic growth, particularly in the areas of systems engineering and safety assurance. In December 2013 we acquired ContextIS, a specialist consultancy in cyber-security, working in defence and commercial sectors in the UK, Australia and Europe. The business now sits alongside our other consultancy businesses and will help to support growth in the UK and overseas.

In Canada, we were awarded a five-year extension to our Victoria In-Service Support Contract (VISSC) to refit and maintain the Victoria Class submarine fleet. Under this contract we successfully undocked our first submarine, HMCS Chicoutimi, after three years of an extended docking work period, significantly increasing our in-country capacity and capability for future support of Canadian submarine and surface ship programmes. VISSC includes a number of extension options that could bring the contract duration to 15 years and we expect Government investment in the Canadian Coast Guard fleet and Naval Surface Ships to create a range of growth opportunities for us. In early 2014 we successfully secured a contract for the refit of the first of two Canadian Coast Guard heavy icebreakers, Louis S. St-Laurent, with our partner shipyard, Chantier Davie, strengthening our position in the market.

The Australian Government is committed to the progressive reform of its naval support activities and a number of opportunities aligned to our support capabilities continue to arise. We are engaged in further phases of the Submarine Propulsion, Energy, Support and Integration Facility (SPESIFy) for the Australian Defence Materiel Organisation; we have delivered Mark 32 Launchers for all three Australian Air Warfare Destroyers and our contract to support the ANZAC Class frigates is going from strength to strength. We were unsuccessful in our bid to support of the Canberra Class amphibious ships. We continue to be a Tier 1 supplier and strategic partner to the New Zealand Defence Force and negotiations are underway to extend our dockyard management contract for a further five years.

Sustainability

Drawing on an unrivalled depth of engineering knowledge, our teams safely and efficiently support critical assets, design and deliver complex programmes and provide specialist systems and technical expertise, often in potentially hazardous environments. Our top priority continues to be ensuring the highest standards in the management of health, safety, security and environment across our sites and beyond. These standards seek to protect not only our own employees but also contractors, customers, agents and visitors to our sites. Reflecting this, we have received a number of awards throughout the year, including the Silver Award from the Royal Society for the Prevention of Accidents for Clyde's approach to occupational safety and health and the much coveted Sword of Honour which was awarded to Rosyth for the eighth time, while Devonport received the Engineering Employers Federation Future Manufacturing Award for People Management for its employee safety engagement programme.

We recognise the impact our operations and large industrial facilities may have on the environment and are committed to managing and reducing this impact across all our operations by employing environmental regulations and best practice procedures such as ISO 14001, carbon management and recycling programmes. For example, our Devonport facility is currently constructing an 'Energy from Waste' plant which will provide the dockyard and naval base with its total requirement of electricity and steam, utilising a very high proportion of the site's waste.

The division employs over 10,000 highly skilled people with a wealth of knowledge and experience. Our commitment to attracting, retaining and developing a diverse and inclusive workforce is led by a Divisional Diversity Working Group consisting of members from across all our main operations. We recognise the importance of employee development in ensuring we continue to meet and exceed customers' needs and expectations; therefore employees at all levels are offered and supported through relevant training.

Developing the best talent at Devonport

Apprentice fabricator Fay Jackson was voted Apprentice of the Year by Radio Plymouth listeners. Fay, who is currently working at our Devonport dockyard, was one of 42 local apprentices nominated for the award as a 'true inspiration to other young women who may be considering an apprenticeship within the dockyard.' Her nomination also said Fay had demonstrated commitment, drive, a determination to succeed and helped others to the best of her ability. The performance of employees like Fay is what gives Babcock its trusted to deliver reputation.

As our business expands, the development of our people, present and future, is a critical part of our business development activity. To underpin and sustain our long-term strategic growth Marine and Technology, and the Group as whole, must ensure that it has the right people to be able and trusted to deliver to customers on technically complex, long-term contracts, both today and in the future.

See p61 for more information

Fay Jackson, Apprentice of the Year

We recruit and train over 300 apprentices across the division, as well as providing a comprehensive graduate training programme for around 150 graduates each year. Through this programme we assist many of our graduates in achieving chartership with accredited institutions such as the Institution of Mechanical Engineers and the Royal Institution of Naval Architects. Our apprentices and graduates are actively involved in encouraging future engineers through a number of school, college and university initiatives, such as Primary Engineering, STEM and Go4Set, which aim to engage young people and promote engineering as a career.

In addition, annual engagement programmes enable us to support the people, environment and infrastructure that make up the communities in which we operate.

Outlook

In the UK, as a result of ToBA and our current market positions, we continue to have excellent visibility of our future revenue streams. Our unrivalled expertise allows us to work alongside the MoD and Royal Navy as they seek to maximise availability of their assets and achieve best value for money. We continue to develop our position in the commercial marine and energy markets, and our organisational restructure allows us better to deliver further growth in these markets.

Internationally, our presence is growing. We continue to strengthen our relationship with governments who are seeking to achieve increased financial efficiency for naval equipment and infrastructure support and maximised availability of their submarine and surface ship fleets.

We believe the outlook for the Marine and Technology division is positive with significant opportunities in the bidding and tracking pipeline driving long-term growth in the UK and internationally.

Operating review *continued*

Defence and Security

Well positioned to meet the future needs of the MoD

Key highlights

- Extended our rotary wing capability by winning MoD contracts to support Lynx and Apache
- Secured an additional £100 million on extensions through our two regional prime contracts
- £30 million of increased scope through our Phoenix vehicle leasing contract
- Ongoing infrastructure support to the British Army drawdown in Germany including delivering 10% savings in energy costs
- Increased student throughput numbers under our Military Flying Training contract
- High bidding activity, including bidding for LCST
- Provision of equipment to the Environment Agency by our joint venture ALC in support of relief works during the flood crisis
- Awaiting results of NGEC Tranche 2

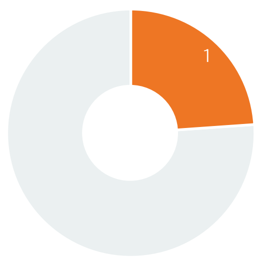
Order book % of Group

36%

1. Defence and Security 36%

Revenue % of Group

24%



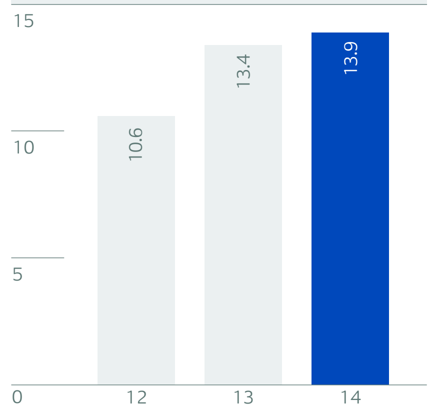
1. Defence and Security 24%

Revenue growth KPI

+ 4%

Return on revenue (%) KPI

13.9%



Market overview

The Government's Defence Reform agenda has gathered pace over the past year with a continued drive for outsourcing of support to defence operations, stimulated by the ongoing requirement for efficiencies and savings in defence and the wider public sector. We anticipate continued demand from across the Armed Forces and their supporting organisations for our core capabilities: training, equipment support and infrastructure management, as the MoD progresses toward Future Force 2020.

Our focus remains on retaining our UK market leading position through successfully competing for rebids and extensions of our existing services and in developing solutions for the current programme of major UK MoD outsourcing competitions.

The Government's commitment to further efficiencies and savings indicates that budgetary pressure on defence will continue to prevail and further outsourcing is a likely means of delivery. As we have greater visibility of training, logistics and infrastructure programmes we now estimate addressable markets across defence to be in excess of £4 billion per annum out to 2020.

During 2013, several major MoD outsourcing opportunities have come to market and we are well placed to benefit, evidenced by our position as one of two consortia bidding for the Logistics, Commodities and Services Transformation (LCST) contract where we are teamed with DHL and our qualification as a potential acquirer of the Defence Support Group (DSG).

UK aircraft support
£500m
Annual addressable revenue

£500m currently outsourced

UK MoD logistics
£700m
Annual addressable revenue

UK military training
£1.2bn
Annual addressable revenue

£300m currently outsourced

UK vehicle support
£600m
Annual addressable revenue

£450m including DSG currently outsourced

UK defence infrastructure
£1.2bn
Annual addressable revenue

£3.0bn currently outsourced

Canadian defence market
£1.0bn
Annual addressable revenue

£3.5bn currently outsourced

Australian defence market
£1.0bn
Annual addressable revenue

£5.5bn currently outsourced

Middle East defence market
£600m
Annual addressable revenue

Operating review *continued*

We continue to upgrade our market offering to match the emergent needs of the defence customer. This includes the development of e-learning techniques, smart task and resource scheduling and the further integration of our Defence Infrastructure business to provide a deeper and broader offering across the defence and adjacent sectors. This has reinforced our business model, which is built on strong customer relationships with the armed forces and MoD and has enhanced value for both the customer and ourselves, while proving highly adaptable to meet changing requirements – for example, optimising the re-basing and training of military personnel following the withdrawal from Germany and Afghanistan and military training and equipment support for both regular and reserve forces.

Along with our domestic markets where we have a very healthy domestic pipeline, we are pursuing opportunities internationally, with a particular focus on Canada, Australia, the Middle East and Europe. We continue to review these markets for first generation outsourcing opportunities where customers have similar value perceptions to our UK customers and demand high quality, output or availability based contracts for complex fixed and mobile assets. We expect to increase our investment in these markets during the next twelve months.

Strategy

The Defence and Security growth plan is driven by three key strategic actions; win, develop and expand. Our plan is to win the major UK defence bids, develop an international business and expand into adjacent markets.

The division is bidding a number of UK defence contracts including the Next Generation Estates Contracts (NGEC), DSG and LCST that are all due to be awarded within the next two years. These would bring more than ten percent compound annual growth for the division based on a historic win rate. These bids are our priority.

Beyond 2015, we anticipate a relative slowing down of defence outsourcing in the United Kingdom. We are therefore implementing a programme to develop an international business in identified target markets where the customer has outsourced or is moving towards outsourcing defence engineering and training support services. We are injecting pace and resource now in order to position for international growth in the longer-term.

Our third strategic action is to expand into adjacent high-growth markets that represent a natural fit with our division. We continue to resource our exploration of a number of adjacent sectors beyond defence and security and we will continue to identify and evaluate potential acquisition targets.

Operational efficiency and functional effectiveness will underpin our ability to sustain margins in an increasingly competitive environment. The division structure is being reviewed to enable these efficiencies and facilitate the major thrusts into international territories and adjacent markets.

Financial review

Revenue for the Defence and Security division, including the Group's share of joint venture revenue, increased by 4% to £852.6 million (2013: £820.2 million). This reflects a good performance from the Future Strategic Tanker Aircraft (FSTA) joint venture as well as increased infrastructure activities in both the UK and Germany which offset a reduction in revenue following completion of construction activities at the Royal School of Military Engineering and soft FM activities on the Fleet Outsourced Activities Project (FOAP) training contract.

Total operating profit for the division increased by 8% to £118.6 million (2013: £110.2 million) mainly driven by increased revenue from infrastructure activities described above as well as income arising from the FSTA joint venture partly offsetting reductions in other joint venture activities. Operating margins for the division increased to 13.9% (2013: 13.4%).

Operational overview

Our Air business has continued to manage its output to meet customer requirements. In our support to UK MoD military flying training we have delivered at the elementary, basic and advanced stages of flying training. We have had to be both flexible and responsive to meet the changing output demand for operational aircrew through the flying training system and we are now seeing student numbers beginning to increase. This is expected to continue with the addition of international defence training requirements which has resulted in the continuation in-service of the older Hawk T1 aircraft. We have expressed an interest in competing for a further five year support contract for the T1 and this will complement the competition for the newer Hawk T2 support in which we are already engaged.

During the year the business successfully managed an engineering issue with the Grob Tutor aircraft used to deliver the Light Aircraft Flying Task contract. Following the grounding of the fleet in 2013, full fleet availability was restored before the end of the calendar year and with careful stewardship of available aircraft, the impact on MoD aircrew training was minimised.

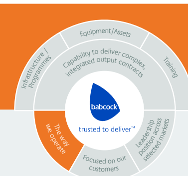
The UK Military Flying Training System (UKMFTS) joint venture, Ascent, and the Future Strategic Tanker Aircraft (FTSA) joint venture have both had successful years. Ascent has continued to manage Royal Navy (RN) observer training and Advanced Fast Jet training through its facilities at RAF Barkston Heath, RAF Valley and RNAS Culdrose. The competition to deliver future fixed wing training capability at elementary and basic level is now well-advanced. Air Tanker has also continued to mature its operational delivery and full Air-to-Air capability is planned to be delivered during 2014. In the air transport role, the Voyager tanker aircraft has taken on the responsibility for maintaining the Afghanistan and Falkland Islands air bridges and the MoD was able to withdraw the VC-10 aircraft from service as planned. The Air Business has continued to develop opportunities internationally and in new market areas. We have extended our rotary wing capability by winning an MoD contract to support the Apache helicopter. Whilst relatively small, our success in securing this contract in a competitive environment underpins our customer's trust in our delivery. Internationally, we are pursuing opportunities in the Middle East including an opportunity to deliver support to the Royal Air Force of Oman fleet of Super Lynx helicopters.

In our Defence Infrastructure business strong operational delivery on the UK Regional Prime Contracts (RPC) has continued and we have delivered significant additional contract services, including several large capital projects such as the resurfacing of the RAF Scampton runway ahead of the Dambusters' 70th anniversary commemoration. Ahead of the award of NGEC our two RPC contracts have been extended, securing an additional £100 million of core contract revenue, until the commencement of the new contracts.

During the year we submitted six bids for the four regional and two national NGEC contracts which are currently being evaluated by the Defence Infrastructure Organisation (DIO). At the time of this announcement we await decisions on the second tranche of contracts which includes the South West, Central and South East RPC. We are currently incumbent on the South West RPC and East RPC which is being incorporated into the Central NGEC. We were unsuccessful in our bids for the two national contracts (Training and Housing) and the fourth regional contract covering Scotland and Northern Ireland.

In Germany, the integrated estates management contract for the British Forces continues to deliver strongly, with the team supporting the Army's drawdown programme with the managed closure of the Rheindalen and Münster bases in late 2013. We have also worked closely with the Army and DIO to help consolidate service delivery as the estate shrinks, with additional scope being added to the contract, including energy management, waste management and snow and ice clearance. Further work continues to provide additional support to other UK forces establishments across Europe.

Excellence in estates management



Babcock's trusted to deliver reputation is based on excellent contract delivery. Our Infrastructure business is no exception and it won or has been nominated for numerous awards over the last year. For example, we won the BEST (Building Engineering Services Training) Employer Recognition Award and the 'Value Award' at the South West Built Environment Award ceremony.

Babcock has a strong reputation in estates and facilities management. As well as estates management for the MoD in the UK we also provide facilities management at British Forces bases across Germany.

See p29 for more information on the way we operate

Babcock members of staff working on the MoD estate

Operating review *continued*

Future opportunities with the DIO in the UK include the provision of support to the United States Visiting Forces and Project Hestia, an integrated base support opportunity programme. Overseas, the business is developing a growing relationship with the Canadian Department of National Defence as they move towards an outsourced estate management delivery model. In Australia we are pursuing a number of opportunities to establish an integrated asset management offering alongside the Marine and Technology division.

The Land business continues successful delivery of the Phoenix contract to the MoD, providing 14,500 white fleet leased vehicles and 250,000 vehicle rental hires in the year. We have made improvements to this service following the MoD wide deployment of our online booking and scheduling system and the introduction of 12,000 telematics units providing assured vehicle usage and driver behaviour data. Our management of vehicle procurement services has seen us manage the competition for 6,555 replacement vehicles since the start of the contract and has delivered significant savings to the customer. Our continuous hire team has also seen success during the year, winning contracts for the provision of coaches, trailers and other vehicles with a total value of £30 million.

Our primary business development focus is on two significant outsourcing programmes. In December 2013 the MoD launched the sale of the DSG, the MoD's capability for delivering maintenance and spares support to the Army's tracked and wheeled vehicles. The customer's sale programme indicates that completion is anticipated to be during late calendar 2014, with a service commencement date in the first quarter of calendar 2015. The disposal includes a service provision contract, for up to 15 years, as the exclusive provider of through-life maintenance, repair and overhaul and support for the current armoured and key support vehicles. Our extensive fleet management experience and equipment support capabilities ensure we are well placed to compete for this opportunity.

Also during 2013 the MoD started the competition for the LCST programme to outsource the procurement, warehousing and distribution services for commodities such as food, clothing, medical and general supplies as well as the wider operation of distribution and storage facilities across the military supply chain. We are partnered with DHL in a 50/50 joint venture to address this opportunity which we currently expect to have a total contract value of around £5 billion over a 13 year period.

We continue to deliver training for regular and reserves personnel within the Army. The mix of our courses continues to change as we respond to the shifting operational needs of the Army. We are currently the sole source bidder for the Defence College of Technical Training Electro-Mechanical Training Contract which includes the integration of Bordon and Arborfield Schools and we expect to achieve contract award for an initial five year period by July 2014.

Through our Holdfast contract, the regeneration of infrastructure at the Royal School of Military Engineering is well advanced. Refurbishment of accommodation blocks and construction of new training and support buildings has been completed and the remainder of the programme, including Single Living Accommodation, will be complete by January 2015.

Our delivery of training for the RN during the year included successful completion of the second year of the FOAP training contract. This was achieved below the target cost through the implementation of continuous efficiency improvement measures. International ship crew training programmes continue with the completion of courses for the Brazilian Navy and the Royal Navy of Oman and we maintain our focus on developing international markets.

In the Security sector we continue to drive significant business improvements which place the business in a strong position for the rebidding exercise during 2014, when the current contract will be sub-divided into three separate service streams. The scope of these procurements may offer the opportunity for the business to expand its services across the wider Government security community.

Growing our international customers

Building on our position as the number one training support provider to the MoD, Babcock continues to grow its relationships with select overseas military organisations. For example, in the course of the year we won a c £6 million contract to deliver UK based mechanical, electrical and electronics training for 24 BAE Systems Saudi national technicians.

Training activities will be carried out in the world-class facilities and dedicated classrooms at HMS Collingwood and HMS Sultan over two years. This contract followed an extension to a separate Babcock contract to provide English language training for Saudi naval personnel ahead of the crews' specialist training. These awards reflect our strong reputation in international defence markets.

See p14 for more information on our market leading positions

Babcock is growing from its position as the number one training support provider to the MoD

Sustainability

Provision of skilled, qualified manpower remains a corner-stone of the offering in the Defence and Security division. To further secure this core capability for the future, we have embarked on an apprenticeship partnership with Hartlepool College. An element of this apprenticeship will be delivered on our air engineering sites at RAF Leeming and RAF Linton-on-Ouse and will create an opportunity for well-qualified young men and women to join our organisation.

The Infrastructure business has been engaged in a number of sustainability projects, with over 170 man days of support to a range of local communities and charities. We aim to deliver services using, where possible, sustainable technologies and energy saving projects to reduce our customers' carbon footprint and overall running costs.

As part of our drive for the highest performance in key operational disciplines we have seen a reduction in our accident rates and an increase in near miss reporting. The prime focus of the health and safety improvement programme was the review of the high risk work activities of our people, the equipment we use and the sites we operate on to drive improved performance. Further developments in the quality of accident and near miss investigations have enabled improvements in the identification of the direct and indirect causes of incidents. Combined with further engagement and involvement of staff through the Babcock 'Safety Lens' (see page 58) we are well placed to continue to drive improved health and safety performance within the business.

The security posture of the business has continued to strengthen, following independent assessments of the business against the Government's Information Assurance Maturity Model during 2013. Building on this assessment we have taken a systemic approach to further security improvements including a strong focus on local site orders, incident reporting training and communication, and this will be a continued drive during 2014.

Outlook

We have positioned our business to address the changing needs of our principal customer – the UK MoD. In addition, we are increasing our focus on international opportunities where we believe we can leverage our UK expertise and capabilities. Our track record of delivering operational and financial efficiencies leaves the Defence and Security division well placed to benefit from its bid pipeline of significant opportunities in the UK defence sector.

Operating review *continued*

Support Services

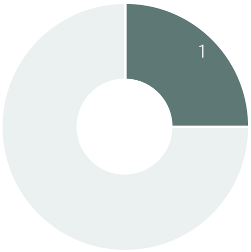
Well placed in complex and critical markets

Key highlights

- Cavendish Fluor Partnership selected as the preferred bidder to take ownership of Magnox and Research sites license companies
- Preferred bidder on 21 year vehicle fleet management contract for the London Fire and Emergency Planning Authority
- Success in Network Rail electrification programme and CP5 Track Renewals
- Acquired Conbras in Brazil. National Training Institute in Oman and Skills2Learn in the UK
- Retention of VW training contract and scope expansion
- Extension of Lafarge relationship following the incorporation of the West Canada Readymix concrete fleet into our support contract
- Established and expanded relationship with Holcim with heavy mobile equipment and rail freight contracts
- Consolidation and development of centres of excellence for our core capabilities of teaching vital skills, managing critical assets and delivering complex programmes
- Skills and Learning business awarded the Gold Standard from Investors in People for exceptional working practices

Order book % of Group

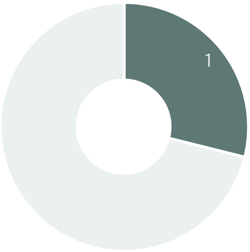
25%



1. Support Services 25%

Revenue % of Group

29%



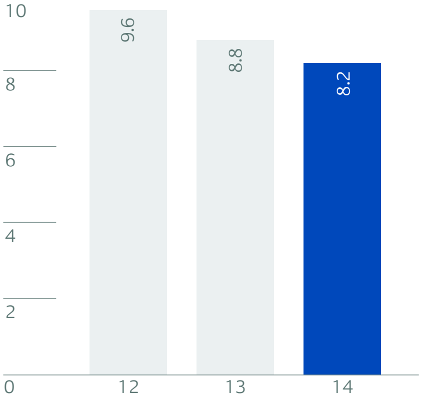
1. Support Services 29%

Revenue growth KPI

+ 10%

Return on revenue (%) KPI

8.2%



Market overview

The markets served by the Support Services division continue to remain attractive. The underlying pick-up in GDP growth across the UK, combined with a continuing desire by existing and potential customers to reduce their costs and maximise service levels, is driving strong demand for outsourced solutions.

The impact of imminent or recently changed regulatory control periods, for example in the power and rail sectors, is driving change and the division is responding by continually updating its knowledge of our core markets and customers to ensure we position our services optimally.

Customers continue to market test the services that they have outsourced. We are addressing this challenge by developing innovative solutions and growing the scope of services that we offer our customers to maximise value and maintain returns.

UK nuclear market
£1.8bn
Annual addressable revenue

Canada and Japan nuclear markets
£1.2bn
Combined annual addressable revenue

Global mining and construction fleet management
£3.0bn
Annual addressable revenue

UK training and education
£5.6bn
Annual addressable revenue

UK rail network
£2.2bn
Annual addressable revenue

Brazil facilities management
£350m
Annual addressable revenue

Operating review *continued*

Strategy

The division continues to deliver against a consistent strategy focused on generating profitable growth and continuous development and extension of our core capabilities. The strategy is fully aligned with the wider Group strategic objectives and we are targeting growth in a number of select markets, both in the UK and overseas, by leveraging wider Group activities or through customer-led opportunities.

We remain focused on our growth markets: nuclear decommissioning and new build, complex fleet management and training. In addition, we are exploring a focused set of opportunities in Brazil following the acquisition of Conbras. In these select focus sectors we have identified around £14 billion of addressable annual revenue.

Building on its position as the UK's leading supplier to the nuclear industry, Babcock's wholly owned subsidiary, Cavendish Nuclear, continues to bid for complex programme management opportunities in the UK as well as in select international markets such as Canada and Japan, providing a source of long-term growth. Our fleet management business continues to develop its unique proposition, offering customers clear value through effective capital utilisation and efficient operations and maintenance. It will continue to develop the opportunities in the mining and quarrying sector and is building propositions for other fleet operators in new sectors. Our training and skills assurance proposition has been developed over the year. We are targeting customers that have demanding training requirements to address technical challenges and rigorous safety requirements. We are making strong progress in the automotive, emergency, rail and utilities sectors.

Underpinning our growth objectives is a requirement to ensure we have market leading capabilities to deliver value to our customers and provide a clear point of differentiation from our competition. We have continued to invest in our key capabilities: teaching vital skills, managing critical assets and delivering complex programmes, Our employees are supported by a range of development programmes ensuring they have the right opportunities and support throughout their careers. We also continue to pro-actively manage the recruitment of new talent into the business to support its growth.

Financial review

The Support Services division reported total revenue of £1,040.1 million (2013: £943.7 million), an increase of 10%, of which 7% was organic growth. Cavendish Nuclear experienced strong growth in decommissioning activities and the Critical Services business unit benefited from enhanced contracts with Heathrow Airport Ltd secured at the beginning of the financial year. The Rail business has also seen strong demand for overhead line and special project works. The acquisition of Conbras Ltda, completed in the first half of the year, has added £26 million to total growth for the division.

Operating profit for the division was £85.1 million (2013: £82.9 million). an increase of 3%. As anticipated, as a result mainly of the early phases of a number of new long-term contracts combined with significant bidding and business development costs, operating margins for the division reduced to 8.2% (2013: 8.8%).

Operational review

Cavendish Nuclear, Babcock's wholly owned subsidiary, continues to strengthen its position as the UK's leading supplier to the nuclear industry in the UK and overseas and has made significant progress during the year. Its focus remains on targeted sectors including site operations and maintenance, decommissioning and new build.

The key success of the year was the Nuclear Decommissioning Authority (NDA) naming the Cavendish Fluor Partnership, a joint venture with Fluor, as the preferred bidder for the contract to decommission and clean up the Magnox and Research sites. Allowing for changes to the bid scope, the total contract value is expected to be around £4.2 billion for 13.5 years. Over the full term of the contract, this contract value represents savings of more than £1.5 billion to the UK tax payer. This is a complex long-term contract based over 12 sites and its award is a clear demonstration of Cavendish Nuclear's trusted reputation within the nuclear decommissioning sector. A Transition Agreement was signed on 15 April 2014 and the formal award of the contract for the new Parent Body Organisation (PBO) and Site Licence Company Agreements is planned for 1 September 2014.

Cavendish Nuclear has continued to perform well in its role as the PBO at Dounreay where key milestones have been achieved in the decommissioning of the Fuel Recycling areas and the construction of low level waste vaults. Good progress has been made on complex programme areas such as reactor decommissioning and shaft clean up. Silo fuel shipments continue to be successfully made to Sellafield.

Cavendish Nuclear continues to strengthen its position at Sellafield and it has experienced increased demand for its services. The Silo Maintenance Facility Phase 2 design was completed significantly ahead of schedule and Phase 3 funding has been approved by the NDA and Department for Environment and Climate Change, with a contract award anticipated early in the new financial year. Cavendish Nuclear is now into the second year of the Design Services Alliance framework and it is currently involved in over 100 projects, a number of which are critical to the high hazard reduction programme. Progress has been excellent with significant growth in design and engineering services with revenues more than double those of the first year. Ongoing tender activity includes the re-launched BEPPS/DIF contract and the tender for an anticipated 10 year renewal of the Sellafield Analytical Services contract (where Cavendish Nuclear has been the incumbent for the previous four years).

At the Atomic Weapons Establishment, decommissioning on behalf of the MoD continues to progress well with strong delivery achieved on all projects.

Cavendish Nuclear continues to develop opportunities and relationships in the nuclear new build sector. Its relationship with EDF remains strong and the submission of the final phase of the bid document for the Balance of Nuclear Island contract for the new Hinkley Point C power station was made in March 2014.

The business is also assisting Hitachi-GE Nuclear Energy with the development of its strategy for the construction of the Advanced Boiling Water Reactors at the Horizon Nuclear Power sites at Wylfa and Oldbury and has recently been awarded an engineering framework contract to support Horizon in scoping activities for the project. Within the power generation support sector, Cavendish Nuclear has supported EDF's achievement of the highest generation output for many years. Discussions with EDF for the lifetime support contract for its fleet of eight UK nuclear stations are continuing and these are expected to conclude during 2014.

Internationally, Cavendish Nuclear is expanding activities in Japan, to include nuclear decommissioning at nuclear sites including Fukushima, alongside the existing work in support of the decommissioning of the Tokai Magnox reactor. Cavendish Nuclear continues to pursue the opportunity for the management and operations of the Chalk River facilities in Canada.

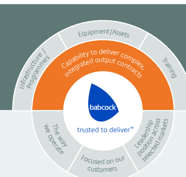
Our Critical Services business (formerly known as Mobile Assets) delivered another strong performance with 19% organic revenue growth.

Following the contract award from Heathrow Airports Limited (HAL) in 2013, Babcock is now responsible for the operation and maintenance of the baggage handling systems across the entire Heathrow campus, delivering an integrated cost-reducing solution. We are also bidding for a range of baggage system upgrades and replacement projects across all terminals. The British Airways ground support equipment contract is performing well, with significant reductions to the cost base of maintenance of equipment whilst maintaining high availability of equipment.

Within Critical Assets, the Mining and Construction business has continued to build its position in the UK and overseas. Following the June 2013 contract with Aggregate Industries, a subsidiary of Holcim Group, to manage its 400-strong fleet of heavy mobile equipment in the UK, we have also won a £2 million contract to support a further Holcim subsidiary, Rail Freight Services Ltd. From May 2014 Babcock will be responsible for Lafarge's Readymix fleet in Western Canada. This is a ten year contract across a fleet of c 700 assets.

Babcock has been announced as the preferred bidder on a 21-year £300 million contract to provide fleet management to the London Fire Brigade's (LFB) fleet of 500 vehicles and 50,000 pieces of specialist equipment. This followed the initial award of an 18 month interim contract in 2012.

Delivering efficient vehicle fleet support



Across our fleet management contracts, including those recently won with Aggregate Industries and the London Fire Brigade, we use ALCAMiE™, our unique approach to asset management. Comprising a customised set of systems and processes, this allows us to optimise the performance of our customers' complex fleets of emergency service vehicles, heavy mobile equipment, or Readymix vehicles. We deliver a full range of services, improving availability and managing costs over the whole life of each and every asset – from procurement, maintenance and overhaul through to disposal. In North America we have reduced Lafarge's vehicle fleet by 15%, providing a total saving of US$38 million in terms of replacement costs and a further annual operating cost saving of c US$4 million.

See p8 for more information on delivering complex and critical solutions

Babcock delivers better availability and cost savings for vehicle fleets

Elsewhere in the division, our Skills and Learning business has made significant investment in its training capability over the past 12 months to strengthen and build on its position as a leader in this market.

Our contracts continue to perform well and there have been a number of significant achievements this year, including: the award of a major extension and scope expansion to our work with Volkswagen Group UK worth £32 million (including apprenticeship funding) over four years, winning a new contract with Asda for delivery of the 'Logistics Services Apprenticeship Programme', extension of our EDF Energy contract providing an Advanced Apprenticeship Programme for nuclear technicians, and securing a two-year extension to our contract with BMW to provide technical apprentices, commercial and leadership training.

Babcock's in-house training consultancy team is advising customers on their skills requirements, analysing their training needs and translating business priorities into operational learning programmes. Our new contract with Urenco to deliver a managed learning service will utilise our online learning management system, giving the customer more control and ownership of its training and development needs.

Operating review *continued*

Our acquisition of an award-winning digital learning company, Skills2Learn, complements our practical and classroom-based training provision and enables us to deliver more innovative, efficient and cost effective training for all our customers. We also acquired the Oman-based National Training Institute, which provides high-quality bespoke HSE and vocational technical training to the energy, oil and gas and construction sectors. This additional capability will enable us to pursue significant opportunities with both current and new customers.

We continue to invest in training infrastructure to support our customers. We expanded our Automotive Training Academy in Milton Keynes with the introduction of state-of-the-art specialist paint and body facilities and we expect to open two new dedicated training facilities for the LFB in 2014. These new LFB facilities will enable us to deliver extended carbonaceous, search and rescue and incident command training.

The quality of our training delivery was recognised this year with a number of industry awards and accreditations, including: 'Best Vocational Education Provider of the Year' at the Education Investor awards; 'Training Partnership of the Year' in SEMTA's 'Best of British Engineering' awards; and 'Outstanding Achiever of the Year' for one of our BMW apprentices.

Outside our core growth areas: nuclear, complex fleet management and training – the division has continued to grow, winning new contracts and further developing our capabilities.

Babcock's Rail, Power and Communications businesses were brought together as Network Engineering to leverage common skills and capabilities and provide value in a range of very competitive markets.

Through our joint venture with Alstom and Costain, ABC Electrification, the Rail business has secured two of Network Rail's National Electrification Programme framework contracts covering the Central (London North Western, South) and Wales and Western regions. These contracts have an estimated value of £900 million to the joint venture, which is shared equally amongst the partners. Babcock has had further success on the Edinburgh Glasgow Improvement Programme, winning a number of work packages both independently and with the ABC joint venture. On 12 May Network Rail announced that Babcock had been selected to deliver conventional plain line track works across three of its regions. The new frameworks cover Western, Wales and Wessex, Scotland and LNW South and are expected to be worth a total of around £200 million over a five year period from 2014-19. The Rail business was unsuccessful in its bid for the Northern Region switches and crossings framework for Network Rail.

Recently, the Power team has recorded several important wins. These include a National Grid Onshore Underground Cabling Decommissioning contract, and a place on the National Grid EPC Overhead Line Framework. We are also very pleased to have secured a framework contract from Scottish and Southern Energy for major overhead transmission line works in the North of Scotland and three significant schemes from Scottish Power.

Our Integrated Services business, which delivers integrated facilities management, broadcast support and educational improvement services, continues to perform well.

Power to our customer

Babcock prides itself on being responsive to the requirements of our customer, no matter how technically demanding these requirements are. Our Network Engineering business recently completed a major refurbishment of 132kV overhead line located in areas of significant ecological and archaeological importance on behalf of Western Power Distribution. The location of the work necessitated innovative approaches including the use of a helicopter to remove old towers and new foundation construction methods to minimise traffic into each site, reduce the amount of spoil to be removed and the volume of concrete required.

See p12 for more information on working with our customers

The Babcock team with the helicopter used to remove the old towers

The acquisition of Brazilian facilities management company Conbras in July 2013 gave Babcock its first entry point into the Brazilian market. Conbras provides a broad range of facilities services, mainly to large private sector companies with substantial, and relatively complex, facilities including data centres and office buildings. This business is now fully integrated into the division with the local management team all remaining with the business. With additional business development support from the UK, the focus is now on extending Conbras' current capabilities into new sectors and developing new business opportunities in training and programme management.

In the UK, the BBC World Service contract is performing well above contract expectations by broadcasting 50% more hours than originally forecast. In the Education sector, Local Authorities continue to seek innovative partnerships to drive more targeted and efficient delivery of education services. Babcock is well placed in this environment and the high quality of our joint venture partnership models with Surrey and Devon County Councils was recognised at the Education Investor awards, where we were awarded 'Best Education Partnership of the Year'.

Devon schools continue to achieve excellent outcomes and are improving faster than elsewhere in England, with over 86% of schools in Devon now 'Good' or 'Outstanding' according to the latest Ofsted inspection. Our joint venture with Surrey County Council continues to deliver solid results with improved performance of schools in Surrey across all key stages. We also continue to invest in the development of new education products and capabilities to meet the emerging needs of our customers.

Sustainability

Sustaining and developing our core capabilities is critical to the success of our growth strategy. Significant progress has been made during the year through the establishment of professional practice communities for our division's major capabilities. These practices draw together domain experts to share knowledge, codify best practice and develop our capability to deliver operational excellence. In particular, the practices have been encouraged to support our customers by performing diagnostic type activities which help customers to understand how and where their operations can be made more efficient or effective.

We have developed an active account management programme for our major customers. Our Account Teams are targeted on developing a deep understanding of our customers' markets and their challenges to further improve our service delivery and build valuable propositions. We continue to develop effective feedback mechanisms to ensure that our service teams focus on the issues and drivers that are key to each customer.

Our employees' engagement with our customers and our business is also critical to our continued success. Significant effort has been made over the year to define and articulate a set of guiding principles that have contributed to the success of Babcock to date and to encourage our employees to consistently adopt these behaviours at all our locations. Employee satisfaction surveys are used consistently and inform our action plans. Our employees are supported by a range of development programmes ensuring they have the right opportunities and support throughout their careers. To meet our growth aspirations the business pro-actively sources new talent with graduate recruitment up by 12% in the year, consisting largely of engineering disciplines.

Our Skills and Learning business achieved the Gold Standard from Investors in People for exceptional working practices, in areas such as people management, leadership, staff development and continuous improvement, and gained Investors in Diversity accreditation for commitment to equality, diversity and inclusion.

Where appropriate, the division supports local community initiatives; a good example being association with education joint ventures. The Surrey Educational Trust and Devon Education Fund reinvest a percentage of profits back into the community to fund innovative ideas that benefit children, young people and learners in their respective regions. Since 2004, £1 million has been reinvested through the Surrey fund, with 30 projects awarded grants of up to £25,000.

Health and safety performance remains the paramount priority across the business. The business continues to drive health and safety at all levels. Accident levels have reduced across all our businesses with reportable lost time injuries falling from 51 in FY2013 to 36 in FY2014 and our all injuries frequency rate has dropped by 10%.

During the year, a major cross-divisional training programme was delivered covering behavioural-based safety, so employees could appreciate the impact their personal behaviour, and the behaviour of others, has on our overall safety performance. Our 'Safety Lens', a tool to facilitate safety discussions in the workplace, continues to be rolled out across the division to promote our 'Home Safe Every Day' campaign and focus on the leading factors that contribute to a safe working environment. For more information see page 58.

Outlook

We remain confident that the division is well placed to deliver on its growth aspirations.

In the UK, the recovering economy and our customers' ongoing need to manage their cost reduction challenges, whilst protecting and enhancing service levels, has seen a strong demand for our technical expertise.

Outside the UK, we are continuing to respond to international opportunities to meet specific customers' requirements and also continuing to build our international capabilities as part of the wider Group's development.

Operating review *continued*

International

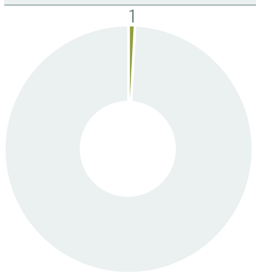
Delivering geographic expansion and market share growth

Key highlights

- Awarded R160m order for a complete piping renewal programme for Mittal South Africa Newcastle plant
- Awarded a R150m order for an 80km 400Kv power line as well as a number of smaller transmission line projects
- Awarded a further two year extension to the maintenance support contract of five Eskom Power Stations
- Opened new dealerships in Middleburg and Cape Town as well as international dealerships in Mozambique and Zambia
- Signed an aftermarket dealer agreement with Volvo Penta Industrial for South Africa
- Increased our apprentice training school from 80 to 120 students
- Increased our high school bursaries for underprivileged children from 14 to 20 as well as provided tertiary bursaries for four underprivileged students
- Continue to support orphanage catering for Aids orphans
- Awarded long-term crane hire contract to supply Sasol with mobile cranes for breakdown and outage work

Order book % of Group

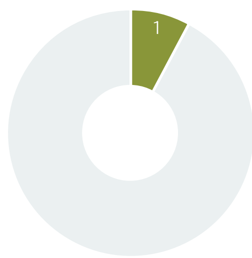
1%



1. International	1%

Revenue % of Group

8%



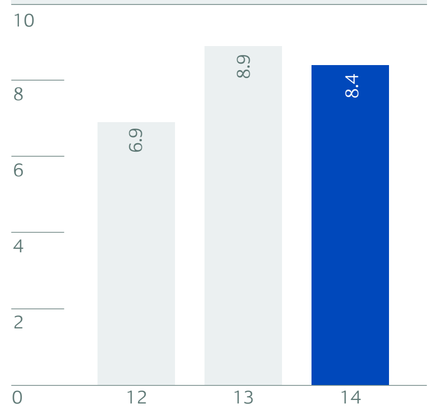
1. International	8%

Revenue growth KPI

0%

Return on revenue (%) KPI

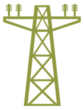
8.4%



Market overview

The South African economy during the 2013/14 financial year has been dominated by the weakness of the local currency when compared to its major trading partners. Forecast GDP for South Africa dropped from an anticipated 2.8% to 2.2% and Rand weakness has further contributed to a rise in imported inflation that has directly impacted consumer spending. Despite these challenging headwinds, the markets served by Babcock in South Africa have seen growth. Energy demand in particular has remained at prior year levels and has been characterised by breakdowns and extended outage periods as Eskom, South Africa's power utility, works hard to meet demand before new build power stations come on stream. This has created demand for our power generation support business in breakdown and preventative maintenance opportunities as well as life-extension programmes on the ageing fleet of existing generators. The early start of spend on the infrastructure programme and growth in Mozambique have led to increased demand for the Plant hire business. Mining is still affected by labour unrest but coal mining, where the business is strong, continues to increase production.

Power generation and transmission



£350m

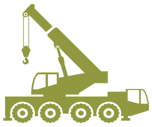
Total addressable revenue

Equipment

£1.5bn

Total addressable revenue

Rentals



£150m

Total addressable revenue

South African strategy

After two years of limited transmission line projects in the region, we have started to see increased activity. Babcock has won a number of new projects and we remain confident in the Powerlines business as power generation and transmission is an increasing priority for the region. For the Equipment business, our strategic focus has been on continued market share growth. This has resulted in a further 2.6% growth in our Volvo construction equipment market share to 12.2%. During 2013, we successfully launched a range of Volvo equipment produced in China which has been well received by customers looking for a more cost efficient product. New branches in Mozambique, Zambia and Botswana have been opened and are showing early potential in these high growth areas. Within Power Generation, we continue with our strategy to increase outage efficiencies, leading to extra maintenance opportunities and selling our engineering expertise on life-extension programmes within utility and industrial power markets. In the first quarter of 2013 we increased our crane rental fleet by 21 cranes and our strategy continues to be one of long-term hire within blue chip clients for both cranes and mechanical gear hire. We continue to seek an opportunity to develop a new business stream within the technical training market and have formed Babcock Education and Training to control all internal training, including our apprentice school. We intend to expand this product into the wider technical training market in South Africa.

Operating review *continued*

Financial review

Revenue for the division in local currency grew by 18% with strong demand for all the South African operations. The effect of movement in the South African Rand has resulted in reported revenue in line with the previous year at £277.6 million (2013: £278.0 million). In Sterling terms, operating profit in the International division reduced by 6% to £23.2 million (2013: £24.7 million) but increased 13% in local currency terms. This resulted in an operating margin of 8.4% (2013: 8.9%).

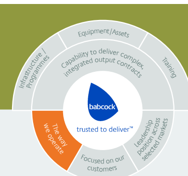
Operational overview

In spite of challenges in the mining industry, the construction and mining sector has seen growth of approximately 5%. During the year we have been able to take advantage of this growth and increase our market share by almost 3% in South Africa. This, combined with the successful opening of new branches in Mozambique and Zambia and the launch of the value brand Volvo Chinese product, has resulted in a good year for equipment sales and service.

During 2013/14 we built on our relationship with the Volvo Corporation and were awarded the aftermarket support contract for Volvo Penta in South Africa. The new business unit has performed well in the year and should continue to grow steadily. The DAF automotive division managed to improve revenue by over 50% and has opened a new dealership in the centre of the main coal production region to take advantage of the coal supply routes.

The demand for electricity in South Africa continues to grow significantly. As a result, Eskom has continued to delay preventative maintenance outages on aging power stations, which has led to increased breakdown and engineering activities for our power generation support services unit. Project efficiency gains in this unit created extra resource and generated extra revenue. The increased activity on these power stations has also provided increased opportunities for the Rentals business unit through increased mechanical gear hire. The Target Cranes acquisition has been fully integrated and has achieved improved safety standards as well as market share growth in the Southern Cape region. Transmission line contract wins in the latter half of the year for the Powerlines business has resulted in the business ending the year with a strong order book for construction projects in 2014.

Working in collaboration with others



Teamwork between Babcock, Volvo CE and our customer Multipit allowed us to help revolutionise commercial forestry planting in South Africa. Combining an excavator with protected software, we have created a machine that digs and GPS registers planting pits. This technology is used to generate 3D maps, helping to create an energy efficient, highly productive and cost effective planting and harvesting programme.

See p10 for more information about the way we operate

Digging planting pits

Outlook

For the South African business, looking forward our primary focus for the coming year will be on continued market share growth in the automotive and construction sectors in both our local and export markets. In the power generation market we hope to continue to extend our support service operations. After two years of limited activity in the powerline market, we are encouraged by recent wins and believe the shortage of lines to and from new power stations will give us further opportunities to grow. In addition, we continue to identify new opportunities where we can build on Group expertise in new markets for the division.

Critical powerlines support in South Africa

Working in close collaboration with the primary contractor, KEC, Babcock helped Eskom meet its 2013/2014 commitments for kilometres of transmission lines built as well as million volt-amperes of substations. Working to tight deadlines in December 2013 and January 2014, we were responsible for the construction of 100 giant 765 kV towers and stringing 15 km of line. Despite the significant challenges posed by working during the industry shutdown period in difficult terrain and a remote site, an innovative resourcing approach coupled with a target incentive scheme delivered outstanding results. Utilising our South African cranes business, Babcock completed the work on time, exceeding the client's and Eskom's expectations.

See p8 for more information about complex and critical support

Working on transmission lines for Eskom

Key performance indicators

The areas we focus on

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

We discuss the KPI performance in the Financial review on pages 44–51.

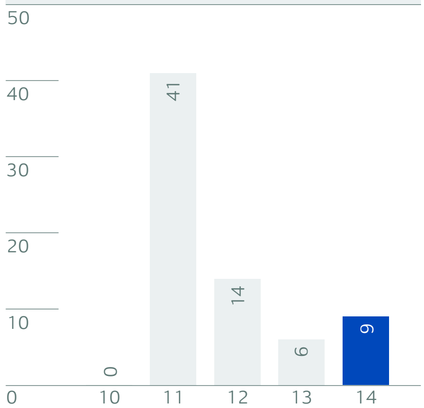
KPI Key performance indicator

* KPIs have been restated to reflect IAS19 Revised 2011

+ KPIs have been restated to reflect revised net debt definition

Revenue growth (%) KPI

+ 9%

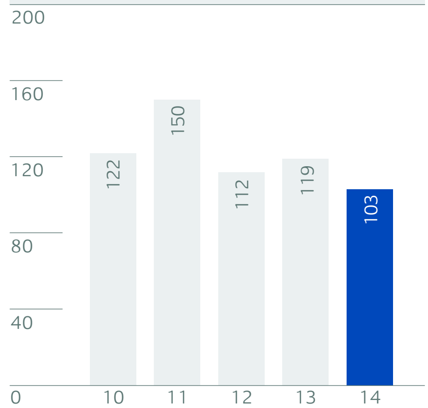


Description

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

Operating Cash Flow (OCF)* (%) KPI

103%

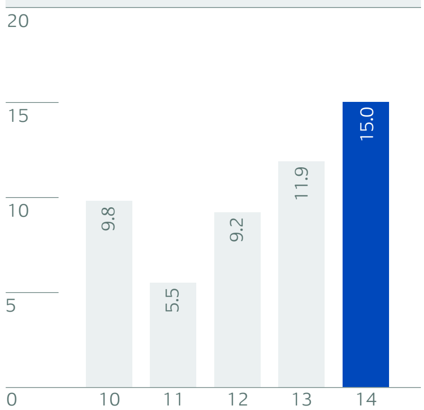


Description

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

EBITDA interest cover* (x) KPI

15.0x

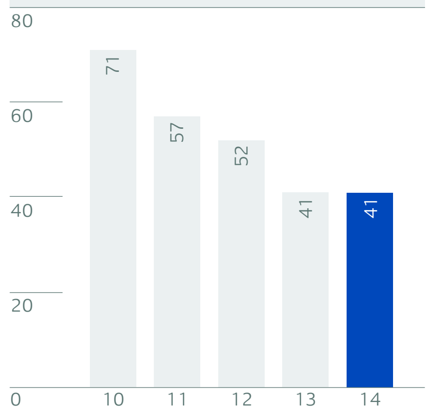


Description

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

Gearing ratio+ (%) KPI

41%

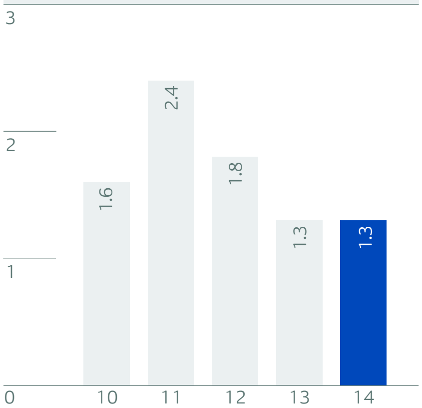


Description

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

Net debt/EBITDA*+ (x) KPI

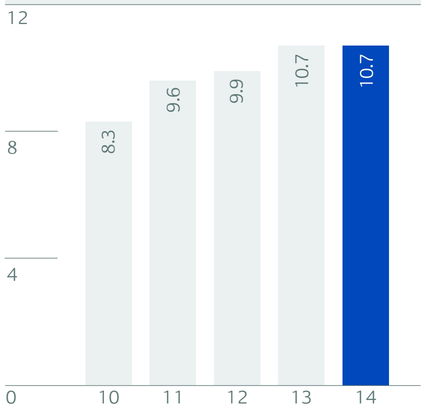
1.3x



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

Operating Return on Revenue* (%) KPI

10.7%



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

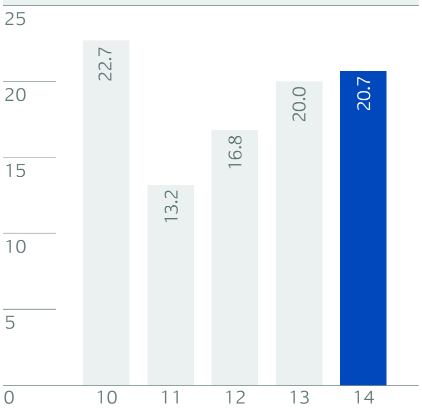
In the Operating review we used the following KPIs to measure each division's performance.

Operating Return on Revenue (ORR)
Operating profit before amortisation of acquired intangibles and exceptional items expressed as a percentage of revenue.

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

Return on Invested Capital (ROIC)*+ (%) KPI

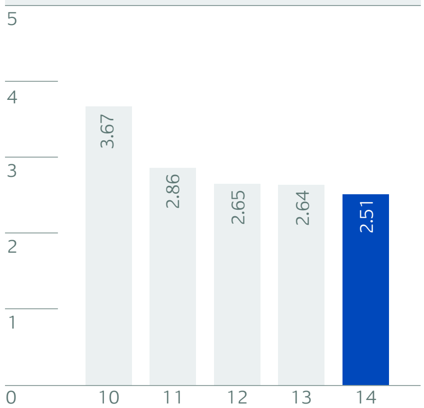
20.7%



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

Total injuries rate per 100,000 hours worked KPI

2.51



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

Non-financial statistics and measures
In addition to our KPIs we also have a number of non-financial statistics and measures. These can be found in the Sustainability report on page 52.

See p52 for more information

Financial review

Strong financial position supports investment in the future

Statutory to underlying reconciliation

	Continuing operations – statutory £m	Joint ventures and associates: Revenue and operating profit £m	Joint ventures and associates: Finance costs £m	Joint ventures and associates: Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	Exceptional items £m	Continuing operations – underlying £m
31 March 2014									
Revenue	3,321.0	226.6							3,547.6
Operating profit	233.1	21.9			38.8	59.2		24.9	377.9
Share of profit from jv	20.9	(21.9)	25.1	7.0	(37.3)	6.2			–
Investment income	1.5				(1.5)				–
Net finance costs	(36.7)		(25.1)						(61.8)
Profit before tax	218.8	–	–	7.0	–	65.4	–	24.9	316.1
Tax	(30.8)			(7.0)		(15.2)	(2.4)		(55.4)
Profit after tax	188.0	–	–	–	–	50.2	(2.4)	24.9	260.7
31 March 2013									
Revenue	3,029.4	214.1							3,243.5
Operating profit	203.5	21.2			40.2	66.4		14.3	345.6
Share of profit from jv	18.0	(21.2)	29.2	6.3	(38.5)	6.2			–
Investment income	1.7				(1.7)				–
Net finance costs	(41.4)		(29.2)						(70.6)
Profit before tax	181.8	–	–	6.3	–	72.6	–	14.3	275.0
Tax	(18.0)			(6.3)		(17.4)	(1.2)	(2.7)	(45.6)
Profit after tax	163.8	–	–	–	–	55.2	(1.2)	11.6	229.4

Overview

Continuing our successful track record of growth for well over 10 years, the 2013/14 results have increased by 9% in underlying revenue and 9% in underlying operating profit, demonstrating the strength of our underlying operations and our ability to deliver successful support solutions for our customers. Continuing to focus on delivering efficiencies for our customers as well as maintaining stringent controls over our own overheads, the Group operating margin has remained stable at 10.7%.

The Group continues to have a secure financial base which is key to supporting the Group's future growth ambitions. During the 2013/2014 financial year we have also invested in bidding activities to deliver future organic growth as well as £62.5 million on acquisitions, strengthening and enhancing the Group's capabilities and providing entry positions in new geographies.

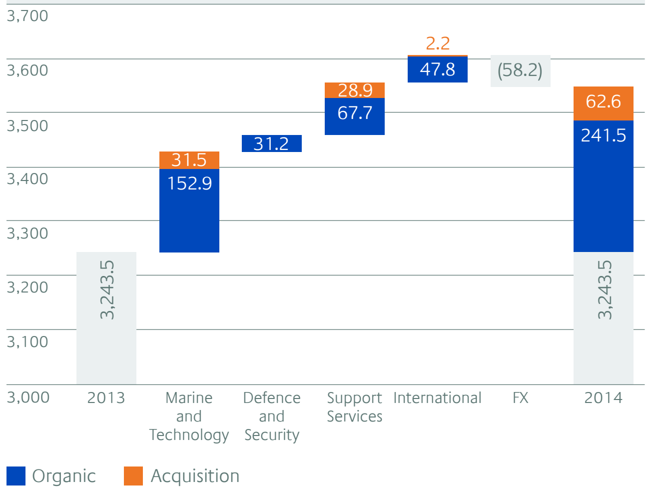
Income statement – continuing operations

Total revenue for the year was £3,547.6 million (2013: £3,243.5 million) which represents growth of 9% (2013: 6%) KPI: p42. Adjusting for movements in foreign exchange growth was 11% (2013: 7%).

The Marine and Technology division saw headline revenue growth of 15% and organic growth of 13% before acquisitions and at constant exchange rates. Organic growth was driven by increased volumes in the UK on the Queen Elizabeth aircraft carrier programme and the refit of HMS Ocean, as well as increased work programmes in Canada on the submarine programme. The division also saw an increase in commercial activities for oil and gas customers. LGE, acquired in the third quarter of the 2012/13 financial year, delivered strong growth this year, increasing from £9.7 million to £42.5 million, contributing to the division's total growth. Revenue for the Defence and Security division increased by 4%, reflecting a good performance from the Future Strategic Tanker Aircraft (FSTA) joint venture as well as increased infrastructure activities in both the UK and Germany which offset a reduction in revenue following completion of construction activities at the Royal School of Military Engineering and soft FM activities on the FOAP training contract. The Support Services division delivered total revenue growth of 10% and 7% organic growth. Cavendish Nuclear experienced strong growth in decommissioning activities and the Critical Assets business unit benefited from enhanced contracts with Heathrow Airport Ltd secured at the beginning of the financial year. The Rail business has also seen strong demand for overhead line and special project works. The acquisition of Conbras in the first half of the year has added £26 million to total growth for the division. For the International division, in South Africa, strong demand for all the business's activities has delivered organic growth in local currency of 18%, although the effect of exchange rate movements in the South African Rand has resulted in revenue in Sterling terms in line with the previous financial year.

Bridging analysis revenue growth (£m)

£3,547.6m + 9%

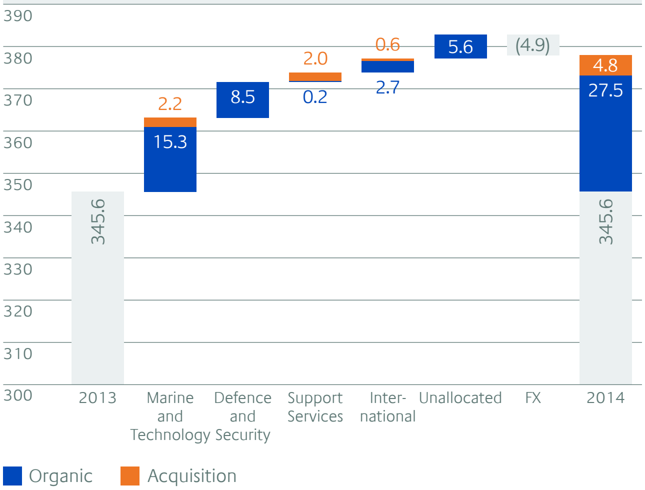


Underlying operating profit increased by 9% to £377.9 million (2013: £345.6 million) which gave a Group operating return on revenue of 10.7% (2013: 10.7%) KPI: p43. Excluding the effect of foreign exchange movements growth in operating profit was 11% (2013: 15%). The Marine and Technology division experienced 13% growth in operating profits of which 11% was organic: this resulted in an operating margin of 11.2% broadly in line with last year (2013: 11.4%). Margins for technology, commercial and international activities remain strong balancing, UK naval marine margins of around 10%. For the Defence and Security division income arising from increased revenue from infrastructure activities, as well as FSTA joint venture activities, which partly offset reductions in other joint venture activities, increased margins to 13.9% (2013: 13.4%). Operating profit in the Support Services division increased by 3% with operating margins reducing to 8.2% (2013: 8.8%) as previously highlighted, resulting from the early phases of a number of long-term contracts combined with significant bidding and business development costs. Operating profit in the International division increased by 13% in local currency terms but was 6% lower in Sterling terms, reflecting the adverse impact of a weak South African Rand. This resulted in an operating margin of 8.4% (2013: 8.9%).

Financial review *continued*

Bridging operating profit growth (£m)

£377.9m + 9%



Charges to exceptional items were £24.9 million (2013: £14.3 million) and comprised the following items

	2013/14 £m	2012/13 £m
Acquisition costs	24.9	–
Reorganisation costs	–	14.5
Profit on disposal of subsidiaries	–	(0.2)
Total	24.9	14.3

Acquisition costs relate to the acquisition of the Avincis Group announced on 27 March 2014. 2013 reorganisation costs represent the costs of combining IT networks, rationalisation of property and redundancy costs following the acquisition of VT in 2010/11.

Amortisation of acquired intangibles of £65.4 million (2013: £72.6 million) represents the amortisation of the value attributed on business acquisitions, customer relationships (both contractual and non-contractual) and acquired brands. The value is amortised over its estimated useful life, which in the case of relationships currently does not exceed ten years, by reference to the duration of contracts in hand at the time of acquisition and for non-contractual customer relationships, the risk adjusted value of potential future orders from existing customers with an average estimated duration. In relation to brands, the asset life is dependent on the market characteristics of the business acquired. Details of the basis of amortisation of acquired intangible assets is set out in note 14 to the Group financial statements.

Net finance costs were £61.8 million (2013: £70.6 million) and include the Group's share of joint venture net interest expense of £25.1 million (2013: £29.2 million) and the IAS 19 pension finance charge of £10.9 (2013: £11.8 million). Joint venture finance costs are primarily related to financing structures on the FSTA and UK Military Flying Training System (MFTS) Private Finance Initiative (PFI) contracts which decreased year-on-year following favourable movements on debt hedging instruments. Joint venture finance costs, excluding the effect of movement in hedging instruments, will increase as the PFI continues to deliver assets into service for the customer. 2013/14 saw three tanker aircraft delivered, with the related non-recourse debt drawn down under the PFI facilities. We expect further aircraft to be constructed and delivered over the coming year and this element of net finance costs to increase. Finance costs on the Group's own facilities were £25.8 million (2013: £29.6 million) in line with the decrease in the average amount drawn on the Group's revolving credit facility and improved finance terms.

Profit before tax, amortisation of acquired intangibles and exceptional charges increased by 15% to £316.1 million (2013: £275.0 million). The associated tax charge, including the Group's share of joint venture tax of £7.0 million (2013: £6.3 million), totalled £55.4 million (2013: £45.6 million) representing an effective rate of tax of 18% (2013: 17%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation and exceptional charges.

Continuing underlying earnings per share for the year was 70.3 pence (2013: 62.2 pence), an increase of 13%. Basic earnings per share as defined by IAS 33 was 50.1 pence (2013: 43.9 pence) per share, an increase of 14%.

In order to finance the acquisition of the Avincis Group and to ensure the Group maintains sufficient financial headroom for growth opportunities, the Group undertook a Rights Issue of 139,259,204 new ordinary shares which was completed on 6 May 2014. To provide a comparison for future years, underlying earnings per share for 2013/14 has been adjusted to 62.1 pence to take into account the increase in the number of shares and the bonus issue of shares.

Dividend

This year underlying basic earnings per share increased by 13% to 70.3 pence (2013: 62.2 pence) and the Group continued to deliver strong cash flows, achieving a cash conversion rate of 103% (2013: 119%). Looking forward, the order book and bid pipeline remain strong giving us excellent visibility of future revenue and further growth opportunities.

The Board's confidence in the long-term future of our business remains strong and we are therefore delighted to recommend a 14% increase in the final dividend per share for 2014 of 16.4 pence per share (2013: 14.4 pence per share). This will give a total dividend for the year of 21.4 pence per share (2013: 19.0 pence per share), an increase of 13%. The final dividend will be paid on 12 August 2014 to shareholders on the register at 4 July 2014.

As a result of the new ordinary shares created by the Rights Issue in respect of the acquisition of Avincis, which started trading on 7 May 2014, the dividend numbers and the comparatives referred to above have been adjusted accordingly.

Babcock has had a consistent dividend policy for a number of years that, over the medium-term, the dividend should be covered on average between 2.5 and 3 times by underlying basic earnings per share. Following completion of the Avincis acquisition and taking into account the availability of distributable reserves and cash as well as the enlarged Group's working capital and investment requirements, the Board intends to maintain this policy.

Acquisitions and disposals

During the 2013/14 financial year, in support of our strategic growth objectives, the Group has made a number of acquisitions which have added to our capabilities and will enable us to expand our international presence. For the year, net acquisition spend, after disposals, totalled £61.8 million (2013 income: £45.8 million).

In July 2013, the Support Services division acquired Conbras in Brazil for a cash consideration of £18.2 million plus deferred consideration of £4.4 million. In December 2013, the division also acquired Skills2Learn, a specialist in the delivery of virtual reality and e-learning based training, for £5.8 million plus deferred consideration of £1.5 million and in January 2014 the National Training Institute (NTI) in Oman for £12.3 million. In December 2013, the Marine and Technology division acquired Context Information Security (ContextIS) for £29 million plus deferred consideration of £4 million payable in 2016.

During the period the Group received a deferred consideration of £4.2 million on the disposal of the UKAEA Pension Administration Office which was sold in December 2012.

The Group completed acquisition of the Avincis Group on 16 May 2014 following the receipt of the Rights Issue Funds of £1.1 billion. Shareholder approval was received on 16 April 2014 and all relevant clearances have been obtained and there are no other restrictions on the expected completion date.

Cash flow and net debt

	2013/14 £m	2012/13 £m
Cash generated from operations	279.5	293.4
Capital expenditure (net)	(68.3)	(53.7)
Interest paid (net)	(31.8)	(30.5)
Taxation	(55.8)	(45.8)
Free cash flow	123.6	163.4
Acquisitions and disposals net of cash/debt acquired	(63.1)	40.8
Investments in joint ventures	5.2	(30.2)
Movement in own shares	0.7	(2.2)
Dividends received from joint ventures and associates	4.8	7.1
Joint ventures and associate loans	(0.5)	26.2
Dividends paid	(101.0)	(86.7)
Other	(3.9)	(1.7)
Net cash (outflow)/inflow	(34.2)	116.7
Opening net debt*	(499.5)	(616.2)
Closing net debt*	(533.7)	(499.5)

* Net debt includes interest bearing loans to joint ventures of £50.6 million (2013: £51.1 million) and comparatives have been restated accordingly.

Cash generated from operations was £279.5 million (2013: £293.4 million) and represents a conversion rate KPI: p42 of 103% (2013: 119%). Capital expenditure of £68.3 million (2013: £53.7 million) was primarily focused on the upgrade of dockyard facilities in the Marine and Technology division, as well as investment in new cyber-security systems and IT infrastructure across the Group. We have also purchased additional equipment for the South African crane hire business and have invested in vehicles and infrastructure to support contract wins during the period.

In addition to the normal investment in dockyard facilities, following the acquisition of Avincis in May 2014, the Group will invest further in IT infrastructure, cyber-security systems and enterprise software as well as assets necessary to support business growth. As a result, capital expenditure for 2014/15 is expected to be around 1.5 times annual depreciation of £80 million.

Working capital cash outflows (excluding retirement benefits and exceptional items) were £51.3 million in the year (2013: £3.6 million inflow) with higher activity levels increasing debtors and stock, partly offset by creditors. We expect a similar working capital profile in the 2014/15 financial year.

Net Group cash interest paid was £31.8 million (2013: £30.5 million), the increase resulting from lower receipts on joint venture loans. We expect the cash interest charge in this financial year to be around £60 million, reflecting the increase in the Group's debt levels over the year following the acquisition of Avincis, which completed in May 2014.

Financial review *continued*

After taxation payments of £55.8 million (2013: £45.8 million), free cash flow was £123.6 million (2013: £163.4 million) representing a free cash flow yield on 31 March 2014 of 3% (2013: 4%), the reduction being partly driven by the increase in share price over the year. We expect the cash tax charge for this financial year to increase in line with the income statement charge.

Acquisitions and disposals totalling £63.1 million comprise the purchase during the year of Conbras, Skills2Learn, National Training Institute and Context IS and the deferred receipt for the UKAEA Pension Administration office which was sold in December 2012. Dividends received from joint ventures during the period totalled £4.8 million (2013: £7.1 million). Cash dividends (including to minorities of £4.3 million) paid out in the year totalled £101.0 million (2013: £86.7 million).

Group net cash outflow was £34.2 million (2013 inflow: £116.7 million) increasing total net debt to £533.7 million (31 March 2013: £499.5 million, 30 September 2013: £521.2 million).

Return on Invested Capital (ROIC) KPI: p43

We define ROIC as earnings before financing costs and tax excluding exceptional charges, divided by equity plus net debt, excluding retirement benefit deficits. For the year 2013/14, ROIC was 20.7% (2013: 20.0%). Measured against the current weighted average pre-tax cost of capital of c 10%, the track record of performance demonstrates the Group's ability to generate value-enhancing rates of return today and in the long-term.

Available financial capital

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

Objective

To ensure an appropriate level of AFC to:

i provide operational flexibility and meet financial obligations

ii fund the Group's organic and acquisitive growth

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

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

Policy

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

The Group, in considering its capital structure and financial capital, views net debt to EBITDA at circa two times as being steady state and sustainable in the current market and against the current economic backdrop. This is not to rule out acquisition spikes above two times, as illustrated by the recently announced Avincis acquisition and those in the past, but only if the Group can see a clear path to reducing net debt to EBITDA KPI: p43 back to circa two times within a reasonable time frame.

Performance

The Group's gearing and debt cover ratios KPI: p43, used by the Group to evaluate AFC, have continued to improve year-on-year, both in the pay down of debt and through increased profits attributable to shareholders.

		Covenant	2013/14	2012/13
Debt service cover	EBITDA/net interest	>4	15.0x	11.9x
Debt cover	Net debt/EBITDA	<3.5	1.3x	1.3x
Gearing	Net debt/shareholders' funds	n/a	41%	41%

Debt ratios are well below covenanted levels and gearing is at a level that readily allows further acquisitions and funding of organic growth. As such we believe capital markets remain readily accessible when required.

Treasury

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

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

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

Debt

Objective

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

Policy

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

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

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance is sufficient to meet its stated objective. Current committed facilities and headroom are thought to be sufficient to meet the Group's ongoing commitments. The following are a summary of the Group's main debt facilities: £100 million of loan notes issued in January 2010, US$650 million US private placement notes issued in March 2011, £500 million Revolving Credit Facility (RCF) signed in June 2011, with a term of five years, three months, a circa £900 million Bridge Facility comprising of a Sterling tranche and a Euro tranche signed in March 2014 with a term of one year, plus two six month extensions at the Company's option. The aforementioned debt provides the Group with total committed banking facilities and loan notes of £1.9 billion.

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

Interest rates

Objective

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

Policy

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

Performance

As at 31 March 2014, the Group had 49% fixed rate debt (31 March 2013: 55%) and 51% floating rate debt (March 2013: 45%) based on gross debt of £670.6 million (March 2013: £647.7 million).

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

Liquidity

Objective

- i to maintain adequate undrawn committed borrowing facilities
- ii to monitor and manage bank credit risk, and credit capacity utilisation
- iii to diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Policy

- i all the Group's material borrowings are arranged by the treasury department and funds raised are lent onwards to operating subsidiaries as required.
- ii to ensure that the Group has sufficient cash on hand and that its committed RCF is appropriately sized and has sufficient term to meet the Group's general corporate funding requirements. Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a KPI.
- iii the Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counterparty credit risk is monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance

- i the Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance were sufficient to meet its stated objective. A new acquisition Bridge Facility comprising of a Sterling tranche of £383 million and Euro tranche of €620 million was entered into in March 2014 in support of the Avincis acquisition
- ii the Group had cash and cash equivalents as at 31 March 2014 of £86.3 million (2013: £97.1 million).

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

Foreign exchange

Objective

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

Policy – Transactional risk

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

Policy – Transactional risk

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

Performance

There was a net foreign exchange loss of £1.5 million in the income statement for the year ending 31 March 2014 (2013: £0.8 million gain).

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

Financial review *continued*

Pensions

The Group provides a number of occupational defined benefit and defined contribution schemes for its employees. The largest schemes are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension scheme whose combined assets of £2.8 billion represent 85.7% of the total assets of all the Group's defined benefit schemes.

It also has employees in two industry wide occupational schemes, the Railways Pension Scheme and the Magnox Group of the Electricity Supply Pension Scheme, as well as employees in other smaller occupational defined benefit schemes and local and central government schemes. All the occupational defined benefit schemes are closed to new members.

The Group operates an occupational defined contribution scheme open to all new employees across the Group and was used to comply with the automatic enrolment legislation from 1 April 2013. The Group pays contributions to an independently administered fund, such contributions being based on a percentage of employees' pay. It has no legal or constructive obligations to pay further contributions once the agreed contributions have been paid. Any investment risk is borne by the employees.

The acquisition of Avincis will have no impact on the Group's pension liabilities.

Investment strategy

The Group works constructively with an investment sub-committee, which operates across the three largest schemes, and implemented a single consistent investment strategy designed to systematically derisk the schemes as funding levels improve and to operate within a risk budget. It has been agreed the schemes will target having sufficient assets by 2037 for the schemes to be fully self-sufficient.

To implement the strategy to achieve self-sufficiency , the schemes' assets are divided into growth assets, low risk assets and matching assets reflecting the duration of the liabilities. The growth funds are systematically derisked as funding levels increase (on the basis used for self-sufficiency). In addition, the matching assets are used to hedge adverse movements in interest rates and expected inflation based on the expected cash flows from the scheme. The level of hedging is increased in line with funding levels to reduce the risk of volatility in the schemes' funding positions and IAS deficit, thereby creating a more stable financial position.

Funding valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contribution commitments to the schemes. The valuation dates for the three largest schemes are set such that only one scheme is undertaking an actuarial valuation in any one year in order to spread the financial impact of market movements in both assets and liabilities. The valuation for the Devonport scheme is due as at 31 March 2014 with any consequent cash requirements expected to be implemented from 1 April 2015.

An actuarial valuation of the Babcock scheme as at 31 March 2013 is due to be completed by June 2014 based on the market value of assets and assumptions for the valuation of liabilities as agreed with the sponsoring company. A valuation of the Railways Pension scheme is due 31 December 2013 with any consequent cash requirements expected to be implemented from 1 July 2015 .

Cash contributions

	13/14 £m	12/13 £m
Future service contributions	49.0	53.3
Deficit recovery	43.6	39.3
Longevity swap	4.2	5.0
Pension pre-payments (net)	–	(20.0)
Total cash contributions – employer	96.8	77.6

The total cash contributions expected to be paid by the Group into the defined benefit pension schemes in 2014/15 are £94.6 million. £51.2 million is in respect of the cost of future service accrual of which £32.7 million in Marine and Technology is recovered via contractual terms. Of the balance, £4.2 million of the contributions are in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity, leaving £39.2 million to be funded from other Group contracts.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,220.1 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £3,487.7 million representing a 92% funding level.

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

	Devonport		Babcock		Rosyth	
	13/14	12/13	13/14	12/13	13/14	12/13
Discount rate %	4.5	4.4	4.5	4.4	4.5	4.4
Rate of increase in pensionable salaries %	2.4	2.6	2.4	2.6	2.4	2.6
Rate of increase in pensions in payment %	2.2	2.4	3.0	3.0	3.4	3.4
Life expectancy of male currently aged 65 years	21.7	21.6	22.8	22.8	19.3	17.7

The total accounting deficit, pre deferred tax, at 31 March 2014, was £267.7 million (2013: £261.1 million) and the expected IAS 19 net periodic benefit cost in 2014/15 is £57.9 million (2013/14: £60.2 million).

Actions taken during the year to mitigate further volatility of assets and liabilities include the continued hedging of inflation and interest rate changes.

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

Governance

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

Delivering a sustainable business

"Our priority is to ensure that Babcock continues to be a strong, successful and sustainable business that will create long-term value for our shareholders and in so doing we recognise there are other stakeholders to consider – our employees, our customers, our suppliers and the communities in which we operate. We believe that we will only be able to do this if we have regard to the long-term sustainability of what we do and by behaving in a safe and responsible way and upholding the highest standards of business ethics in all we do."

As a leading engineering support services company with an increasingly international footprint we recognise that our business operates within the context of wider society and the environment. We work hard to sustain the long-term future of our business whilst at the same time having a positive effect for individuals and local economies, for example, by way of employment, apprenticeships, training and career development opportunities, and make great efforts to try to avoid or minimise, so far as we can, any potentially negative impact of our operations on the environment or the health and safety of employees or others. How we do this is discussed further within this Sustainability report as well as in the sustainability section of each of our divisional unit operating reviews.

We are especially conscious of the fact that our people are key to our success. Initiatives in areas such as our graduate recruitment scheme and apprentice programmes as well as talent development and management training are critically important for the long-term future success of the Company. We have demonstrated our support and commitment in this area by joining the '5% Club' during the year, which involves our committing to having 5% of our workforce on structured training schemes within the next five years. These initiatives, along with our continuing commitment to promote a highly skilled, diverse workforce, should help ensure that we are well placed to meet our immediate and long-term commitments.

Our commitment to ethical and responsible business practices being observed throughout the Group is fundamental. Our Group-wide Code of Business Conduct, set out in section 1 of this report, is supplemented by detailed guidance and training, and underpins everything we do as a business. It is my belief that not only is this the right approach in and of itself for a responsible business it also makes good business sense, and helps foster our long-term financial growth by sustaining our reputation and encouraging longer-term thinking looking beyond short-term financial returns.

In this Sustainability report we highlight certain areas that we consider key to our being a responsible and ethical business as well as to assist us in reducing risks, and thus sustaining our operations.

Peter Rogers CBE
Chief Executive

Environmental quality

51% (2013: 58%)

Description

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

See page 63 for more information.

Number of graduates

442 (2013: 251)

Description

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

See page 60 for more information.

How we address sustainability

1. Ethics and governance

- Act responsibly and ethically at all times in line with the Group Code of Conduct
- Provide the opportunity for employees to confidentially and anonymously report areas of concern to senior management for investigation.

for more details see pages 54–55

2. Our customers and supplier relationships

- Building long-term relationships through using eight key elements
- Delivering business-critical support using high performing, ethical suppliers
- Supporting local economies by using diverse, locally procured services.

for more details see pages 56–57

3. Ensuring safety

- Committed to a Group-wide 'Home Safe Every Day' safety initiative
- Open, honest and challenging dialogue between employees and management to ensure continual improvement in safety culture throughout the Group.

for more details see pages 58–59

4. Developing and sustaining talent

- Planning for growth and succession
- Focus on recruitment, retention and development of talent
- Encouraging young people into the engineering sector through leading apprenticeship and graduate programmes
- Ensuring recruitment at all levels is undertaken in a 'best for the job' approach with a mind to ensuring a diverse workforce with a zero tolerance policy on discrimination.

for more details see pages 59–61

5. Managing environmental impact

- Conduct our business in a way that is mindful of environmental impacts
- Monitor with the aim of reducing where possible our global carbon footprint and our greenhouse gas emissions levels
- Encourage environmentally friendly practices on sites we do not own.

for more details see pages 62–63

Senior management retention

95% (2013: 96%)

Description

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

See page 59 for more information.

Number of apprentices

594 (2013: 551)

Description

Number of employees currently on apprenticeships across the Group.

See page 60 for more information.

Sustainability *continued*

1. Ethics and governance

Code of Business Conduct

Babcock aims at all times to act responsibly and ethically when pursuing and awarding business. We understand that our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected corrupt or unethical behaviour. To protect the Company and reduce these risks we have set out a policy on how we should all conduct business in the form of the Babcock Code of Business Conduct. Compliance with this policy is compulsory for employees, business advisers and business partners (or, in the case of business advisers and partners they must have equivalent standards and procedures in their own businesses).

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

Babcock Code of Business Conduct

As a company Babcock

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

And our employees

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

And our business advisers

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

And our business partners

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

The Babcock Code of Business Conduct is supplemented by a detailed manual available on the Group's intranet that contains guidelines, authorisation and other procedures aimed at identifying and reducing corruption and ethical risks. For example: an explanation of the law and how it can apply; 'Red Flags' to look out for; guidelines and authorisation procedures for giving or accepting gifts and hospitality or making charitable or political donations; due diligence and approval requirements before engaging new business partners; and how to whistleblow concerns. This manual can also be accessed online on the Company's website at www.babcockinternational.com/about-us/responsibilities/ethical-compliance/.

Employees take online training courses in anti-bribery and corruption risks. Each Division and Group function is required to have a designated member of its senior management team with specific responsibility for ensuring the distribution, communication and implementation of the anti-bribery and corruption guidance, and for overseeing training. Divisions and Group functions are also required to consider carefully whether they need also to designate business unit level or site specific managers with the same responsibility. Anti-bribery and corruption risks have expressly to be considered each year in business unit risk reviews as an integral part of our risk management arrangements. Internal audit carries out a review of the implementation of the Guidance as part of the annual internal audit plan. Divisional monthly reports contain information on anti-bribery and corruption compliance, copies of which go to each Board meeting.

Human rights

As an international business we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we deal in our operations across the world. We welcome the opportunity we have to contribute positively to global efforts to ensure that human rights are understood and observed.

We believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct (pages 54-55), our customer and supplier relationships (pages 56-57), the importance we place on health and safety (pages 58-59), the commitment we have towards the people who work for and with Babcock both now and in the future (pages 59-61), and our respect towards the wider society and environment in which we work (pages 62-63), as we set out throughout this Sustainability report.

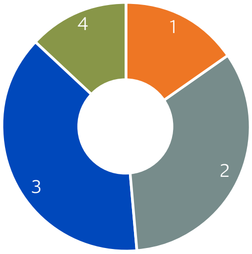
Whistleblowing

Babcock insists on responsible, transparent and accountable business practices in accordance with our Code of Business Conduct. Confidential employee whistleblower hotlines are available Group-wide to relay any employee concerns that these standards are not being adhered to for investigation. The service is provided by an independent third party who promptly reports messages received to central Group senior management. Callers can remain anonymous if they wish. The hotlines are intended for use by employees to report concerns that they feel unable to raise with line management (or if they have raised matters, but are not satisfied with the response) regarding financial irregularities, non-compliance with laws, or breaches of our Code of Business Conduct, threats to health and safety, conflicts of interest or improper practices. New employees are made aware of the existence of the hotlines as part of their induction; details of the hotlines are advertised at operating sites.

All whistleblowing incidents are reviewed and a method of investigation confirmed, which can be by a senior manager not directly related to the incident, an external agency or by internal audit. In all cases this review is followed up by a report to Group senior management. Where possible, the caller reporting the incident will be notified of the outcome of the investigation. A report on all whistleblowing calls throughout the Group, the investigations undertaken as a result of these calls, the conclusions drawn and the recommendations and actions resulting is given to each meeting of the Audit and Risk Committee.

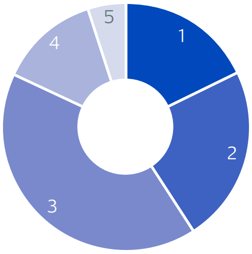
The total number of whistleblowing reports in the year to 31 March 2014 was 39. During the same period to 31 March 2013 the number was 40. Details of the number of cases by division and by category are set out below.

Whistleblowing cases by division 2013/14



1. Defence and Security	6
2. Support Services	13
3. Marine and Technology	15
4. International	5
Total	39

Whistleblowing cases by category 2013/14



1. Harrassment/Bullying/Discrimination	7
2. Fraud/Theft/Dishonesty	9
3. Employment Issues	16
4. Operational	5
5. Health & Safety	2
Total	39

Sustainability *continued*

2. Our customer and supplier relationships

Our customers

As we have described throughout the Strategic report, we serve a wide range of customers in many business areas offering complex solutions under contracts which typically run over a number of years. Given the long-term nature of these contracts, and the profiles of our major customers, Babcock favours a partnering or collaborative approach and looks to build strong, long-term customer relationships; this is at the heart of our business philosophy. By this collaborative approach we aim to develop an in-depth understanding of our customers, what they value, what matters most to them, their present and future needs and objectives, and how and why they make their procurement decisions, so that we can offer and best deliver what they are truly looking for and can anticipate and plan for their future requirements.

So how do we seek to establish these strong customer relationships?

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

- Shared goals and objectives
- Mutual trust
- Being open and honest in all dealings
- Identifying and understanding mutual interests
- Seeking strong inter-personal relationships
- Taking the long-term view and looking ahead
- Meeting, and wherever possible exceeding, expected outcomes
- Offering what we believe to be cost effective, technically sound solutions.

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

Our approach to procurement

Our customers rely upon Babcock to deliver critical support to their operations. We need trusted and effective suppliers to support us in delivering reliable service to our customers and in seeking to reduce the cost of doing so. We buy a wide range of goods and services and need reliable, high-performing suppliers across all aspects of our supply chain. Babcock seeks to ensure that our customers' money is spent efficiently and responsibly, and that our supply contracts are managed effectively. We work to ensure that the supply chain adheres to our standards of ethical behaviour, environmental, health and safety and other working practices.

Babcock helps sustain its supply chain through an annual expenditure in excess of £1.3 billion with a supplier base of more than 10,000 companies. We have substantive trading relationships with over 350 companies. Our businesses have dedicated, local procurement and supply management functions. These teams are integrated into local operations but adopt common high standards, sharing best practices and supplier insights across the Group. Common expenditure across the Company is increasingly being managed and governed using a Group-led category management approach.

Our approach to procurement and supply is to:

- Select and manage suppliers to support our customer service delivery ethos and to reduce costs
- Focus our effort on a supply base of longer-term, strategic suppliers who work with us to strengthen further our proposals and delivery to our customers
- Employ procurement and supply specialists with the expertise to procure and deliver effective supply, working together with the technical, engineering and operational customer teams
- Enter into supply contracts that fairly reflect the risks and rewards with our suppliers
- Work with suppliers with a shared commitment to all those working on, or visiting, Babcock operations being able to return 'Home Safe Every Day'
- Use category management as the key approach to developing supply strategy, selecting suppliers and managing their performance. We select suppliers based on their capability to support us, and our customers, and have a diverse supply base as a consequence.

Health and safety in the supply chain

Babcock is committed to creating a safe working environment which enables all those working on, or visiting, Babcock operations to be able to return 'Home Safe Every Day'. We seek to work only with suppliers who we believe are able to both meet and promote our standards – those that share our commitment to safe behaviours and performance in delivering services and solutions for our customers. Our teams aim to work with suppliers on safety and share continuous improvement practices to reduce or prevent accidents and injuries.

Supply chain security

Protecting the information and physical assets of our customers is an increasingly important part of what we do. We always expect high standards of commercial confidentiality. For certain types of supply we have and are developing exacting standards of security compliance. For these companies we need to know that information is well managed and protected throughout the supply chain.

Diversity of suppliers

Supplier credibility, responsibility, quality and service performance are what matter most. Many of our suppliers are small and medium sized enterprises. We select and manage suppliers to support our own experienced workforce in delivering complex, critical and often bespoke engineering services. Diversification of supply where possible should make our supply chain more robust in helping us to deliver for our customers. The varied nature of what we do means that we depend on a wide range of talents and abilities from a wide range of suppliers.

Ethical working and values

We expect high standards of conduct from our suppliers in what they do for us or our customers and will not accept any behaviour contrary to our codes, including bribery, corruption and fraud, threats to health and safety, conflicts of interest and other improper practices. We pre-qualify suppliers for certain types of supply before admitting them to the supply chain, and this involves satisfying ourselves that they can meet our standards. Certain suppliers will be selected for audit and close monitoring based on risk assessment or supplier performance. Planned reviews of supply chain risk are undertaken by our businesses.

Payment

We want to spend time talking to our suppliers about new ideas, operational performance and total cost opportunities – not about payment. We understand the importance of predictable customer payments when running a business. That is why Babcock is a signatory in the UK to the Prompt Payment Code and we would encourage others in our supply chain to be also. Our suppliers have critical responsibilities for getting paid on time by delivering on time and in full, following the required billing processes and adhering to our standards for invoicing.

Supplier development

We work in close collaboration with selected suppliers – big and small. Supplier development activities target improvements that will benefit our operations and the capability of the supplier – ultimately driving performance standards that benefit our customers. Joint teams from Babcock and the selected suppliers engage together on a wide range of issues such as input costs, delivery performance, safety, product reliability and joint growth opportunities. Targeted supply relationships use data dashboards to monitor performance and progress. Babcock is actively involved with our suppliers in the Aerospace, Defence and Security Supply Chain development programme – SC21.

Sustainability *continued*

3. Ensuring safety

Following the successful implementation of our ‘Home Safe Every Day’ health and safety initiative last year, incorporating the ‘Safety Lens’ programme, we have further clarified our expectations by way of a Behaviours and Expectations policy. This outlines the commitment of Babcock to ensuring the health, safety and welfare of our employees whilst at work. It sets the standard for the behaviours and expectations required of all of our employees, management and contractors undertaking business on our behalf.

The following excerpts from the policy provide detail on the ‘To give you time to be safe’ and ‘Look after each other and let others look after you’ segments of the Safety Lens.

SAFETY A CLEAR VIEW

‘To give you time to be safe’

Good safety takes good planning. It is essential that any job we do has been planned; where appropriate a suitable health and safety plan is in place, and for all tasks a risk assessment is in place to ensure hazards are understood and appropriately controlled.

We will:

- Ensure, when starting work, the hazards are understood, the required controls are in place, the work has been authorised and the required permission to start obtained
- If using generic risk assessment, ensure that it adequately reflects the hazards associated with the specific tasks
- Ensure that a pre-job safety brief has been undertaken
- Ensure work is properly supervised and adequately controlled
- Regularly monitor the work in progress.

We will not:

- Deviate from method statements or instructions without formal review and authorisation
- Defeat interlocks, safety devices, trip circuits or other protective equipment without formal assessment and authorisation.

‘Look after each other and let others look after you’

It is our goal to ensure that we cause no harm to persons whilst at work and we can achieve this through maintaining high safety and welfare standards.

We will:

- Look out for our own safety and the safety of our colleagues
- Do our job in a safe manner so as to reduce the risk of injury and inform our Supervisor if we have an existing medical condition that could be aggravated by our work
- If injured at work, stop work, seek medical assistance and report it in a timely way.

We will not:

- Carry on working in an unsafe environment where there is a risk of injury or a hazard to our health
- Hide the fact that we have an injury and carry on working regardless.

Performance

We have seen a 5% reduction in total injuries per 100,000 hours worked over the last year whilst our RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) rate has maintained at 0.17 per 100,000 hours worked.

Our focus in the coming year is to continue to embed the behaviours noted in our Safety Lens ensuring our employees make it home safe every day.

Total injury rates per 100,000 hours worked

2013/14	2.51
2012/13	2.64
2011/12	2.65
2010/11	2.86
2009/10	3.67
2008/09	4.15

RIDDOR rate per 100,000 hours worked

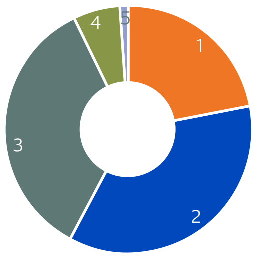
2013/14	0.17
2012/13	0.17
2011/12	0.21
2010/11	0.22
2009/10	0.28

	2009/10	2010/11	2011/12	2012/13	2013/14
Total number of injuries	2,530	1,962	1,974	2,010	1,979
Fatalities	2	0	0	0	0
Major Injuries	28	22	30	30	36
Over-three-day injuries	164	131	123	102	98
RIDDOR totals	194	153	153	132	134

4. Developing and sustaining talent

Our business arrangements with our customers require us to deliver services across an array of projects and assets. Our people need to have a range of experience, skills and competencies: engineering, management, technical, commercial, administrative and developmental, to name but a few. We recognise that it is the skills and commitment of our employees that define our uniqueness and our ability to deliver services to our customers.

Employees by division (%)



1. Defence and Security	22%
2. Marine and Technology	36%
3. Support Services	35%
4. International	6%
5. Group	1%
Total	c. 28,300 employees

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

Succession planning is a key focus at Board level and throughout the businesses. We have plans in place that identify immediate and/or future potential successors to key senior management posts. We also have individual training and development plans for those so identified. Over 80% of executive positions have identified replacements. For the year ending 31 March 2014 Babcock had a 95% senior management retention rate.

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

- Last year we launched the Babcock MBA which offers a world class MBA programme to 25 high potential employees each year. The first cohort is part way through their first year, with the second cohort starting their MBA early next year.
- The Babcock Academy, run in conjunction with Strathclyde University since 2005, continues to provide a structured framework for our managers to improve their managerial skills and strategic awareness. We have completed a full review and refresh of the Academy which continues to be a market leading programme.

Sustainability *continued*

– We continue to enhance our Emerging Leaders Development Programme. In addition to holding Emerging Leaders workshops, we have developed an Emerging Leaders framework which ensures that key divisional managers are able to identify high potential candidates and provide them with the development they need and so retain their skills within the Group. Each Division has identified talent pools and reviews their development on a quarterly basis.

The Babcock MBA programme

The Babcock MBA is the latest development from the longstanding partnership with triple accredited Strathclyde Business School. The programme launched in 2013 with a first cohort of 25 delegates selected from Babcock's senior managers. The key objectives of this customised programme are to enable participants to broaden and deepen their toolset of business skills, and enhance their knowledge of leading management theory and practice while further improving collaboration across the Group.

The Babcock MBA is directed by a Steering Group comprising Strathclyde's Executive Education specialists and members of Babcock's senior team. The Steering Group is responsible for design, delivery and ongoing developments ensuring alignment with the Babcock strategy in the context of the latest developments in management thinking.

Graduates and apprentices

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

With regard to graduates, we reported last year that we were expecting to recruit 126 graduates for the 2013/14 intake. In the event, business requirements were such that we needed to recruit an additional 43 graduates, bringing the total for 2013/14 to 169 (2012/13: 142).

There are currently 442 graduates on the graduate programme, 79% of whom are in engineering disciplines and 21% in business support roles. At the date of this report, we expect to recruit 170 graduates for the 2014/15 intake. In addition to our graduate scheme, we recruit many graduates directly to management positions.

At 31 March 2014, there were 594 apprentices across the Group (2013: 551) of whom 226 were recruited during the year (2013: 174). The increase in numbers since last year demonstrates the commitment we have to apprenticeship training. Of those completing their training over 86.5% were appointed into substantive roles within the Group.

We have demonstrated our support and commitment in this area by joining the '5% Club' during the year, which involves our committing to having 5% of our workforce on structured training schemes within the next five years.

The Babcock MBA programme

As one of 25 Babcock managers from across the Group embarking on its inaugural MBA programme, Ted Shaw felt a little trepidation as he arrived at Strathclyde University last September for the first day of class. "Having been away from academia for over 20 years," he recalls, "I was concerned about whether I could hack it." He needn't have worried. As he soon discovered: "The level of commitment from the Company is clear, and the programme – developed jointly by Strathclyde and Babcock – is well designed to suit a busy professional's lifestyle, with most of the emphasis on home study. It's a challenge – but a life-changing one."

Managers from the Marine and Technology division

Technical Engineering Apprenticeships

Recently awarded 'Technical Apprentice of the Year', Jessica Duffy is described by her team members as having an "avid desire to learn".

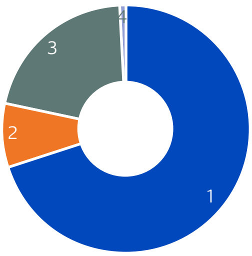
It's a journey that started in September 2012 when she embarked on a four-year Technical Engineering Apprentice Scheme at Babcock Integrated Technology in Bristol at the age of 18.

Learning on the job was a key consideration for Jessica. She combines shop floor experience, to complete her Performing Engineering Operations (PEO), studying at college for her Mechanical Engineering HNC and gaining experience in various departments within the business. She hopes to move on to either an HND or a foundation degree.

Babcock apprentices hard at work

Graduate programme

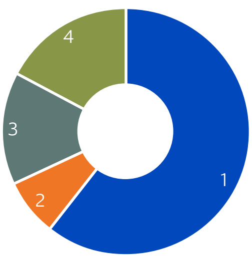
Graduates during the year by division



1. Marine and Technology	310
2. Defence and Security	37
3. Support Services	92
4. Group	3

Apprentice programme

Apprentices during the year by division



1. Marine and Technology	360
2. Defence and Security	45
3. Support Services	87
4. International	102

Diversity

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

Babcock operates principally in sectors that have until recently traditionally been regarded as 'male', such as engineering and working with the armed forces. Inevitably, companies with this background will tend to be starting from a level of relatively low female participation, especially in management positions. However we are working hard to change this: as set out on page 81, 20.5% (5,768) of our total workforce is female (male – 22,370), with 19.8% (113) female senior executives, as defined on page 81 (male – 459), and 18% (2) female Director's on our Board (male – 9) as at 31 March 2014. Our diversity initiative, 'All together different', is championed by a Diversity Steering Group, which coordinates the implementation of our equality and diversity policy. This group has started a series of 'dialogue' conferences to debate diversity issues with relevant groups of employees.

This year's conference focused on the challenges of being a woman within our organisation. A series of actions and development programmes are being implemented across the organisation following this. We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2014, 20% of those employed on our graduate scheme were female.

We were assisted at the first 'dialogue' conference by WISE (Women in Science and Engineering). WISE works to promote female talent in science, engineering and technology from classroom to boardroom. Babcock has invited attendees of the conference to join WISE at the Company's expense. The Group has also become a corporate member of WISE and will be sponsoring one of their national awards to encourage women in science and engineering.

Further information on the work we are doing around our diversity can be found on page 80 of this Report.

Babcock Graduate Scheme

Climbing 25 metre towers to carry out rescues. Taking life-changing leadership courses. Even meeting royalty. All in the course of a Babcock Graduate Scheme, as new engineer Nadine Young is discovering to her delight. The University of Liverpool graduate gets to experience a different business unit of Babcock every six months. First up was a stint in Power, researching, testing and implementing new technologies, followed by hands-on tower training in Communications. Right now she's in Mining and Construction, focusing on telemetry – a new field for Nadine. "Gaining this amount of variety at the beginning of my career allows me to take the time to think about what I want to do," she says. "I can honestly say I'm loving every minute of my Graduate Scheme."

Babcock Graduate Nadine Young

Sustainability *continued*

Community

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

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

Community engagement

The Babcock International Group's Africa division supports a programme that provides high school education for underprivileged children. In order to be accepted to these bursaries, the child must come from a family that has a total family income of no more than £3,500 per year. Currently, Babcock is sponsoring 20 children through various levels of high school with financial support while at the same time providing mentoring assistance and further bursaries for the children who go on to universities to study in the fields of science, technology, engineering and mathematics.

Graduation ceremony for the Student Sponsorship Programme class of 2013

Corporate Covenant

Babcock is proud to support the Armed Forces and our Reservists. We are committed to the Total Support Force and have signed the Corporate Covenant. We actively recruit service leavers and reservists. We support our employees, including providing paid time off for training, through our SaBRE recognised Reserve Forces Policy.

The Corporate Covenant is a written and published voluntary pledge from businesses and charitable organisations who wish to demonstrate their support for the armed forces community

5. Managing environmental impact

Babcock works to achieve the highest standards in its management of environmental matters. We recognise the impact our operations can have on the environment and will seek to eliminate adverse effects wherever possible, and keep to a minimum and mitigate any negative effects where this is not possible.

Many of the sites we operate on are customer owned or operated sites and may be subject to contractual or budgetary constraints; however, this will not deter us from maintaining our own exacting standards of environmental management. We will strive through our pursuit of excellence to educate and influence all our customers to raise their standards and adopt our best practices in environmental management and commitment to continual improvement.

At Babcock we recognise that our business operations are dependent on the use of energy from many sources and that these contribute to global carbon emissions. We are committed to reducing our carbon emissions year-on-year with the long-term aim of achieving a low carbon business solution. We collect and report on our carbon emissions data across the business and the reductions in our carbon footprint are audited and certified to the Carbon Trust Standard. Whilst our business continues to grow we also continue to strive to identify and implement measures to reduce our overall carbon footprint in relation to our business turnover. Technical solutions have their part to play but we believe that behavioural changes in the way in which we as people conduct our day-to-day business have an equally important role to play.

More than half of the Group's revenue comes from operations that have sought certification to ISO14001. This is an internationally recognised environmental management system (EMS) which includes a commitment to a programme of continual improvement in environmental performance. Where we have decided not to seek or are, due to customer constraints, unable to seek formal accreditation for a business unit we apply industry standards and best practices and strive to ensure that customers' and all applicable legal and regulatory requirements are fully met. The number of our businesses units with formal accreditation is unchanged from 2013 though as a result of proportionately more revenue coming in 2014 from business units that have not sought formal accreditation the percentage of our revenues coming from accredited units has declined from 58% to 51%.

Division	ISO14001 Certified	Industry Best Practice*
Marine and Technology	20%	80%
Defence and Security	55%	45%
Support Services	100%	0%
International	0%	100%

* Industry Best Practice refers to our environmental management controls in compliance with industry best practice standards at sites not ISO14001 certified.

The environment and carbon management

Babcock's certification to the Carbon Trust Standard is due for renewal in 2014 and, as part of the process of continuous improvement in our environmental management and the reduction in our CO_2 emissions, we will seek to include more of our 'Scope 3' emissions into the assessment. We recognise that reporting on environmental performance for such a large and diverse company is a complex undertaking; we will also be looking to streamline and standardise our processes for collecting and collating data both to ensure greater accuracy and transparency in the future and to allow our policies and targets to concentrate on areas where the maximum benefits can be achieved.

We are continuing to rationalise and improve the efficiency of the Group's built estate which should reduce our own carbon emissions. We will once again be reporting on emissions arising from our energy use in the final year of 'Phase 1' of the Carbon Reduction Commitment – Energy Efficiency Scheme (CRC) and for the new CRC Phase 2 which comes into effect in 2014.

The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, which came into force in October 2013, requires the Group to report on the green house gas (GHG) emissions arising from all its business activities, including overseas operations. Collecting and collating this data provides new challenges but again highlights the good sense in developing the knowledge and systems the Company needs to report with accuracy and confidence. In a world where challenges to a company's reporting on its environmental performance are increasingly likely that confidence is of paramount importance.

						UK Emissions	Overseas Emissions	Total Group Emissions
Year Ending		March 2010	March 2011	March 2012	March 2013		March 2014	
Scope 1 Emissions	tCO_2e	30,800.68	50,522.19	50,249.66	46,641.70	35,230.78	2,145.73	37,376.51
Scope 2 Emissions	tCO_{2e}	107,395.74	150,288.16	122,618.21	113,835.50	105,744.00	4,384.85	110,128.85
Scope 3 Emissions – (Business travel)	tCO_2e				584.54	8,745.22	189.29	8,934.51
Absolute Footprint	tCO_2e	138,196.42	200,810.35	172,867.87	161,061.74	149,720.00	6,719.86	156,439.86
Turnover	£m	1,668.60	2,210.40	2,432.20	2,542.00	2,798.00	523.00	3,321.00
Turnover Benchmark (Adjusted for inflation)	tCO_2e/£m	82.822	90.85	71.07	63.36	53.51	12.85	47.11

Babcock International Group – Carbon Footprint Tonnes CO_2e against £m turnover using Carbon Trust assessment methodology. Due to the highly diverse nature of the Company's business the metric of 'tonnes of CO_2e per £m turnover' has been used to provide a more meaningful measure of energy use throughout the business.

The total emissions from Scope 1,2 and 3 sources have been divided by the annual turnover to provide a final benchmark figure.

Our principal risks and how we manage them

"As we continue to grow, having a coherent, well-established and embedded risk management culture within the business is fundamental to allowing us to work towards our strategic objectives. Having a clearly defined risk appetite, and working within an effective framework which manages our risk in line with this approved framework, has, and will, allow us to pursue new opportunities whilst protecting the Group's assets, and minimising the potential for financial or reputational risk."

Bill Tame
Group Finance Director

The key risks and uncertainties shown on pages 67 to 71 are those the Board considers to be of greatest significance to Babcock as it stands today. They have the potential materially and adversely to affect Babcock's business and the delivery of its strategy. For each risk there is a description of the possible impact of the risk on the Group should it occur, and the mitigation and control processes in place to manage the risk.

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

How Babcock manages risk

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

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

Risk management framework

The Board is ultimately responsible for the Company's risk management and internal control system, which is overseen on its behalf by the Audit and Risk Committee.

The Audit and Risk Committee reviews aspects of the risk management and control system at its meetings and at least once a year formally reviews the system's effectiveness on behalf of the Board (see the effectiveness review statement on pages 121 – 122). It also receives in-depth presentations on individual key risks.

Babcock has two senior level Security Committees which each meet regularly to discuss security and information assurance issues and threats facing the Group. The Committees also provide oversight of the Group's security and information assurance infrastructure and ongoing security projects. The Group Finance Director is Chairman of both Committees and reports on security and information assurance matters to the Board.

The Audit and Risk Committee receives regular reports from Ernst & Young, the internal audit function provider. It also receives external audit reports from PricewaterhouseCoopers. The reports look at internal controls and risk issues.

Operationally, internal control systems are monitored by senior Group management with Divisional Chief Executives having responsibility for risk identification and risk management in their businesses.

See p66

The Group Risk Manager works with divisional management teams to keep under review and development, and to share best practice in making, the Group's risk assessments and compliance with risk management standards and processes.

Risk assessments made at business unit level are subject to regular review and challenge by Group senior management.

Employees undertake a selection of compulsory risk management training programmes (for example: security, data protection and anti-bribery and corruption training) appropriate to their roles, in order to increase awareness of potential risks.

Principal risks and management controls *continued*

Other internal controls include:

Budget process	Annual budgets and medium-term financial plans are reviewed by Group management before submission to the Board for approval. Updated forecasts for the year are prepared at least quarterly.
Management and financial reporting	The Board receives details of monthly actual financial performance compared against budget, forecast and the prior year, with a written commentary on significant variances from approved plans. The Chief Executive and Divisional Chief Executives report to each Board meeting on operating performance and matters of potential strategic significance. Group senior management receives a monthly narrative operating report from all business units.
Security and information governance structure	There is a formal security and information assurance governance structure in place to oversee and manage security and similar risks.
Clear delegation and limits of authority	The Board regularly reviews and approves a schedule of delegated authorities setting out levels of specific financial decision-making authority delegated by it.
Insurance	The Group has a large and comprehensive insurance programme, preferring to place risk in the insurance market, where available on acceptable terms, rather than to self-insure or make significant use of captive insurance. The Group has a full-time Insurance Manager who reports annually to the Board on the strategic approach being taken to insurance and on the placing of the programme.
Claims and litigation reporting	The Board and Group Executive Committee receive monthly summaries of material disputes and actual or potential threats of claims, their progress and potential outcomes. The Group has an internal legal service.
Credit controls	All significant credit risks are reviewed by Group Finance and an Executive Director, and, where appropriate and available, risk limitation actions are taken.
Code of Conduct and anti-bribery and corruption policies and procedures	The Group has a Code of Conduct making clear its commitment to the highest ethical standards and the ethical standards it demands from its employees and those who work for it and with whom it does business. There is an explicit anti-bribery and corruption governance structure in place and detailed policy and procedures (available on the Babcock website), with supporting training programmes, which the Company believes meet the requirements of 'adequate procedures' under the Bribery Act 2010. Appropriate due diligence is carried out on actual or potential business partners. Those working on our behalf or in consortium with us are required to abide by our Code of Conduct (or an equivalent) and to undertake not to behave corruptly. See more on our Code of Conduct on pages 54 – 55.
Group policies and procedures	The Group has written policies and procedures, which are kept under review, covering a range of matters intended to reduce or mitigate risk, such as: health, safety and environmental policies, security and information assurance, export controls, contracting requirements and guidelines, legal, financial and accounting matters. These policies and procedures are available to employees on the Group intranet and are supplemented at divisional level by further business unit specific policies and procedures.
Whistleblowing hotline	All employees have access to a confidential whistleblowing hotline with the opportunity to call, email or write letters detailing any area of concern to be brought to the attention of senior management. A report on all whistleblowing cases and the resultant investigations and conclusions is submitted to each Audit and Risk Committee meeting – see page 55.
Critical supplier reviews	Divisions regularly review the vulnerability of key supply chain partners whose continued ability to supply the Group is considered critical to its business performance, and also consider fall-back plans when first deciding to appoint such suppliers.
Business continuity and disaster recovery plans	All divisions, business units and Group functions are required to consider the need for and put in place appropriate plans to minimise the risk of interruption to business and contract performance in the event of a major disruption to normal functioning arrangements.

Key risks, risk mitigation and controls

In this section 'Group' means the enlarged Babcock Group including the Avincis Group, which will be integrated within the governance and controls systems of the Babcock Group.

Risk: Reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions, means we are exposed to political risks, damage to our reputation or the reputation of other outsourcing businesses (and thus outsourcing itself), or our ceasing to meet customer or regulatory requirements for doing business with them, can have serious adverse consequences.

Description

Babcock's customers are mainly large, complex organisations, typically central or local government departments (notably the UK Ministry of Defence), other public sector bodies or commercially owned entities in sectors subject to specific regulation. Many of them rely, to a greater or lesser extent, on public funding. These customers may be affected by financial, budgetary, regulatory or political constraints which could have a significant impact on the size, scope, timing and duration of contracts and orders with/placed by them and therefore on the level of business which the Group will derive from such customers. In addition, because of their size, these customers have considerable bargaining power and have the ability to cancel contracts without, or on, short notice, often without cause or exert pressure to secure their renegotiation. Inevitably, reliance on a relatively limited number of customers and contracts carries risks.

National and local government policy changes and public spending constraints are potentially material risks for the Group as they could result in delays in placing work, pressure on pricing or margins, withdrawal of projects, early termination of contracts, lower contract spend than anticipated or adoption of less favourable contracting models. These customers set demanding criteria for eligibility for contracting with them, the cost of compliance with which can be significant. Damage to Babcock's reputation, whether justified or not, or to the reputation of outsourcing itself as a business model by reason of reputational or performance issues with other suppliers, has the potential, given a relatively narrow customer base and the size of contracts at stake, to impact severely our ability to win or retain significant business streams.

Given its particular importance as a customer of the Group, reductions in the UK Ministry of Defence's budget or changes in its defence policy or spending priorities (such as changes to policy on continuous at sea deterrence or successors to existing nuclear deterrence capabilities or submarine or surface ship strength or capabilities) may adversely affect the Group's business if those reductions or changes result in the delay, cancellation, abandonment or significant reduction in scope of activities that may otherwise have been available for the Group to participate in. The UK Government is due to undertake a Strategic Defence and Security Review in 2015 after the general election due in 2015 and such a review may have material short or longer-term consequences for the Babcock Group's business with the Ministry of Defence.

Impact

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

Risk mitigation and control process

- The Company has extensive and regular dialogue with key customers, involving, as appropriate, the Chief Executive, Divisional Chief Executives and other members of the senior management team.
- The Company actively monitors actual and potential political and other developments that might affect its customers.
- The Company seeks to have and keep up to date a clear understanding of ongoing regulatory requirements and to maintain good working relationships with regulators.
- The Company seeks to obtain a clear understanding of customer needs, plans and constraints and monitors customer policy developments and potential developments closely.
- The Company aims to be innovative and responsive in helping customers meet their needs and challenges and this may lead to opportunities rather than risks in relation to budget cuts.
- Senior management at Group and divisional level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere in this risk management section.

Principal risks and management controls *continued*

Risk: Scottish independence and associated uncertainties and knock-on effects.

Description
If the Scottish independence referendum to be held in September 2014 results in a majority vote in favour of independence, the consequences for the Group's businesses cannot be predicted with certainty. Regardless of the ultimate impact, there is likely to be a lengthy period of uncertainty which may itself have adverse consequences for the Group's business, financial condition, operating results or prospects. There may also be a medium-term knock-on effect on the nature, timing and scope of the policies and procurement plans of the United Kingdom, especially in defence terms, the impact of which cannot be predicted with certainty.

Impact
Potential adverse consequences on the Group's Scottish business include:

– A significant long-term reduction in revenue at HMNB Clyde and the inability to win contracts for the Royal Navy at Rosyth.

– In the case of Avincis, a reduction in demand for offshore crew-change helicopter services due to less investment in the North Sea.

– New Scottish regulatory and ownership regimes for the rail and nuclear industries and the aviation sector (plus health and safety as a whole) may have consequences for the Group's rail and nuclear businesses in Scotland and the Avincis business in the North Sea.

Risk mitigation and control process
The Group will monitor developments closely.

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

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

Impact
– Failure to meet performance conditions set out in the contract could result in the cancellation of a contract resulting in claims for loss and reputational damage for the Company.

– Poor performance against a contract will undermine the Company's ability to win any future rebids for work.

– Poor performance may result in significant financial loss or significantly lower returns than expected.

Risk mitigation and control process
– Forward-looking management reviews are in operation to ensure contracts are being operated profitably and are being properly accounted for.

– Contractual performance is continually under review. Major contracts have risk identification and management processes in place. Significant risks will be tracked on risk registers. Failure to maintain required contractual performance or contract delivery targets will be highlighted at an early stage.

– A review of contract performance takes place at a business unit, divisional and senior Group executive level as appropriate.

Risk: Failure to realise the pipeline of opportunities and secure rebids.

Description
Failure to realise the pipeline of opportunities and secure rebids for existing contracts can involve significant wasted costs, missed opportunities and loss of revenue. Bidding for large and complex contracts can be time-consuming and is expensive, as can be mobilising on new contract wins. Also, by their nature, large, longer-term contracts are irregular and relatively infrequent in coming to market. The Group may also face competition in the bidding process from either existing competitors or new market entrants.

Impact
– Unsuccessful major bids or rebids can involve significant wasted bid costs.

– The inability to secure a major new contract can represent a significant missed opportunity for growth.

– Losing rebids can mean the loss of a significant existing revenue and profit stream.

– The loss of a bid or rebid can impact on the Group's strategic objectives.

- Contracting on unacceptable commercial terms in order to secure new business or resecure existing business could undermine future profitability and sustainability of business growth.
- The Group may face expense, delay or loss of awarded contracts if its competitors protest or challenge awards of contracts to the Group.

Risk mitigation and control process

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

Risk: Operations carrying significant health and safety or environmental risks.

Description

Many of Babcock's operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties, members of the public or the environment. The operations of helicopters involve an inherent degree of risk which is compounded by the nature of Avincis's helicopter services that often involve low altitude flying in adverse climatic or operational conditions or terrains.

Impact

- Serious accidents can have a major impact on the lives of those employees involved as well as their families, friends, colleagues and communities.
- In the event that such an incident is caused or perceived to be caused, or contributed to, by the operational or other failings of a Group company, this could subject the Group to legal claims, resulting in the payment of substantial damages, not all of which will be insured, interruption of services to customers and serious damage to the reputation of the business concerned and the wider Group.
- Incidents involving other operators in the sector concerned, such as other helicopter operators, may also adversely impact customer confidence generally and lead to reductions in demand.
- Such incidents could lead to groundings of particular types of aircraft temporarily or for longer periods and this may have an adverse impact on the ability of the business to perform its contracts for which the aircraft were required or involve greater cost in doing so.
- As well as legal claims, the Group may be subject to financial loss through fines by regulators, suspension or loss of licences, disqualification from future tenders and adverse media attention and scrutiny.
- A major incident at a Babcock controlled location may restrict the ability of the Company to continue business and fulfil contractual obligations.

Risk mitigation and control process

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

Principal risks and management controls *continued*

Risk: The Group's businesses depend on their ability to attract, develop, train and retain experienced senior management, business development teams and highly skilled employees.

Description
The Group's continuing success will depend on the Group's ability to plan for management succession and to attract, develop, train and retain qualified and experienced management and business development executives. The Group's success also depends on its ability to recruit, develop, train and retain highly skilled and suitably qualified employees, who represent a substantial amount of the Group's intellectual capital, to serve customers effectively. Competition for skilled personnel in the industries in which the Group operates is intense. Employees who are highly trained are likely to remain a limited resource for the foreseeable future. Identifying, recruiting and training personnel requires substantial resources.

Impact
- A loss of one or more of the members of the Group's senior management without adequate replacement could have a material adverse effect on the prospects for, or performance of, the Group.
- Insufficient experienced business development or bidding resources can impair the ability of the Group to achieve strategic aims and financial targets or the inability to pursue business in new areas.
- If the Group fails to recruit and retain qualified employees, in particular suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups, including by failing to maintain compensation awards at an appropriate level, this could lead to a failure to fulfil contractual obligations, the inability to pursue business in new areas or a loss of reputation, any of which could have a material adverse effect on the business, financial condition or operating or financial results of the Group.

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

Risk: IT and security.

Description
The ability of the Group to be able to deliver secure IT and other information assurance systems designed to protect personal data or customer or Company confidential information is a key factor for customers. Despite controls to ensure the confidentiality of such information, the Group may breach restrictions or may be subject to attack from computer programs or malicious or hostile third parties that attempt to penetrate the network security and misappropriate confidential information and there is no guarantee that the Group's security measures will be sufficient to prevent breaches or cyber attacks. In addition, the risk of loss of information or data by other means due to a failure to keep it safe at all times and within custody or control is a risk that cannot be entirely eliminated.

Impact
- Any breach or compromise of security or a breach of security at a physical site could lead to loss of reputation, disruptions in business operations and inability to meet contractual obligations and have an adverse effect on the Group's ability to win future contracts and, as a result, on results of operations and overall financial condition.

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

Risk: The Group has significant defined benefit pension schemes.

Description
Defined benefit schemes provide for a specified level of pension benefit to members, the cost of which is met from both member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time. The level of contributions required to meet pension obligations is actuarially determined based on various assumptions, which

are subject to change, such as life expectancy of members, investment returns, inflation etc. If, based on the assumptions being used at any time, assets in the pension scheme are judged to be insufficient to meet the calculated cost of the pension obligations there can be a significant shortfall, which the scheme trustees may require to be made up or secured by increased contributions from employers and/or employees, additional cash payments from employers and/or guarantees or other security to be provided by employers. The most significant impact can occur due to differences between the actual and assumed investment returns and changes in the assumption for life expectancy.

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

Impact

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

Risk mitigation and control process

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

Risk: Integration of new acquisitions including Avincis – the Group has experienced growth through acquisitions; the financial benefits of these acquisitions may not be realised as quickly and as efficiently as expected if there is difficulty in integrating them.

Description

The Avincis Group will need to be integrated into the internal management and other reporting requirements of the Babcock Group. Babcock may encounter difficulties when seeking to integrate the Avincis Group, as a result of differences in organisational structure, IT systems, language, management and local cultures and management and operational issues. The Avincis Group itself has grown by acquisition of a number of companies, which carries its own integration risks.

Impact

- If such integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Group.
- 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.

Risk mitigation and control process

- We seek to carry out 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 formal approval of the Board.
- Integration risk is considered at an early stage as part of the review of acquisition opportunities and integration planning takes place before completion of the acquisition.
- The Group has what it considers to be a good track record in and experience of integrating acquisitions both large and small.

Board Directors and Company Secretary

Chairman


1

Executive Directors


2


3


4


5


6

Non-Executive Directors


7


8


9


10


11


12

Company Secretary


13

A Audit and Risk Committee
R Remuneration Committee
N Nominations Committee

The business of Babcock International is managed by our Board of Directors. Biographical details of the Directors and the Company Secretary as at 19 May 2014 are as follows:

CHAIRMAN

1. Mike Turner CBE

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

Time served on Board: 5 years 11 months

Chairman of the Board and the Nominations Committee

N

EXECUTIVE DIRECTORS

2. Peter Rogers CBE

Chief Executive

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

Time served on Board: 11 years 11 months

3. Bill Tame

Group Finance Director

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

Time served on Board: 12 years 3 months

4. Kevin Thomas

Chief Executive, Support Services Division

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

Time served on Board: 4 years

5. Archie Bethel CBE

Chief Executive, Marine and Technology Division

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

Time served on Board: 4 years

6. John Davies

Chief Executive, Defence and Security Division

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

Time served on Board: 1 year 4 months

NON-EXECUTIVE DIRECTORS

7. Sir David Omand GCB

Senior Independent Director

Sir David joined the Board as a Non-Executive Director on 1 April 2009, and became Senior Independent Director on 1 January 2012. He is a Non-Executive Director of Finmeccanica UK Limited and is a visiting professor in the Department of War Studies, King's College London. He left UK Government service in 2005 having served in various senior roles, including as UK Government Security and Intelligence Coordinator, Permanent Secretary of the Home Office, Director of GCHQ (the UK Signals Intelligence and Information Assurance Agency) and Deputy Under-Secretary of State for Policy in the Ministry of Defence.

Time served on Board: 5 years 1 month

A R N

8. Justin Crookenden

Independent Non-Executive Director

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

Time served on Board: 8 years 5 months

Chairman of the Remuneration Committee (until 21 July 2014)

A R N

9. Ian Duncan

Independent Non-Executive Director

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

Time served on Board: 3 years 6 months

Chairman of the Audit and Risk Committee

A R N

10. Kate Swann

Independent Non-Executive Director

Kate Swann joined the Board as a Non-Executive Director on 1 June 2011. She is currently Group Chief Executive of SSP Group Limited. She is a former Chief Executive Officer of WH Smith PLC, former Managing Director of Argos and a former Managing Director of Homebase Ltd. She is also a member of the Advisory Board at Selfridges Group.

Time served on Board: 2 years 11 months

A R N

11. Anna Stewart

Independent Non-Executive Director

Anna Stewart became a Non-Executive Director of the Company on 1 November 2012. She is Chief Executive of Laing O'Rourke Corporation, where she was previously Group Finance and Commercial Director. Anna is a chartered surveyor.

Time served on Board: 1 year 6 months

A R N

12. Jeff Randall

Independent Non-Executive Director

Jeff Randall joined the Board as a Non-Executive Director on 1 April 2014. He had a long career as a journalist and broadcaster until he stepped down as a presenter for Sky News on 31 March 2014 and as editor-at-large of The Daily Telegraph on 31 December 2013. He was business editor of the BBC between 2001 and 2005, the launch editor of Sunday Business and, for six years, was City Editor of the Sunday Times. He is a former director of Times Newspapers. He is also a Visiting Fellow of Oxford University's Said Business School where he specialises in corporate reputation, and is an honorary professor at Nottingham University's Business School.

Time served on Board: 1 month

A R N

COMPANY SECRETARY

13. Albert Dungate

Group Company Secretary and General Counsel

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

Governance statement

Maintaining high standards

Dear Shareholder

As Chairman I am committed to ensuring that your Board operates in an effective, transparent and ethical manner, and that we make our decisions based only on what we believe is likely to be for the benefit of shareholders by promoting and maintaining the long–term success of the Company and its reputation, having regard, amongst other things, to the interests of our employees, our business relationships and the wider impact of our operations. In our deliberations as a Board I seek to encourage and foster open, honest and challenging discussion. The Board understands how good governance and the promotion of ethical business practices can sustain and drive forward the business, and thus our results, whilst managing or mitigating risks.

Good governance means more than merely complying with a set of rules and regulations, and one of our main aims is to seek to embed within our business a culture that ensures colleagues continue to behave in an ethical and principled manner and in compliance with our governance and risk management processes. To encourage this approach we have a number of processes and procedures designed to facilitate appropriate, sound working practices and good governance in a practicable and achievable way.

We understand the need continually to develop and evolve the Board to make it relevant and appropriately experienced in the light of both near-term and longer-term business strategy and operations, especially as we become more international in our outlook and activities. Our 2014 Board, Committee and Director evaluation exercise was led externally by Independent Board Evaluation, a business with wide experience and expertise in carrying out senior level evaluations. There were no significant concerns highlighted as a result of this process. The principal recommendations emerging from this evaluation review are described on page 80. We are addressing and will continue to address the matters identified as areas for focus and improvement.

At Babcock we are committed to working towards building a more diverse workforce and are now actively considering diversity in our succession planning, talent management, recruitment and training and development programmes, as well as looking generally at how working arrangements might be helping or hindering our objectives. Further information on our approach to the diversity challenge can be found on pages 80 – 81.

As I mentioned on page 5, Jeff Randall joined the Babcock Board as a Non-Executive Director with effect from 1 April 2014. Jeff brings with him a wealth of experience from his many years as a business journalist and broadcaster. I look forward to Jeff bringing a fresh and new perspective to the Board and our Committees.

Finally, as touched upon in my statement on page 5, I must also mention that after nine years of exemplary service as a Non-Executive Director and five years as our conscientious and hardworking Chairman of the Remuneration Committee, Justin Crookenden will be leaving the Board on 30 November 2014, and will step down from the Chairmanship of the Remuneration Committee at the AGM in July. Justin has been a Non-Executive Director for all of my time as Chairman at Babcock, and the Board and Company have benefited greatly from his intelligence, insight, dedication and independence of thought and his active and challenging participation in our proceedings for which I, together with the rest of the Board, wish to thank him.

Mike Turner CBE
Chairman

The Governance statement, along with the reports of the Nominations, Audit and Risk and Remuneration Committees form part of the information contained within the Directors' report on pages 117 to 122.

Governance Code Compliance Statement

Babcock International Group PLC is required to report on how it has applied in the year under review the UK Corporate Governance Code (the Code), a revised version of which was published in September 2012. The Code sets out the main principles and specific provisions on how companies should be directed and controlled in order to follow good governance practice.

The Board considers that Babcock International Group PLC complied with all the provisions of the Code throughout the year to 31 March 2014, and has appropriately explained on page 83 as required by the Code why the process used in connection with a Non-Executive Director appointment did not involve the use of external search consultancies or open advertising.

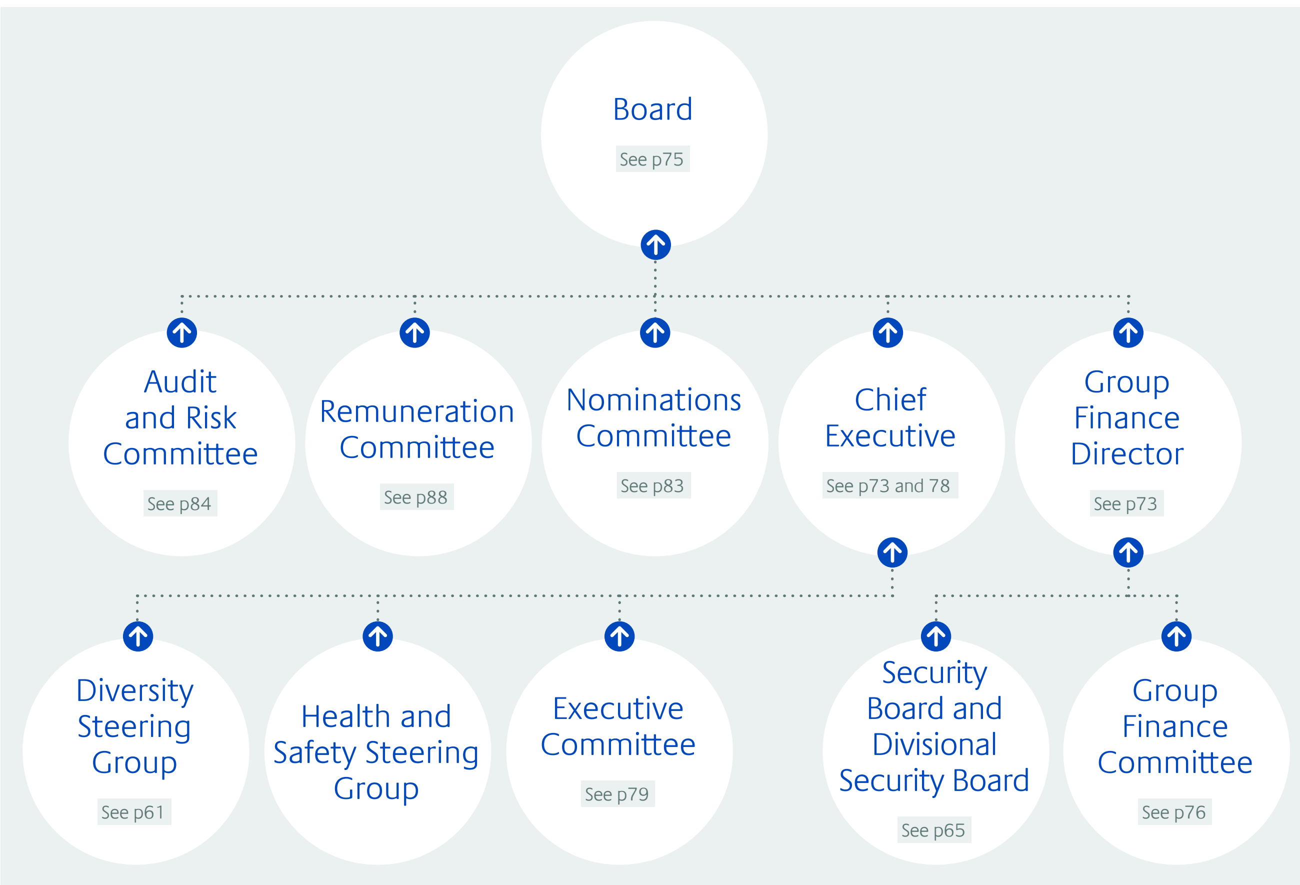
Board of Directors

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

The current Directors' biographies are set out on page 73. The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities and that between them the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

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

Babcock governance structure



Governance statement *continued*

Board matters and delegation

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees and these are clearly defined within the respective Committee's terms of reference.

Summary of key Board reserved matters

- Group strategy and resourcing
- Interim and final results announcements and the annual report and financial statements
- Dividend policy
- Acquisitions, disposals and other transactions outside delegated limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management systems (through the Audit and Risk Committee)
- Major press releases and shareholder circulars.

Board Committee terms of reference and other delegated authorities are formalised and reviewed from time to time. Key Committee terms of reference are available to view on our website: www.babcockinternational.com.

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

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

Key areas of focus during the year

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

Strategy

- Extensive consideration of the proposed acquisition of Avincis and the rights issue announced on 27 March 2014 and associated matters
- Consideration of other strategic acquisitions and partnerships during the year including:
  - Context Information Security
  - Conbras
  - National Training Institute (Oman)
  - Skills2Learn
- Two special Board meetings dedicated to strategy
- Business unit strategy updates and presentations
- Financial planning, including budgets and dividend policy
- Business development opportunities and pipeline review
- Succession planning.

Risk

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

Shareholder relations

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

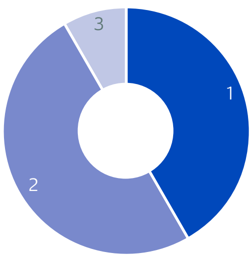
Governance

- Review of Board effectiveness in conjunction with an independent external consultancy
- Health and safety review
- Anti-bribery and corruption and risk management update
- Review of terms of reference of Board Committees
- Tax affairs.

Composition of the Board

Throughout the year to 31 March 2014, the Board comprised the Chairman, five Executive Directors and five independent Non-Executive Directors. From 1 April 2014 there has also been an additional independent Non-Executive Director (making six in total). This structure is in accordance with Code provision B1.2. The Board believes that its make-up allows for the promotion of high quality discussion and consideration of key issues affecting the Group, including development of the business in both existing and new market sectors and with new and new types of customers, both in the UK and internationally. The composition of the Board is kept under review to ensure that the skill, knowledge and experience of its members is or will be suitable to meet the longer-term needs of the business and its strategic development plans; this is the primary focus of the Nominations Committee.

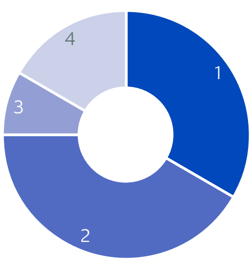
Composition of the Board



1. Executive Directors	5
2. Independent Non-Executive Directors	6
3. Chairman	1

As at 19 May 2014

Period of service on the Board



1. Under 3 years	4
2. 3-6 years	5
3. 6-9 years	1
4. 9 years +	2

During the year there were no changes made to the Board. The following changes were made, or will be made to the Board after 31 March 2014:

New Directors	Date of Appointment
Jeff Randall	1 April 2014

Directors who will retire
Justin Crookenden has indicated his intention to retire from the Board on 30 November 2014

Election of Directors

The process for the selection and subsequent appointment of new Directors to the Board is described in the Nominations Committee section on page 83 of this Report. Following the feedback from the independent Board evaluation process described on page 80 the Board has accepted that the formality around this process, better to meet the requirements of rigour and transparency, could be improved and steps are in hand to act on this.

The rules relating to the appointment and replacement of Directors are contained within the Company's Articles of Association. The Articles of Association provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in that way retires and is submitted for election at the first Annual General Meeting (AGM) following their appointment. Jeff Randall, who joined the Board as a Non-Executive Director on 1 April 2014 will be complying with this requirement, and, in compliance with provision B.7.1 of the Code, all other existing Directors will be seeking re-election at the 2014 AGM. The names and biographical details of each of the Directors are set out on pages 72 and 73.

Executive Directors are entitled to 12 months' notice of termination of their service agreements from the Company. Non-Executive Directors, including the Chairman, have letters of appointment which can be terminated at will.

Governance statement *continued*

Role of the Chairman

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

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

The Chairman and Chief Executive

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

Role of the Chief Executive

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

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

The Senior Independent Director

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

The Non-Executive Directors

The independent Non-Executive Directors bring external perspectives and insight to the Board and its Committees' deliberations, providing a range of knowledge and business or other experience from other sectors and undertakings (see their biographies on page 73). They play an important role in the formulation and progression of the Board's agreed strategy, and review and monitor the performance of the executive management in the implementation of this strategy. For the year ending 31 March 2014 the Board considered the balance of independent Non-Executive Directors and Executive Directors was in accordance with the requirements of the Code.

Non-Executive Directors are appointed for an expected initial three-year term (though the appointments are terminable at will by either party at any time), subject to their annual re-election by shareholders at the AGM, commencing with their election by shareholders at the first AGM following their appointment by the Board. Re-appointment after the expiry of their three-year terms is subject to review by the Nominations Committee. The Board considers the independence of each Non-Executive Director against criteria specified in the Code. The Board is conscious that before extending the appointment of any Non-Executive Director in office over six years they should be subject to a 'particularly rigorous review' of their performance and commitment. The only Non-Executive Director to whom this applied during the year was Justin Crookenden whose current period of appointment was due to expire at the AGM in July 2014 and whose appointment has been extended, subject to his re-election at the AGM, for four months until 30 November 2014 as noted on page 74 in this report. The performance of all Directors is evaluated as part of the Board annual evaluation process described on page 80. The Board also determines whether it considers each Non-Executive Director to be independent in character and judgement (which the Board currently does in respect of all existing Non-Executive Directors). The terms and conditions of appointment of the Non-Executive Directors, together with the service contracts for Executive Directors, are available for inspection at the Company's registered office during normal business hours, and at the AGM. During the year, the Non-Executive Directors, including the Chairman, met independently of management on several occasions.

The Company Secretary

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

The Group Executive Committee

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

Board meetings for the year ending 31 March 2014

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

Board meeting attendance

Name	Attendance at Board meetings
Chairman	
Mike Turner	12 of 12
Executive Directors	
Peter Rogers	12 of 12
Bill Tame	12 of 12
Kevin Thomas	12 of 12
Archie Bethel	12 of 12
John Davies	12 of 12
Non-Executive Directors	
Sir David Omand	12 of 12
Justin Crookenden 1	11 of 12
Ian Duncan	12 of 12
Kate Swann 2	11 of 12
Anna Stewart	12 of 12
Jeff Randall 3	N/A

1. Justin Crookenden was absent for one meeting due to unavoidable personal commitments.
2. Kate Swann was unavailable for one meeting due to a prearranged engagement.
3. Jeff Randall joined the Board on 1 April 2014.

Board evaluation

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

Governance

Governance statement *continued*

Review for year ending 31 March 2014

The evaluation for the financial year ending 31 March 2014 was carried out externally by Independent Board Evaluation (this firm and its representatives had no other connections with the Company) and involved confidential one-on-one meetings with each Director, the Company Secretary, other senior managers and also representatives from certain external advisers who work closely with the Board or its Committees. The review considered the balance of skills, experience, independence and knowledge of the Board, its diversity (including gender), how the Board, its Committees, the Chairman and individual Directors performed and how they worked together and other factors relevant to effectiveness. As part of the evaluation process, representatives from Independent Board Evaluation attended, as observers, a Board meeting, an Audit and Risk Committee meeting and a Remuneration Committee meeting. Independent Board Evaluations confirmed that no significant concerns had been expressed by Board or Committee members as to the way in which the Board or Board Committees functioned, the support given to them, the matters covered at their meetings or how they were dealt with, or as to the contribution of any individual Director.

Recommendations for primary areas of focus or consideration going forward were:

- Senior management team succession and transition planning: making it more visible, ensuring its robustness, and taking into account long-term strategy
- Continuing to find time for consideration of both medium and longer-term strategy
- Planning for more international experience and diversity at Board level
- Talent management and bench strength below Board level should continue to be a key area of focus
- Improving consistency and the level of formality in the Board appointment process
- Having more, regular Chairman and Non-Executive Director only meetings.

The Board is addressing and will continue to address the above matters and will report back to shareholders on progress in the 2015 Annual Report.

Follow up on the review for year ending 31 March 2013

As reported last year, the Board evaluation for the year ending 31 March 2013 was conducted internally, facilitated by the Company Secretary, and involved one-on-one interviews between the Chairman and each Director. Key areas of focus to come out of that review and how they were addressed in the year to 31 March 2014 included:

- Succession planning: This was a key priority and major area of focus for the Board involving a review of the succession plan, management development and talent identification programmes and systems
- Ensuring Board credibility in new business areas: The Chairman continued to have this under review. Jeff Randall, a highly respected business and financial journalist, joined the Board on 1 April 2014 with a view to bringing an objective and broadly based external perspective, especially in the context of reputation management and the how the Company and its Board operate and may be perceived
- Maintaining the momentum of a growth strategy: As can be seen by the acquisitions we have completed or announced during the year, including the major acquisition of Avincis, the Board continued to focus on a strategy of long-term growth
- Overseeing and running a much larger and changing organisation: Babcock continued to seek to recruit high quality, skilled resource in a 'best fit for the job' approach, and has one of the largest apprentice programmes in the UK. Our MBA and graduate schemes are intended to ensure that we have the required talent coming through the business with a view to promoting the next generation of skilled employees and management from within. The Board is well aware of the requirements of running a larger company and the need for management structures and resources to underpin performance. At a divisional level a number of management and organisational changes have been made to address the increased size and scope of operations, including by the recruitment of a number of internal specialists in areas such as procurement, supply chain management, health and safety, business development and security.

Diversity

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

As discussed previously on page 61, we believe that diversity should not be about firm quotas, or solely a gender debate. Instead, we should look at engaging a wide-ranging approach to ensure our workforce reflects the richness of our society and that everyone has the opportunity to contribute towards the success of the Company.

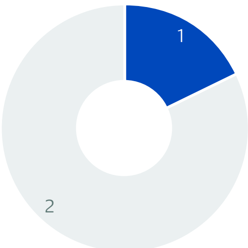
In considering the issues around gender diversity we can report that Babcock has:

- two female Directors: this currently represents 16.6% of the Board and 33% of the independent Non-Executive Directors. With effect from 30 November 2014, following the retirement of Justin Crookenden, and subject to no further appointments to the Board, these figures will be 18% and 40% respectively as set out on page 81. In making future appointments the Board will ensure that due consideration is given to the issues of diversity when compiling a shortlist of suitable candidates
- a 'Diversity Awareness Campaign' across the whole Group led by the Chief Executive
- a Diversity Steering Group, meeting several times a year
- run diversity workshops within business units
- focused its graduate recruitment programme, particularly of engineering graduates, on those universities that have a richer undergraduate gender mix so as to improve the diversity of the pool of talent from which we recruit our engineers and

managers of the future – this is already bearing fruit and female graduates now make up 20% of the annual intake arranged a ‘Talented Futures’ conference which discussed issues around diversity

– Babcock is also actively considering how to make management roles more attractive and amenable to female candidates so as to increase the numbers of women in management. A breakdown of gender diversity throughout the Company is given in the illustration below:

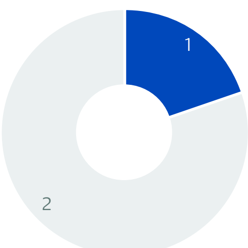
Board



1. Female	18% (2)
2. Male	82% (9)*

* As at 31 March 2014. For the period 1 April 2014 to 30 November 2014 (when Justin Crookenden will leave the Board) there will be 16.7% (2) female Directors and 83.3% (10) male Directors on the Board.

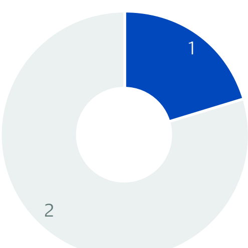
Senior executive*



1. Female	19.8% (113)
2. Male	80.2% (459)

* Senior executives refers to all divisional business unit managing directors and their direct reports.

Total workforce



1. Female	20.5% (5,768)
2. Male	79.5% (22,370)

Information and training for Directors

New Non-Executive Directors receive detailed business briefings on the Group’s operations and make induction visits to operational sites. Those who have not previously served as a director of a listed company receive a briefing from the Company’s external lawyers on their duties and responsibilities.

As required by the Chairman, training for new Directors and ongoing general Director training is arranged as necessary or as they may request, and the Company Secretary briefs Board members about significant changes in the law or governance codes affecting their duties as Directors.

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

Non-Executive Directors receive copies of all minutes of meetings of the Group Executive Committee and of the principal Divisional Boards, together with copies of monthly divisional operating reports which also cover health, safety and environmental matters and compliance with the Group’s ethical and security standards. They are also invited to attend the Group’s senior management conferences.

Share capital and rights attaching to the Company’s shares

Details concerning the Company’s share capital and rights attaching to the Company’s shares are set out in the Directors’ report on page 121.

Relations with shareholders

The Board believes it is important to maintain open and constructive relationships with all of its shareholders – large and small, institutional and private. The Chief Executive, Group Finance Director and Head of Investor Relations undertake a programme of meetings, conference calls and presentations to discuss the Group’s strategy and financial performance with investors, brokers’ sales teams and analysts. During the year the Company met 129 separate institutions in 132 meetings (including a number of group meetings) in the UK, USA and Europe. The Company offers meetings with the Chief Executive and Group Finance Director to its top 20 shareholders at least twice a year, and in the year to 31 March 2014 a total of 40 meetings were held with our top 20 shareholders. In addition, the Chairman wrote to our largest 16 shareholders inviting them to meet with him to discuss strategy, performance and corporate governance matters. Both the Chairman and Sir David Omand, the Senior Independent Director, are available to shareholders should they have any concerns where contact through the normal channels is deemed inappropriate or where they believe their matter has not been adequately resolved.

Governance statement *continued*

How we communicate

Results and trading updates available as audio casts at www.babcockinternational.com/investors	When
Full-year and half-year results: announcement and presentation	May and November 2013
Interim management statements and conference call with Group Finance Director	July 2013 and February 2014
Other presentations	**When**
By Group Finance Director, Divisional Chief Executives and Head of Investor Relations at company and/or broker organised conferences	May, June, September, November, 2013 and March 2014
Dealings with shareholders, investors and analysts Resolutions of AGM available at www.babcockinternational.com/investors	**When**
132 meetings with shareholders and potential investors	Throughout
22 meetings with sell side analysts and brokers' sales teams	Throughout
Letter from the Group Chairman to leading shareholders	July 2013
Marine and Technology Analyst and Investor Seminar	September 2013
Roadshow in London and Edinburgh	May and November 2013
Annual General Meeting	July 2013
Roadshow in Frankfurt	June 2013
Roadshow in Milan	September 2013

Prior to the announcement of the proposed acquisition of Avincis, the Chief Executive and the Group Finance Director met with a number of the Group's top shareholders, representing approximately 38% of the share register, to explain the strategic rationale of the transaction. Following the announcement and prior to the General Meeting on 16 April 2014 a number of shareholders who wanted to discuss the transaction with management were offered individual or group meetings or conference calls.

Over 75% of all Babcock shares are held by institutional shareholders. Whilst it is normal practice for institutional funds to have a greater degree of contact with the Company, all shareholders are welcome to raise questions with the Board at the Annual General Meeting. In addition, on a day-to-day basis our investor relations team engages with shareholders on a wide range of issues. To assist our private and international shareholders, the investor relations team makes sure that all price-sensitive information is released in accordance with the applicable legal and regulatory requirements. All announcements and major presentations given to institutional shareholders, along with annual reports, shareholder circulars, shareholder services information, other stock exchange releases and share price information, are made available to all shareholders through the Babcock website (www.babcockinternational.com/investors).

The Company ensures that the Board has an up to date perspective on the views and opinions of shareholders and the investment market. An investor relations report summarising share price performance compared to market, changes to the shareholder register and feedback from shareholders is produced for each Board meeting. For the third consecutive year, the Company also commissioned Clare Williams Associates to undertake a Market Perception Review to provide an independent evaluation of investor attitudes towards the Group. This year 11 investors, including some of the Company's major shareholders, accounting for around 20% of the shareholder register, as well as some non-holding institutions. The results were formally presented to the Board in October 2013.

Significant shareholdings

As at 31 March 2014, the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following major interests in voting rights attached to its ordinary shares (which represent interests in 3% or more of its issued ordinary share capital).

Name	Number of 60p ordinary shares on date of notification	% of issued share capital at 31 March 2014
The Capital Group Companies Inc.	21,910,915	6.05
Blackrock, Inc.	18,147,899	5.01
Cantillon Capital LLC	17,938,977	4.95
Standard Life Investments Limited	17,928,896	4.95
FMR LLC	17,700,915	4.89
Legal & General Group Plc	14,325,920	3.96
JP Morgan Chase & Co.	11,376,214	3.14
Ameriprise Financial Inc.	11,330,063	3.13

On 28 April the Company was notified that the Capital Group of Companies Inc. had increased their holdings in the Company to 9.4%. This disclosure was made on the basis that did not yet reflect the share capital as increased by the rights issue which completed on 7 May 2014. Subsequently on 9 May 2014 Capital Group of Companies Inc. notified the Company that their holdings had decreased to 6.8% on completion of the rights issue. There had been no further notifications between 31 March 2014 and the date of this report.

Annual General Meeting

The 2014 AGM will be held at 12:00 pm on 21 July 2014 at the Grosvenor House Hotel, Park Lane, London, W1K 7TN. The Company will send notice of the AGM and any related papers at least 20 working days prior to the date of the meeting in accordance with best practice standards.

All shareholders are welcome. The event provides a platform for the Chairman and Chief Executive to explain how the Company has progressed during the year. It also provides all shareholders with the opportunity to put questions to the Chairman of the Board, the Chairmen of the Audit and Risk, Nomination and Remuneration Committees, and the Senior Independent Director. At these meetings a poll is conducted on each resolution; shareholders also have the opportunity to cast their votes by proxy, either electronically or by post. Directors also make themselves available before and after the AGM to talk informally to shareholders. Following each AGM the results of the poll are published on the Company's website and released to the London Stock Exchange.

Report of the Nominations Committee

"We continue to seek Board candidates who can contribute towards the Board having a range and balance of skills, experience, perception, approach and outlook to help support and develop the long-term success of the Company"

Mike Turner
Chairman

Membership of the Committee

The Nominations Committee is appointed by the Board and, in accordance with Code provision B.2.1, is made up of Non-Executive Directors (with a requirement for there to be a majority of independent Directors). It is chaired by the Chairman of the Board. Other Directors are invited to attend meetings of the Committee, if appropriate. The current membership of the Committee, and its membership during the year to 31 March 2014 as well as attendance at Committee meetings, is shown below. The Company Secretary is Secretary to the Committee.

Committee attendance

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

1. Justin Crookenden was unavailable for one meeting due to an unavoidable personal commitment.

The members listed above served throughout the year to 31 March 2014 and continue to be members. Jeff Randall joined the Committee on 1 April 2014.

Responsibilities of the Committee

The Committee is responsible for making recommendations to the Board, within its agreed terms of reference, on appointments to the Board. The terms of reference of the Committee are available on the Company's website.

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

- Regularly reviewing and evaluating the size, structure and composition (including the balance of skills, diversity, knowledge and experience) of the Board and making recommendations to the Board with regards to any changes
- Considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future
- Reviewing the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace
- Identifying and making recommendations for the approval of the Board regarding candidates to fill Board vacancies; and reviewing the time required from Non-Executive Directors for the performance of their duties to the Company.

When considering recommendations on the appointment to the Board the Committee has in mind the strategic plans and the development of the business in both existing and new market sectors and with new, and new types of, customers, both in the UK and internationally, and the need to maintain the Board's credibility in its chosen business areas. The Committee also takes into account as part of its deliberations the Board's aspiration and intent to foster and encourage greater diversity, including gender diversity, of outlook, background, perception and experience at Board level. As discussed on page 80, in making recommendations on future appointments to the Board the Committee will ensure that due consideration is given to issues of diversity when compiling its shortlist of suitable candidates.

In appointing Jeff Randall as a new independent Non-Executive Director the Committee did not, on this occasion, use an external search consultancy or open advertising. The Chairman was made aware that Mr Randall would be available to take up a non-executive appointment when he retired from his active career in journalism. With his very different business and professional background and the resulting fresh perspective and approach he could bring to the Board, especially as regards external perceptions, the Committee believed he was a unique and exceptional candidate for consideration. Each member of the Board met or was offered the opportunity of meeting Jeff to interview him and assess, in their personal opinion, his suitability for the role. The full Board then discussed the matter before resolving to make the appointment.

Many of the matters within the Committee's remit are addressed with all Board members present or taken as specific items at full Board meetings. Recommendations as to improving the Committee's proceedings and arising out of the independent Board evaluation this year are mentioned on page 80.

Activities undertaken by the Committee during the year

During the year ended 31 March 2014, the Committee:

- oversaw and made recommendations on the selection and appointment of Jeff Randall to the Board
- reviewed succession planning at Board and senior management level.

Mike Turner CBE
Committee Chairman

19 May 2014

Report of the Audit and Risk Committee

"With the continued growth of the Group during the year, the Committee was, and continues to be, focused on satisfying itself that the internal and external systems of controls and safeguards are working effectively within the business to ensure that risks are mitigated and managed appropriately. The Committee also spent time during the year considering the significant issues affecting the financial statements as detailed on page 86, and satisfying itself that the Annual Report is a fair, balanced and understandable document, that allows shareholders to assess the Company's performance, business model and strategy."

Ian Duncan
Chairman

Membership of the Committee

The Audit and Risk Committee is appointed by the Board on the recommendation of the Nominations Committee and is, and was during the year, made up entirely of the independent Non-Executive Directors listed below – for further details of the backgrounds and qualifications of the members of the Committee please see page 73.

Member	Number of meetings attended / Number of meetings possible in the year
Ian Duncan (Chairman)	4 of 4
Sir David Omand	4 of 4
Justin Crookenden[1]	3 of 4
Kate Swann[2]	3 of 4
Anna Stewart	4 of 4

1. Justin Crookenden was unavailable for one meeting due to an unavoidable personal commitment.
2. Kate Swann was unavailable for one meeting due to a previously arranged engagement.

The members listed above served throughout the year to 31 March 2014 and continue to be members. Jeff Randall joined the Committee on 1 April 2014.

The Board is satisfied that Ian Duncan, who became Chairman of the Committee in July 2011, has recent and relevant financial experience and that the Committee complies with Code provision C3.1. Ian is a Chartered Accountant. He is currently Chairman of the Audit Committees of, WANdisco plc and Mouchel Group and until 15 November 2013 was Chairman of the Audit Committee of Fiberweb PLC. Until June 2010 he was Finance Director of Royal Mail Holdings PLC and other former roles have included the position of Corporate Finance Director at British Nuclear Fuels and Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA.

Role of the Committee

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

- Reviewing the content of the Annual Report and Accounts to ensure that what is presented, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy – and advising the Board to this effect. In order to ensure the Annual Report is fair, balanced and understandable the Board receives draft wording at an early stage with sufficient time to assess the content against the monthly management reports and accounts provided to the Board throughout the year
- Monitoring the integrity and accuracy of the Group's financial statements, including annual, half-year and interim results and management statements, and any formal announcement relating to the Company's financial performance
- Reviewing significant reporting issues, the consistency of accounting policies and disclosures, and any decisions requiring a major element of judgement
- Being satisfied there is an effective system of internal control, compliance procedures, and risk management systems
- Approving the internal and external audit programmes and making any necessary recommendations to the Board
- Considering the role and independence of the external auditors, and making the appropriate recommendation to the Board on the appointment or the reappointment of the Group's external auditors
- Reviewing the Group's processes for detecting and addressing fraud, bribery, misconduct and control weaknesses and considering reports on any such occurrence.

Who attends Committee meetings?

Only the members of the Committee have the right to attend Committee meetings; however, the Committee invites the Group Chairman, Chief Executive, Group Finance Director and Group Financial Controller to attend its meetings. Divisional Chief Executives (who are each themselves main Board Directors) are also invited to attend meetings and do so on a regular basis. The Committee considers that the presence of these attendees does not influence or restrict the Committee's open deliberation of matters or the Committee's independence, and finds that their presence has the advantage of enabling the Committee to raise questions directly of them and, where necessary, to challenge them about matters under review. Should a situation arise where the presence of any such attendee would be inappropriate or might compromise discussion the Committee would either not invite the attendee concerned or request that they not attend part of the meeting. The Group Risk Manager attends Committee meetings for discussion of Group risk reports and related items. Ernst & Young LLP provides internal audit services to the Company. PricewaterhouseCoopers LLP is the Group's external auditor. Both auditors usually attend the Committee's meetings. The Committee Chairman also meets PricewaterhouseCoopers LLP and Ernst & Young LLP in the absence of executive management, and other Committee members have the opportunity to do so. The auditors are also invited to address the Committee without executives present at least once a year.

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

Activities undertaken by the Committee during the year

During the year to 31 March 2014 the Committee met four times; attendance at these meetings is set out on page 84. The agenda for each meeting is approved by the Committee Chairman in conjunction with the Committee Secretary and other members of the Committee as appropriate. During the year ended 31 March 2014, the Committee's deliberations included consideration of the following:

Financial results

- Full-year and half-year financial statements and related results announcements
- Reports and reviews from the external auditors
- Matters that required the exercise of a significant element of management judgement (see page 86)
- The new requirement for a statement from the Board as to the Annual Report and Accounts being fair, balanced and understandable and providing the information necessary for shareholders to assess the Company's performance, business model and strategy, and advising the Board to this effect, and as to how this requirement would be discharged

Internal controls

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

Information assurance and cyber-security

- An assessment of information assurance and cyber-security maturity in the Group's operations.

Audit plans

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

Internal audit

- At each meeting, internal audit reports on findings from audit visits to business units, including follow-up reports on any matters identified in earlier reports as requiring attention or improvement. The reports contain tracking information to enable the Committee easily to see the control performance of business units over time and how quickly any matters are addressed.

Risk

- Review of key risks and internal control processes detailed on pages 64–71
- Regular detailed reports identifying areas of risk at business unit, Divisional and Group level, assessing and prioritising potential impact, risk mitigation steps in place and the pre- and post-mitigation risk levels
- Divisional and Group reviews of the Group risk standard
- Focused reviews of selected major risk areas: political risk, bidding risk and critical suppliers exposures.

Fraud

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

Whistleblowing

- The Committee is responsible for monitoring the Group whistleblowing policy and receives regular reports of calls and emails to the Group's external independent whistleblowing services and how these have been investigated and concluded. For further explanation of the whistleblowing procedure please see page 55.

Audit/non-audit fees and auditor independence

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

Report of the Audit and Risk Committee *continued*

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

We are required to provide an explanation of the significant issues that the Committee considered in relation to the financial statements for the year to 31 March 2014 and how these issues were addressed, having regard to matters communicated to it by the auditors.

In planning the year-end audit, the Committee considered with management and the Company's auditors the key areas of focus for the audit having in mind their significance to the Group's reporting of results and the degree of judgement involved in their evaluation. The significant issues considered in relation to the financial statements for the year ended 31 March 2014 and how the Committee addressed them are set out in the following table:

Significant Issue	How the Committee addressed it
Contract judgements – revenue and profit recognition	The Committee considered the material contracts that require a significant degree of management judgement that could materially affect the appropriate accounting treatment for them; these were the subject of discussion and challenge with management to ensure that the Committee is satisfied as to the reasonableness of those judgements
Pensions accounting – the choice of assumptions in the valuation for accounting purposes of the liabilities of the Group's defined benefit schemes	The Committee assessed the particular assumptions proposed to be used by management and their impact on scheme assets and liabilities in the context of assumptions being used in respect of the same factors by other companies and the pensions industry more widely
Business acquisitions – goodwill impairment	The Committee reviewed and challenged management's assessment of value in the context of, inter alia, cash flow forecasts, budget, growth rates, and having assessed sensitivities

Internal controls and risk management

The risk management framework, risk mitigation and control processes and other internal controls are detailed on pages 64 – 71.

A statement regarding the effectiveness of the internal controls and control processes, including those over financial reporting, can be found on pages 121 – 122.

Internal audit

Ernst & Young LLP has provided an internal audit service to the Group since 2003. The Committee considers that it is still appropriate to have an internal audit service provided by an external adviser, but keeps this under review. The Committee continues to be satisfied with the service provided by and the independence of Ernst & Young LLP acting as internal auditor.

External audit

The Committee manages the relationship with the external auditor on behalf of the Board and monitors the auditor's independence and objectivity along with the effectiveness of the external audit on an annual basis. Audit fees are re-evaluated periodically.

The Committee is aware of and is following the debate led by the Competition Commission in the UK and the European Union about the market for the provision of audit services, including as to the question of the length of time for which audit firms should provide audit services and requirements for companies periodically to re-tender the provision of those services.

PricewaterhouseCoopers LLP (PwC) has been the external auditor of the Group since 2002 without a re-tender in that time. The Committee's current intention is to embark on a re-tendering process no later than 2017 when the current audit engagement partner at PwC is due to rotate out of that role having served in it for five years. There are no contractual obligations that would restrict the selection of a different auditor or the re-tendering process taking place earlier than 2017 should the Committee consider, having regard amongst other things to PwC's continued effectiveness, that it would be in the Company's interest to do so. PwC's effectiveness in the provision of audit services is regularly assessed by the Committee and its Chairman in their meetings with PwC, and after each annual audit there is a review of the effectiveness of PwC's audit services in that audit, which review includes the provision to PwC and discussion with it of detailed feedback from those exposed to the audit process within the Group. The question of PwC's continuing independence in the provision of audit services is considered and discussed with PwC including the basis upon which that assessment can reasonably be made and supported.

Being satisfied with PwC's continuing independence and with the effectiveness of its provision of audit services, and PwC having expressed its willingness to be re-appointed as auditors of the Company, the Committee has recommended to the Board that PwC be re-appointed as the Company's auditors for a further year. The Board has accepted this recommendation and will be proposing a resolution to shareholders at the 2014 AGM for the re-appointment of PwC as auditors.

Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the auditors for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. The Company's policy is to consider whether to place material non-audit services work with external auditors on a case-by-case basis based on an assessment of who is best placed to do the work having regard to the availability, resources, capability, experience and any conflicts of interest of potential candidate firms for the work, and to make the choice based on what is considered to be in the Company's best interest overall having regard to potential independence issues if the work is placed with the Company's auditors. Non-audit services offered to the auditor would not include the design or operation of financial information systems, internal audit services, maintenance or preparation of accounting records or financial statements that would be subject to external audit or work that might reasonably be considered as capable of compromising their independence as auditors. If use of the auditors for non-audit work would lead to non-audit fees payable to them in the year exceeding 20% of their audit fee, the Committee Chairman's approval is required. Having considered the non-audit services provided by the auditor during the year ended 31 March 2014, the Committee is satisfied that these services were provided effectively and did not prejudice the objectivity or independence of the auditor.

For the year ended 31 March 2014, the Committee has approved the payment to PwC of fees of £1.7 million for audit services, and of fees of £2.7 million for non-audit related work, including work in connection with the proposal to acquire the Avincis Group and the Prospectus and Circular and related accounting work and accounting due diligence in connection with that transaction, (part of which is required under auditing standards to be performed by the Company's auditors) and other ancillary work where PwC were well placed to carry it out most effectively. Non-audit related work accounted for 61.4% of the total audit and non-audit related fees paid to the external auditor during the year. A breakdown of fees paid to the auditor is set out in note 5 on page 142.

Ian Duncan
Committee Chairman

19 May 2014

Remuneration report

Annual Remuneration Committee Chairman Statement

Dear Shareholders,

I am pleased to present the Directors' Remuneration report for 2013/14 for which we will be seeking your approval at the Annual General Meeting on Monday, 21 July 2014.

The Committee has had a full agenda during the year, and continues to ensure the Directors' remuneration policy is in line with evolving corporate governance requirements, is aligned with Company strategy, and rewards the right behaviours, helping to ensure we do what is right for our customers, and drive sustainable value for our shareholders. The changes made to our remuneration structure over the past few years mean that we are in a position to propose a policy for the next three years that is in line with that operated in 2013/14. Our remuneration structure remains weighted toward rewarding success over a multi-year period and significant equity related components, which the Committee strongly believes is appropriate for our business and our future success, as well as aligning the interests of shareholders and management.

Over recent years the shareholdings and equity-related interests of our senior management (as a group) have increased significantly as has the number of employees with equity interests in the Company. During the year the Committee considered the shareholding guidelines applicable to senior management as it considers this an important element of the remuneration arrangements but given the level of shareholdings and interests generally, felt it unnecessary to modify these at this time other than for the Chief Executive.

Remuneration in 2013/14

Following consultation with shareholders on a number of matters, as disclosed in last year's report, and as part of the annual granting process, the PSP and DBMP targets for the 2013 awards were reviewed and the Committee reduced the top-end EPS target for the 2013 PSP and DBMP awards and increased the three-year average ROCE targets for the 2013 DBMP to ensure they remained appropriate and challenging at the time of grant. Awards were made at the same level as 2012 awards, and the performance period ends on 31 March 2016.

The Company continues to perform at a high level, delivering once again record results for the financial year. These results reinforce the Board's belief in the Company's strategy, and give the Committee the reassurance that the executive incentives are driving the right behaviours, and are rewarding the executive team appropriately. This performance over the year resulted in annual bonus payments of between 92% and 94% of maximum, and sustained performance over the last 3 years has resulted in 93.0% vesting of the PSP (94.7% for the CEO's awards), with relative TSR performance ahead of the stretching targets and EPS performance in the performance range set by the Committee in 2011.

Glossary of terms

As used in this Remuneration report

CSOP	means the 2009 Babcock Company Share Option Plan
DBP	means the 2009 Babcock Deferred Bonus Plan
DBMP	means the 2012 Babcock Deferred Bonus Matching Plan
LTIP	means the 2003 Babcock Long Term Incentive Plan (a plan replaced by the PSP in 2009)
PSP	means the 2009 Babcock Performance Share Plan
PBT	means underlying Profit Before Tax
PBIT	means underlying Profit Before Interest and Tax
OCF	means Operating Cash Flow as determined for management purposes
ROCE	means Return on Capital Employed
EPS	means basic underlying Earnings per Share

Remuneration for 2014/15
The remuneration policy for 2014/15 remains unchanged from 2013/14. Following a number of necessary changes to remuneration arrangements in recent years, the Remuneration Committee has not proposed any changes to the remuneration structures, and incentive opportunities remain at the same levels as in 2013/14. Whilst the Committee intends to measure performance for the annual bonus, PSP and DBMP against similar measures to prior years, in light of the acquisition of Avincis Group, the annual bonus targets and DBMP ROCE targets may require review in the coming year to ensure they remain appropriate, motivating and sufficiently stretching. The incentive targets for the PSP for both EPS and TSR performance remain appropriate and are unchanged from 2013/14.

The Committee reviewed Executive Director base salaries during the year, and following the required adjustment to salaries in 2013, determined that salaries for Executive Directors should be increased in line with those for the wider Group for 2014/15. The Remuneration Committee was informed by the Executive Directors that exceptionally they would not be drawing the increase granted for 2014/15 in order to demonstrate their understanding of the financial austerity still affecting the government as their principal customer. Whilst that one-year restraint was welcomed, the Committee is aware of the need to ensure that remuneration continues to be appropriately competitive going forward to ensure that we can meet our stated remuneration policy, and therefore agreed that the increase made for 2014/15 (2.5%) would be included in the baseline for their next review in 2015.

The Remuneration Report
In line with the new reporting regulations that came into effect on 1 October 2013, this Directors' Remuneration Report is split into three parts: this Annual Statement, a Policy Report and an Annual Report on Remuneration. These sections work together to give you full and transparent disclosure of the Company's intention and operation of Directors' remuneration, and build upon some of the disclosures adopted early in last year's Remuneration Report. At the AGM, a binding shareholder vote will be sought for the future Policy section and an advisory shareholder vote for the Annual Report on Remuneration section.

Justin Crookenden
Committee Chairman

19 May 2014

Introduction

Remuneration Committee
Terms of reference for the Remuneration Committee (Committee) have been approved by the Board. Duties of the Committee include the determination of the policy for the remuneration of the Executive Directors and the Chairman, as well as their specific remuneration packages, including pension rights and, where applicable, any compensation payments. In determining the remuneration policy, the Committee takes into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and that they are rewarded for their individual contributions to the success of the Company, in a fair and responsible manner.

The composition of the Committee and its terms of reference comply with the provisions of the Corporate Governance Code. The terms of reference are available for inspection on the Company's website.

Compliance statement
This report covers the reporting period from 1 April 2013 to 31 March 2014 and provides details of the Committee membership, details of their deliberation on executive remuneration during the year under review and remuneration policy for the Company. This report has been prepared by the Committee according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium–Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and other relevant requirements of the FCA Listing Rules. In addition, the Committee has applied the principles of good corporate governance set out in the UK Corporate Governance Code, and has considered guidelines issued by its leading shareholders and bodies such as the Association of British Insurers and the National Association of Pension Funds. In accordance with Section 439 and 439A of the Act, a binding resolution to approve the Policy Report and an advisory resolution to approve the Annual Report on Remuneration will be proposed at the Annual General Meeting on 21 July 2014, from which date the Policy will, if approved, take effect. This report contains both auditable and non-auditable information. The information subject to audit is so marked. The Regulations require the Company's auditors to report that the 'Audited information' in this report has been properly prepared in accordance with the Regulations.

Key principles of the remuneration policy
Objective
To provide fair remuneration arrangements that allow for enhanced rewards for delivery of superior performance by allowing for the possibility of upper quartile rewards for upper quartile performance, that align Directors' and shareholders' interests and take account of risk.

Our policy for executives reflects a preference that we believe is shared by the majority of our shareholders – to rely more heavily on the value of variable performance-related rewards, rather than on the fixed elements of pay. The rationale is to incentivise and reward success.

Weighting towards long-term, performance-related pay
The focus of our executive remuneration is, therefore, weighted towards performance-related pay (with a significant element weighted towards long-term rather than short-term performance). We believe that, properly structured and with suitable safeguards, variable, performance-related rewards are the best way of linking pay to strategy, risk management and shareholders' interests.

Remuneration report *continued*

i) Directors' Remuneration Policy

Summary of Babcock's remuneration policy for Executive Directors

Purpose and link to strategy	Operation
Fixed pay	
Base salary Should be at a level that is (i) fair and (ii) capable, when taken with the gearing effect of performance-related pay, of delivering upper quartile actual remuneration for upper quartile performance.	Base salaries are reviewed annually, with reference to the individual's role, experience and performance; salary levels at relevant comparators are considered but do not in themselves drive decision-making.
Pension To provide market competitive retirement benefits.	Cash supplement in lieu wholly or partly of pension benefits for ongoing service and/or membership of the group's Defined Benefit or Defined Contribution pension scheme.
Benefits Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.	A range of benefits are provided which may include life insurance; medical insurance; car and fuel benefits and allowances; home to work travel and related costs if agreed on an individual basis or if incurred at the request of the Company; accommodation benefits and related costs if based away from home at the request of the Company; Board function related costs; and, in certain circumstances, cash allowances in respect of the tax charge on accommodation or travel to work benefit if incurred at the request of the Company or with its prior approval. Other benefits (e.g. relocation) may be offered if considered appropriate and reasonable by the Committee.
Variable pay	
Annual bonus To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer term risks to the Company. The requirement to defer a substantial part of bonus into Babcock shares strengthens the link to long-term sustainable growth.	Performance targets are set at the start of the year and reflect the responsibilities of the executive in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which these targets have been achieved. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and it may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. At least 40% of annual bonus payments for Executive Directors must be deferred into awards over Company shares for three years under the DBMP. Mandatory deferred bonus awards (Deferred annual bonus) are subject to potential forfeiture if the holder leaves before the awards vest. Clawback applies to unvested deferred annual bonuses if the accounts used to determine the bonus level have to be materially corrected or the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed or will have material adverse impacts in future years.
Deferred bonus matching plan (DBMP) To ensure that a substantial part of the Directors' short-term incentive rewards is exposed to the longer-term impact of decision-making and to further align their interests with shareholders.	The Committee may grant performance-related matching awards to Executive Directors who are granted deferred bonus awards. Participants can make an investment (including by voluntary extra deferral of bonus) regardless of any annual bonus earned of up to 100% of salary (including mandatory and voluntary investment). Participants may make an additional voluntary investment of up to 40% of salary. An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on shares that vest. The Committee has the ability to exercise discretion to override the DBMP matching outcome in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles.
Performance Share Plan (PSP) and Company Share Option Plan (CSOP) To incentivise delivery of top quartile shareholder returns and earnings growth over the longer term. Long-term measures guard against short-term steps being taken to maximise annual rewards at the expense of future performance.	The Remuneration Committee has the ability to grant nil-cost options or conditional share awards under the PSP, and may grant a portion of an award in CSOP options. To date, the Remuneration Committee has only awarded nil-cost options and CSOP options to executives. The award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate. An additional benefit is provided in cash or shares equal to dividends that would have been paid over the vesting period on shares that vest. Options may also be granted under the CSOP, an HMRC approved option scheme, which have an exercise price based on market price at the award date and can be linked to PSP awards as explained further on page 115, but are otherwise the same as for PSP awards. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles.
All-employee plans – Babcock Employee Share Plan To encourage employee ownership of Babcock shares.	Open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan is an HMRC approved share incentive plan that allows an employee to purchase shares (through the plan trustees) out of pre tax salary which, if held for periods of time approved by HMRC (currently 3 to 5 years), are taxed on a favourable basis. The Company can match purchased shares with an award of free shares. Matching shares are forfeited if employees leave within three years of their award (other than for 'good leaver' reasons).

Opportunity	Performance metrics
In respect of existing Executive Directors, it is anticipated that decisions on any salary increases will be guided by the increases for the wider employee population over the term of this policy. In certain circumstances (including, but not limited to, a material increase in job size or complexity, market forces, promotion or recruitment) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive. Latest salaries are set out in the Annual Report on Remuneration on page 100.	Business and individual performance are considerations in setting base salary.
Executive Directors, other than John Davies, currently receive a cash supplement of 25% of base pay in lieu of pension benefits. John Davies is a member of the Babcock International Group Pension Scheme (which offers 1/60th accrual) and receives a cash supplement, currently 20% of base pay above the scheme earnings cap. The cash supplement payable, whether in lieu of all pension benefits or on pay in excess of any applicable scheme earnings cap, and the level of any employer contribution into a defined contribution pension scheme for Executive Directors is set having regard to market practice, and in the context of the other elements of the remuneration package, notably base salary. Other than in exceptional cases (such as to replace existing arrangements for new recruits) the Committee does not anticipate employer contributions into a defined contribution pension scheme or cash in lieu of benefit as being at a cost to the Company that would exceed 30% of base salary or, in the case of internal promotions to the Board or for Executive Directors subsequently leaving existing Group pension schemes, in excess of the cost to the Company as a percentage of base salary of their current pension provision.	Not performance related.
Benefit values vary by role and are periodically reviewed and set at a level which the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the period of this policy. The Committee retains the discretion to approve a higher cost in certain circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially.	Not performance related.
Maximum bonus opportunity is 150% of salary. For achievement of threshold, up to 15% of maximum bonus is earned; for achievement of target up to 55% of maximum bonus is earned.	Performance is determined by the Committee on an annual basis by reference to Group and/or Divisional financial measures, e.g. EPS growth, PBIT, PBT, OCF, as well as the achievement of non-financial objectives. The financial and personal/strategic objectives are typically weighted 80% and 20% of maximum, respectively. The Committee retains discretion to vary the weightings +/- 20% for individual measures within the financial element at the start of each year, to ensure alignment with the business priorities for the year. Measures used for the 2013/14 annual bonus and proposed for 2014/15 are included in the Annual Report on Remuneration.
The maximum match would be 2 for 1 on any shares held under the DBMP (up to a maximum of 200% of salary based on maximum voluntary investment). For each performance condition applying to matching awards, 12.5% of the maximum award will vest for threshold performance.	Vesting of DBMP awards is subject to continued employment and Company performance over a 3 year performance period. Awards in recent cycles have been based on the achievement of stretching EPS, TSR and/or ROCE targets. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy. Should the Committee make changes to the measures, the weighting on EPS, TSR and ROCE combined will be not less than 66% of the total award. Details of measures and targets used for specific DBMP grants are included in the Annual Report on Remuneration.
Maximum annual PSP awards of up to 200% of base pay (though currently only the Chief Executive receives awards at this level). For each performance condition applying to an award, 16.7% of the maximum award will vest for threshold performance.	Vesting of PSP awards is subject to continued employment and Company performance over a 3 year performance period. Awards in recent cycles have been based on the achievement of stretching EPS and TSR targets. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy. Should the Committee make changes to the measures, the weighting on EPS and/or TSR combined will be not less than 66% of the total award. Details of measures and targets used for specific PSP and CSOP grants are included in the Annual Report on Remuneration.
Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate. The Company currently offers to match purchases made through the plan at the rate of 1 free matching share for every 10 shares purchased. The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.	Not performance related.

Remuneration report *continued*

Notes to the policy table

Payments from existing awards and commitments

Executive Directors are eligible to receive payment from any award or other commitment made prior to the approval and implementation of the remuneration policy detailed in this report.

Performance measure selection and approach to target setting

The measures used under annual bonus schemes are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set taking into account a range of reference points including the Group's strategic and operating plan. The Committee considers at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards and the financial targets to attach to share awards to ensure they continue to be: (i) relevant to our strategic objectives and aligned with shareholders' interests mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee believes that Total Shareholder Return (TSR), Underlying Earnings per Share (EPS) and Return on Capital Employed (ROCE) continue to be effective measures of long-term performance for the Company, providing a good balance between shareholder value creation and line of sight for executives.

The TSR performance measure is tested by reference to the Company's relative long-term share price performance against suitable peers. The Committee believes that the use of relative TSR provides strong alignment with shareholders' interests by incentivising management for the delivery of above market returns. The TSR calculation would normally use a 12-month average for opening and closing share prices adjusted for dividends paid during the period. The Company feels that this is the most appropriate period because a 12-month average ensures both that short-term market volatility is excluded and that for each company a 12-month period will capture the impact of the announcement of results and payment of dividends. A shorter period would not capture all these events and would not necessarily put all companies on an equal footing.

The use of an EPS growth performance measure, in the opinion of the Committee, focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals.

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

The Remuneration Committee has the discretion to make adjustments to the calculation of short and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include: changes in accounting standards, certain major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, acquisitions and disposals.

The Committee reviews the performance conditions for share awards prior to the start of each cycle to ensure they remain appropriate. No material reduction in long-term incentive targets for future awards would be made without prior consultation with our major shareholders.

Differences between Executive Director and general employee remuneration

The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The remuneration policy for our Executive Directors is considered with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect local market practice and seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the policy for executives as set out above but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair having regard to such factors.

Approach to recruitment remuneration

Recruitment policy

In the cases of hiring or appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Pay element	Policy on recruitment	Maximum
Salary	Based on size and nature of responsibilities of the proposed role; the candidate's experience; implications for total remuneration positioning vs. market pay levels for comparable roles; internal relativities; and the candidate's current salary	n/a
Pension	Membership of pension scheme or salary supplement on a similar basis to other executives, as described in the policy table	n/a
Benefits	Provision of benefits on a similar basis to other executives, as described in the policy table	n/a
Annual bonus	As described in the policy table, and may be pro-rated for proportion of year served	150% of salary
Deferred Bonus Matching Plan	New appointees may participate in the DBMP on similar terms to other executives	200% of salary
Performance Share Plan and Company Share Option Plan (CSOP)	New appointees may be granted awards under the PSP on similar terms to other executives	200% of salary
Other	In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its shareholders. The Committee may also make an award in respect of a new appointment to 'replace' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. In order to facilitate like-for-like compensatory awards on recruitment, the Committee may avail itself of Listing Rule 9.4.2R if required	n/a
Other recruitment events		
Internal promotion	When appointing a new Executive Director by way of promotion from an internal role, the Committee will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate, these would be expected to transition over time to the arrangements as stated above	n/a
Non-Executive Director	When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director and Chairmanship of the Audit and Risk and Remuneration Committees	n/a

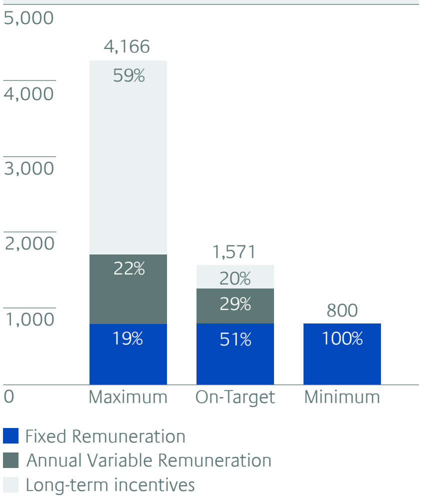
Remuneration report *continued*

Balance of remuneration for Executive Directors

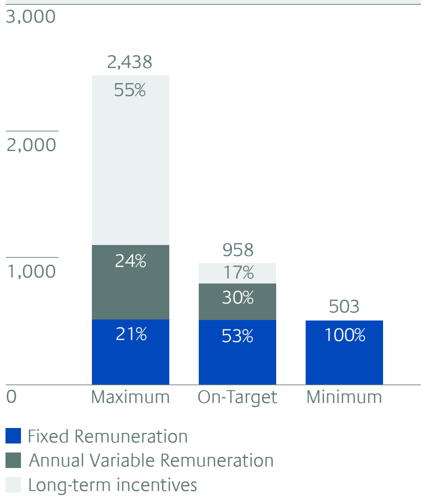
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on Babcock's remuneration policy, applied to base salaries as at 1 April 2014. Note that the projected values exclude the impact of any share price movements. For this reason, were the DBMP or PSP shares to vest in full, actual total remuneration may exceed the value shown in the chart below.

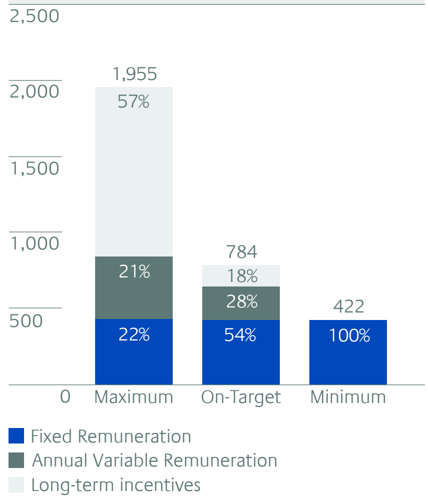
Chief Executive – Peter Rogers (£000)



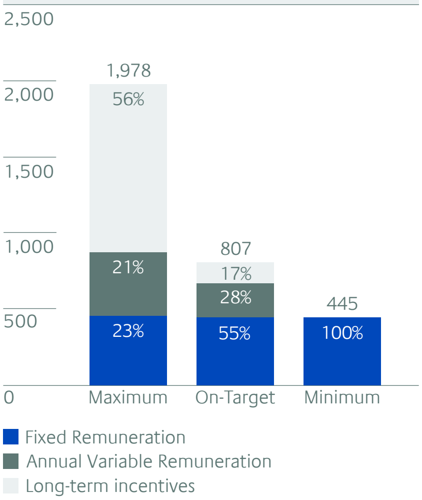
Group Finance Director – Bill Tame (£000)



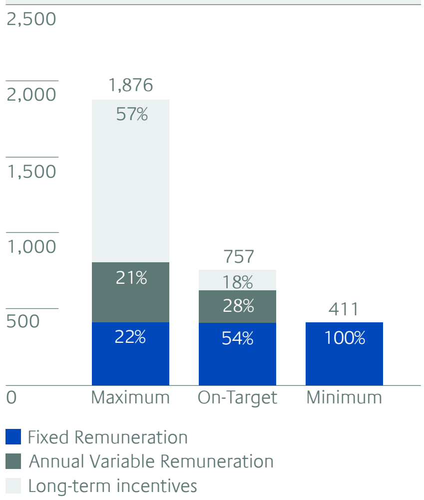
Chief Executive, Support Services – Kevin Thomas (£000)



Chief Executive, Marine and Technology – Archie Bethel (£000)



Chief Executive, Defence and Security – John Davies (£000)



The 'Minimum' scenario shows base salary, pension (and/or pay in lieu of pension) and benefits (i.e. fixed remuneration). These are the only elements of the Executive Directors' remuneration packages which are not at risk.

The 'On-Target' scenario reflects fixed remuneration as above, plus a payout of 50% of the annual bonus for the CEO and CFO (52.7% for the other Executive Directors) and threshold vesting of 12.5% and 16.7% of the maximum award under the DBMP and PSP, respectively. All scenarios assume full voluntary investment under the DBMP.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of all incentives.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO). The guidelines also state that an Executive Director is expected to retain at least half of any shares acquired on the exercise of a share award that remain after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs) until the guideline level is achieved and thereafter maintained. The Executive Directors' compliance with these guidelines is shown in the table on page 110.

Details of Directors' service contracts and exit payments and treatment of awards on a change-of-control

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

Executive Directors

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

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

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. In these circumstances, for new contracts (including for John Davies) the Company can choose to make the payment in lieu by monthly instalments and mitigation applies such that the Committee may decide to reduce or discontinue further instalments. For existing contracts (for Executive Directors other than for John Davies) such a payment would be by way of a lump sum payment on termination. If the Company terminates an Executive Director's service contract it will have regard to all the circumstances (including the scope for mitigation) and the Company's interests in determining the amount of compensation, if any, payable to him in connection with that termination.

The contracts for Peter Rogers and Bill Tame (but not for Archie Bethel, Kevin Thomas and John Davies) contain provisions which provide that within 90 days of the occurrence of a change of control of the Company, each may terminate his employment forthwith. If he exercises this right, he is entitled, for a 12-month period, to be paid (on a monthly basis) his base salary plus 40% (compared to a maximum entitlement under the annual bonus scheme of 150%) in lieu of bonus and all other contractual entitlements. From this payment there is to be deducted any amount that the Executive 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 contracts for Peter Rogers and Bill Tame (but not for Kevin Thomas, Archie Bethel and John Davies) also provide that if the Company terminates their appointment within 12 months of a change of control, they would be entitled to a termination payment equal to 100% of annual salary (plus 40% in lieu of bonus and all other benefits), subject to any additional entitlement as outlined below.

In addition to the contractual provisions regarding payment on termination set out above, the Company's incentive plans contain provisions for termination of employment, where the Committee has the discretion to determine the level of award vesting.

Remuneration report *continued*

Component	Treatment on a change of control	Treatment for a good leaver[1]	Treatment for other leavers
Annual Bonus	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise[2]	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise	No annual bonus entitlement, unless the Committee exercises discretion to treat otherwise
PSP, CSOP, DBP and DBMP (mandatorily deferred bonus awards and matching awards)	Awards generally vest immediately, and, for performance-related awards, will be pro-rated for time and remain subject to performance conditions, with Committee discretion to treat otherwise	Entitled to retain a time pro-rated proportion, which remains subject to performance conditions. Committee has discretion to allow immediate vesting and/or more than time pro-rated vesting	Outstanding awards are forfeited, unless the Committee exercises discretion to treat otherwise

1. An individual would generally be considered a 'good leaver' if they leave the Group's employment by reason of injury, ill-health, disability, redundancy or retirement (in each case evidenced to the Committee's satisfaction). The treatment of share awards held by Directors who leave on other grounds is entirely at the discretion of the Committee and in deciding whether (and the extent to which) it would be appropriate to exercise that discretion the Committee will have regard to all the circumstances.
2. Treatment of bonus on a change of control for Peter Rogers and Bill Tame is also the subject of the provisions outlined on page 95 and above.

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

External appointments of Executive Directors

The Executive Directors may accept external appointments with the prior approval of the Chairman, provided that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Any fees for outside appointments are retained by the Director.

Chairman and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment (subject to annual re-election)
Mike Turner (Chairman)	1 June 2008	20 March 2014	AGM for 2017
Justin Crookenden	1 December 2005	20 March 2014	30 November 2014
David Omand	1 April 2009	31 May 2012	AGM for 2015
Ian Duncan	10 November 2010	5 March 2013	AGM for 2016
Kate Swann	1 June 2011	20 March 2014	AGM for 2017
Anna Stewart	1 November 2012	19 June 2012	AGM for 2015
Jeff Randall	1 April 2014	6 December 2013	AGM for 2017

The latest written terms of appointment are available for inspection at the Company's registered office and at the Company's Annual General Meeting. The expected time commitment of Non-Executive Directors is set out in their current written terms of appointment.

The Group's Non-Executive Directors serve under letters of appointment as detailed in the table above, normally for no more than three year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director. All Non-Executive Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code.

Details of the Non-Executive Directors' terms of appointment are shown in the table. The appointment and re-appointment and the remuneration of Non-Executive Directors are matters reserved for the Nominations Committee and Executive Directors, respectively.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance measures
To attract and retain high calibre Non-Executive Directors with commercial and other experience relevant to the Company	Fee levels are reviewed against market practice from time to time (by the Chairman and the Executive Directors in the case of Non-Executive Director fees and by the Remuneration Committee in respect of fees payable to the Chairman), with any adjustments normally being made on 1 April in the review year Additional fees are payable for acting as Chairman of the Audit and Risk, and Remuneration Committees Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels Fees for the year ending 31 March 2014 and those for the year ending 31 March 2015 are set out in the Annual Report on Remuneration on page 109.	Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level	None

Consideration of employee views

When reviewing Executive Director pay the Committee is aware of the proposals for review of remuneration of all employees. The Committee receives regular updates on salary increases, bonus and share awards made to employees throughout the Group. These matters are considered when conducting the annual review of executive remuneration. The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Company operates. The Company now formally presents a summary of its policy for remuneration arrangements for Executive Directors to the Babcock Employee Forum, which is attended by representatives from across the UK business operations, and will consider any feedback from that Forum.

Consideration of shareholder views

When determining remuneration, the Committee takes into account views of leading shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing consultation with leading shareholders in advance of any significant changes to remuneration policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

Further detail on the votes received on the 2013 Directors' Remuneration Report and the Committee's response are provided in the Annual Report on Remuneration on page 98.

Remuneration report *continued*

ii) Annual report on remuneration

Remuneration Committee membership in 2013/14

The members of the Committee are appointed by the Board on the recommendation of the Nominations Committee and, in accordance with provision D 2.1 of the UK Corporate Governance Code, the Committee is made up of the Independent Non-Executive Directors listed below. The membership of the Committee during the year to 31 March 2014 (with each member serving throughout the year) as well as attendance at Committee meetings, is shown below. The Company Secretary is Secretary to the Committee.

Committee attendance

Member	Number of Meetings attended/Number of meetings possible
Justin Crookenden (Chairman)[1]	6 of 7
Sir David Omand	7 of 7
Ian Duncan	7 of 7
Kate Swann	7 of 7
Anna Stewart	7 of 7

1. Justin Crookenden was unable to attend 1 meeting due to unavoidable personal commitments.

On 1 April 2014 Jeff Randall joined the Committee as an independent Non-Executive Director and will assume the role of Chairman of the Committee when Mr Crookenden steps down from that position at the AGM in July 2014.

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

Advisers

Kepler Associates (Kepler) was appointed by the Committee in late 2008, following a selection process including interviewing a number of candidate firms, to provide it with independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. Kepler reports directly to the Committee Chairman. A representative from Kepler typically attends Committee meetings. Kepler provides no other services to the Company. Kepler is a member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to Remuneration Committees of UK listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Kepler adheres to this Code of Conduct. The fees paid to Kepler in respect of work carried out in the year under review totalled £125,988 on the basis of time and materials, excluding expenses and VAT.

The Committee periodically considers whether Kepler remains independent of the Company and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Kepler is independent.

How often it meets

In total there were 7 meetings in the year to 31 March 2014. The Committee plans to meet at least 6 times in the current financial year.

Other matters

The Committee considered a number of matters during the year, including:

- The Committee's terms of reference;
- Executive remuneration policy and philosophy and any changes that might be needed;
- The making of share awards under the Company's share plans;
- The level of vesting of PSP and CSOP awards granted in 2010;
- The vesting of DBP awards made in 2011;
- The level of annual bonuses for the year to 31 March 2013;
- Shareholder feedback on the remuneration proposals subsequently implemented in the year to 31 March 2014;
- Setting of annual bonus targets for the year to 31 March 2014;
- Review of share ownership guidelines for senior executives;
- Policy on the effect of share disposals and the granting of matching awards under the DBMP;
- Finalising annual pay reviews for Executive Directors and other senior executives for the year to 31 March 2014;
- Annual pay reviews for Executive Directors and other senior executives for the year to 31 March 2015;
- Trends in executive remuneration, remuneration governance and investor views;
- The Committee's approach to the consequences of termination of employment for share awards and annual bonus;
- Review of the new Directors Remuneration Report regulations, and review of the Babcock Directors Remuneration Report;
- Approval of procedure for the authorisation of Chairman and CEO expenses; and
- Resolved to continue the appointment of the Committee's independent advisers.

Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory shareholder vote on the 2013 Remuneration Report at the 2013 AGM:

Votes cast	Total number of votes	% of votes cast
For (including discretionary)	208,159,126	84.3%
Against	38,893,012	15.7%
Total votes cast (excluding withheld votes)	247,052,138	100%
Votes withheld	1,822,169	
Total votes cast (including withheld votes)	248,874,307	

The Committee engaged with leading shareholders before the AGM in 2013 on a number of matters and proposed changes to the remuneration arrangements. Feedback from a minority of shareholders consulted stated a preference for ‘simplicity’ with regard to incentive structures. Internally, we work to ensure that incentive plans are well communicated to, and well understood by, participants. We believe the plans are structured to align the interests of shareholders and management, and that the addition of matching awards under the DBMP has been crucial in rewarding and motivating our management team.

The Committee will continue to engage with its major shareholders to facilitate a better understanding of the Company, the environment in which it operates and how this translates into the Group’s executive remuneration policy.

Single total figure of remuneration (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the years ending 31 March 2014 and 31 March 2013.

	Peter Rogers £000		Bill Tame £000		Archie Bethel £000		Kevin Thomas £000		John Davies £000	
	13/14	12/13	13/14	12/13	13/14	12/13	13/14	12/13	13/14	12/13[a]
1 Salary	612	561	387	355	337	309	337	309	322	76
2 Benefits in kind and cash	35	20	19	36	24	9	1	1	19	5
3 Pension	153	140	97	89	84	77	84	77	74	19
4 Annual bonus (cash or voluntarily deferred bonus)	512	500	324	317	233	229	238	229	223	58
5 DBMP (deferred annual bonus)	341	334	216	211	156	153	159	153	148	39
6 DBMP (matching awards)	0	0	0	0	0	0	0	0	0	0
7 PSP	1,845	1,113	823	712	748	612	748	612	561	467
8 Dividends	105	63	46	41	43	36	43	36	32	27
Total *(of which)*	3,603	2,731	1,912	1,761	1,625	1,425	1,610	1,417	1,379	691
Fixed Remuneration (1,2,3)	800	721	503	480	445	395	422	387	415	100
Annual Variable Remuneration (4,5)	853	834	540	528	389	382	397	382	371	97
Long-term Incentives (6,7,8)	1,950	1,176	869	753	791	648	791	648	593	494

The figures have been calculated as follows:

1. Salary: basic salary amount earned for the year.
2. Benefits in kind and cash: the value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation benefits, car and fuel benefits and costs in connection with accommodation.
3. Pension: for Peter Rogers, Bill Tame, Archie Bethel and Kevin Thomas, value of the cash supplement; for John Davies (i) 20 times the increase in his accrued benefit over the year, less Directors’ contributions plus (ii) the value of the cash supplement.
4. Annual bonus (cash or voluntarily deferred bonus): this is the part of total annual bonus earned for performance during the year (see page 102) that is not required to be mandatorily deferred into a basic award of shares under the DBMP) (see page 103) and that is to be satisfied in cash and/or, if the Director has so elected, by the making of a voluntary deferral award of shares under the DBMP.
5. DBMP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
6. DBMP (matching awards): no DBMP awards vested on performance to (i) 31 March 2014 or (ii) 31 March 2013.
7. PSP: the market value of awards that vest on performance to (i) 31 March 2014: based on vesting as to 94.7% of the total award to Peter Rogers and 93.0% of the awards to other Executive Directors and an average share price in the 3 months to 31 March 2014 of 1,233p and (ii) 31 March 2013: based on vesting as to 58.8% of the total award to Peter Rogers and 78.4% of the awards to other Executive Directors and a vest date share price on 13 July 2013 of 1,173p. Note: the difference for 2012/13 PSP figures versus that disclosed in last year’s Annual Report on Remuneration reflects truing up for the actual share price on vesting.
8. Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory deferral of bonus awards under the DBP) vesting on performance to (i) 31 March 2014 and (ii) 31 March 2013, payable in cash on exercise of the award.

a. Reflects period from appointment as a Director on 1 January 2013 to 31 March 2013.

Remuneration report *continued*

Single total figure of remuneration for Non-Executive Directors (audited)
The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2014 and the prior year:

	Base fee £000		Additional fees £000		Total £000	
	13/14	12/13	13/14	12/13	13/14	12/13
Mike Turner	295	255	0	0	295	255
Justin Crookenden	55	50	13	8	68	58
David Omand	65	60	0	0	65	60
Ian Duncan	55	50	13	13	68	63
Kate Swann	55	50	0	0	55	50
Anna Stewart	55	21[1]	0	0	55	21

1. Fees reflect period from appointment on 1 November 2012 to 31 March 2013.

Summary of the structure of Executive Directors' remuneration
Based on the Committee's policy, the principal elements of the remuneration arrangements (other than pension benefits or supplements in lieu of pension benefits) for Executive Directors in the year to 31 March 2014 and for the year to 31 March 2015 are summarised in the table below. Further details on the annual bonus schemes, share awards, and pension schemes (and pension benefits) are to be found in the following pages of this Remuneration report.

	2014/15				2013/14			
Director	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Maximum Matching Share opportunity under DBMP[1] (% of salary)	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Maximum Matching Share opportunity under DBMP[1] (% of salary)
Peter Rogers	611,871	150%	200%	200%	611,871	150%	200%	200%
Bill Tame	387,331	150%	150%	200%	387,331	150%	150%	200%
Archie Bethel	336,810	125%	150%	180%	336,810	125%	150%	180%
Kevin Thomas	336,810	125%	150%	180%	336,810	125%	150%	180%
John Davies[2]	321,810	125%	150%	180%	321,810	125%	150%	180%

1. Assumes maximum bonus and maximum self-investment and 2 for 1 share match.
2. Salary reflects that he receives car and fuel benefits.

Base salary
Executive Directors' base salaries and benefits are reviewed each year with any changes usually taking effect from 1 April. The Committee determined that base salaries and benefits for 2014/15 for Executive Directors should be increased in line with those for the wider Group. The Committee was informed by the Executive Directors that exceptionally they would not be drawing the increase granted for 2014/15 in order to demonstrate their understanding of the financial austerity still affecting the UK Government as the Company's principal customer. The Committee welcomed that one-year restraint, and agreed that the increase it had made for 2014/15 (2.5%) would be included in the baseline for their next review in 2015.

Director	Salary 2013/14 £	Salary 2014/15 £	% increase
Peter Rogers	611,871	611,871	0%
Bill Tame	387,331	387,331	0%
Archie Bethel	336,810	336,810	0%
Kevin Thomas	336,810	336,810	0%
John Davies	321,810	321,810	0%

Internal relativity

As noted above, when reviewing Executive Directors' remuneration, the Committee takes note of proposals for pay in the wider Group. Each business within the Group determines its own pay structures and remuneration in light of its own position and the employment market in which it operates. The overall average salary increases for employees generally for the year to 31 March 2015 is expected to be in the order of 2.5% (with individual increases significantly above this amount in some cases) dependent on business and personal performance and local market conditions.

Pensions

The Executive Directors, other than John Davies, did not participate in a Group pension scheme or otherwise receive pension benefits from the Group for service during the year to 31 March 2014. These Executive Directors received a cash supplement equal to 25% of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

John Davies is a member of the Babcock International Group Pension Scheme. During the year to 31 March 2014, he received a cash supplement equal to £36k in lieu of pension benefits on that part of his base salary as exceeded the applicable scheme earnings cap.

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

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

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

John Davies is a member of the VT Upper Section Ex-Short Brothers section of the Scheme. He accrues benefits on earnings up to the scheme earnings cap (currently £141,000) at the rate of one-sixtieth of pensionable salary for each year of service.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2014 are set out in the following table:

Director	Accrued pension at 31 March 2014 £ p.a.	Normal retirement date[1]
Bill Tame[2]	45,532	60
Archie Bethel[2]	37,657	65
Kevin Thomas[2]	60,484	65
John Davies	50,254	65

1. Date from which payment can be drawn with no actuarial reduction.
2. Bill Tame, Archie Bethel and Kevin Thomas were not active members of the scheme during the year.

Note: The figures in the above table make no allowance for the cost of death in service benefits under the Scheme, or for any benefits in respect of earnings in excess of the earnings cap. In calculating the above figures no account has been taken of any retained benefits that the Director may have from previous employments.

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

Director	2014 £000	2013 £000
Bill Tame	3	3
Archie Bethel	3	2
Kevin Thomas	3	2
John Davies (appointed 1 January 2013)	2	0.5

Remuneration report *continued*

Annual Bonus Scheme

2013/14 Annual bonus (audited)

For our Executive Directors' annual bonus schemes in 2013/14, as in previous years, a mix of financial and non-financial measures was used. The non-financial measures were principally based on the key themes that are of central importance to the continued success of the Company, including: reputation protection; growth; security; employee engagement and talent development; and IT systems improvement. Maintaining a satisfactory health and safety and environmental performance is always an overriding bonus objective. The financial measures were focused on delivery of budget profitability, cash management and growth in earnings. Objectives for the 2013/14 bonus were set by the Committee at the beginning of the year.

The table below sets out the annual bonus schemes in place for the Executive Directors and the outturn under them in 2013/14.

Bonus element	Threshold target	Maximum target	Actual outturn		Peter Rogers	Bill Tame	Archie Bethel	Kevin Thomas	John Davies
EPS[1] performance *Stretching targets, with a sliding scale between threshold and maximum*	63.8p	70.9p	70.3p	Maximum potential (% of salary)	90%	90%	70%	70%	70%
				Outturn (% of salary)	81%	81%	63%	63%	63%
Achieving budgeted Group cash flow	96% of budget	Budget (£218m)	£268m	Maximum potential (% of salary)	15%	15%			
				Outturn (% of salary)	15%	15%			
Achieving budgeted Group PBT[2]	96% of budget	Budget (£293m)	£316m	Maximum potential (% of salary)	15%	15%			
				Outturn (% of salary)	15%	15%			
Achieving budgeted Divisional cash flow	96% of budget	Budget[3]	Exceeded budget	Maximum potential (% of salary)			15%	15%	15%
				Outturn (% of salary)			15%	15%	15%
Achieving budgeted Divisional PBIT[2]	96% of budget	Budget[3]	Exceeded budget	Maximum potential (% of salary)			15%	15%	15%
				Outturn (% of salary)			15%	15%	15%
Non-financial objectives[4]				Maximum potential (% of salary)	30%	30%	25%	25%	25%
				Outturn (% of salary)	28%	28%	22%	25%	22%
Total				Maximum potential (% of salary)	150%	150%	125%	125%	125%
				Outturn (% of salary)	139%	139%	115%	118%	115%

1. Threshold vesting is 20% of maximum for each bonus element except for EPS performance, where 18% of maximum vests at threshold.
2. Before amortisation of acquired intangibles. The treatment of exceptional items is at the discretion of the Committee.
3. The Remuneration Committee considers that the divisional budgets remain commercially sensitive given the strategic nature of some of our customers or their activities and they would also be of assistance to competitors, and will not be published.
4. Non-financial objectives were set around the following priority strategic and risk management themes: Reputation (with customers and investors, including specified improved strategic and customer engagement objectives, anti-bribery and corruption training and review of policies and procedures); Growth (relating to strategy planning and development, progress against existing strategic plans particularly for territories outside the UK, specific bidding targets and objectives, win rates, development and leveraging of identified strategic partnerships, organisational and management changes to support growth and strategic objectives); Employees (developing or progressing employee engagement, communications and cultural initiatives, for example in connection with diversity; talent identification, development and succession planning initiatives and programmes, developing graduate and apprentice strategies and relationships with universities); Process improvements (for example in IT, IT strategy, management information systems, cyber-security and information assurance objectives). The actual objectives set are considered by the Board to be commercially sensitive relating as they do to customer relationships, specific bids, specific strategic steps or objectives, security measures and personnel issues or they are effectively discussed elsewhere in this Annual Report.

2014/15 Annual bonus

For our annual bonus schemes for 2014/15 we are continuing to use the structure adopted in 2013/14 as set out in the table above. Bonuses will be based on the same measures and weightings as those used in 2013/14. The Committee intends to disclose financial performance targets and personal objectives retrospectively in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive.

The weighting of the elements of bonus is kept under review and, in particular, the weighting for non-financial objectives for the annual bonus scheme for 2015/16 and future years is a matter the Committee will be considering during the current financial year.

Annual bonus deferral into shares (audited)

To ensure that a substantial part of the Director's annual bonus is exposed to the longer term impact of decision-making and to further align their interests with shareholders, 40% of any annual bonus earned by Executive Directors (and other senior executives) must be deferred into Babcock shares (by means of an award of nil-cost options). Under the Deferred Bonus Plan (applicable to deferred bonus awards made to Directors before 2012) the deferral period was two years. From 2012 deferred awards have been made to Directors under the Deferred Bonus Matching Plan (DBMP) under which the deferral period is three years. In addition to mandatory deferral of 40% of bonus the DBMP allows for Directors to be invited to make a voluntary additional investment (including by way of accepting deferral of extra amounts of bonus) of an amount equal to up to 40% of salary. Both mandatorily deferred and voluntary investments are eligible for matching share awards of up to a 2 for 1 match. The Committee granted performance-related matching awards under the DBMP to Directors on the amount of bonus for 2012/13 mandatorily or voluntarily deferred into share awards under that scheme and will be doing the same in respect of bonus mandatorily or voluntarily deferred into share awards for 2013/14. The performance conditions relating to matching awards made in 2013 and those proposed for matching awards to be made in 2014 are discussed on pages 104 and 105. Bonuses mandatorily deferred into shares in 2010 and 2011 did not have any associated matching share awards. Deferred annual bonus awards are subject to potential forfeiture if the holder leaves before the awards vest (other than by reason of death, disability, redundancy, retirement or the company or business in which they are employed ceasing to be part of the Group).

Long-term incentive schemes (PSP and DBMP)

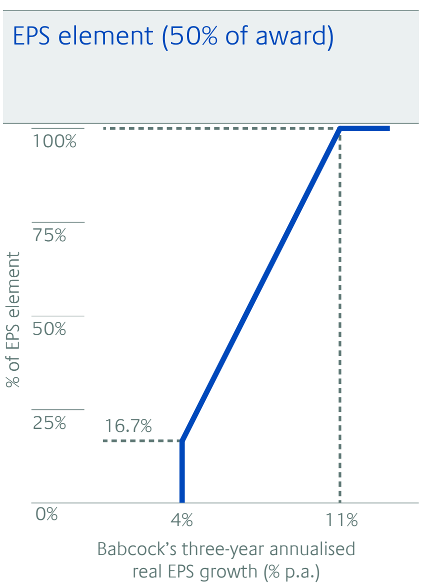
PSP awards made in 2013/14 (audited)*

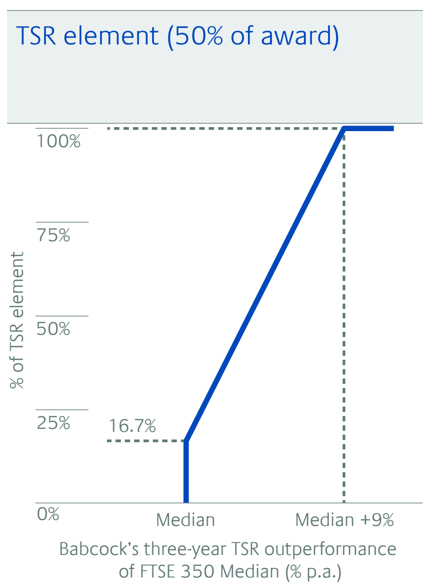
Director	Basis	Face value (£)[1]	Face value (% of salary)	% receivable for threshold performance	End of performance period
Peter Rogers	As per the Policy. Performance measures and targets are set out below	1,223,744	200%	16.7%	31 March 2016
Bill Tame		580,998	150%	16.7%	31 March 2016
Archie Bethel		505,215	150%	16.7%	31 March 2016
Kevin Thomas		505,215	150%	16.7%	31 March 2016
John Davies		482,715	150%	16.7%	31 March 2016

1. Based on 3 day average share price of 1,176p at time of grant.
* In the form of nil-cost options.

In 2013, PSP awards were made to each of the Executive Directors. Awards were made over shares having a total value on grant equal to 200% of basic salary for Peter Rogers and 150% of salary for the other Executive Directors. The performance targets attached to those awards – split equally between TSR performance relative to the peer group and real EPS growth – are illustrated in the charts below:

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





Remuneration report *continued*

Threshold vesting (16.7% of this element) for the EPS element was set at real growth of 4% per annum and maximum vesting at real growth of 11% per annum. We believe that real growth of 11% would represent exceptional performance. For the comparative TSR element, threshold vesting (16.7% of this element) would be for performance in line with the median of the FTSE 350 (excluding investment trusts and financial services companies) and maximum vesting would be for 9% p.a. outperformance of the median, representing upper quartile performance.

Deferred Bonus Matching Plan awards made in 2013/14 (audited)*

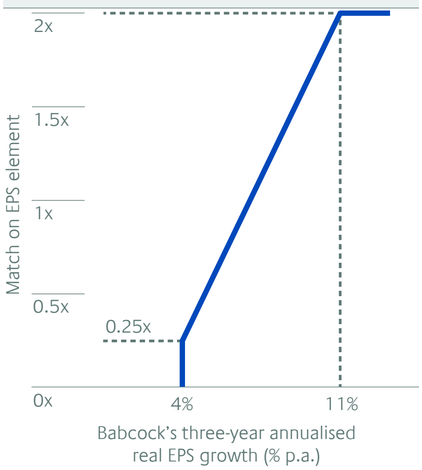
Director	Basis	Face value (£)[1]	Face value (% of salary)	% receivable for threshold performance	End of performance period
Peter Rogers	As per the Policy. Performance measures and targets are set out below	1,115,964	182%	12.5%	31 March 2016
Bill Tame		582,156	150%	12.5%	31 March 2016
Archie Bethel		553,110	164%	12.5%	31 March 2016
Kevin Thomas		553,110	164%	12.5%	31 March 2016
John Davies		542,370	169%	12.5%	31 March 2016

1. Based on 3 day average share price of 1,176p at time of grant.

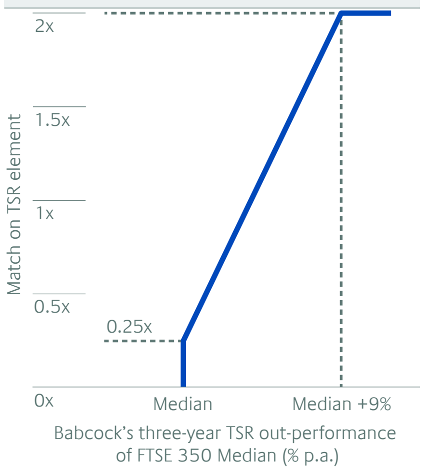
* In the form of nil-cost options.

The DBMP allows the Committee to make matching share awards of up to two times the deferred bonus shares (40% of bonus) and any additional shares or extra bonus deferral self-invested under the scheme by the Director (of an amount equal to up to 40% of salary). The matching share award is performance-related and only vests to the extent that the performance criteria are met in respect of the three-year performance period. For the 2013 cycle, the performance period runs from 1 April 2013 to 31 March 2016, the same as for PSP awards made in 2013. The performance targets attached to those awards – split equally between TSR performance relative to the peer group, real EPS growth, and average return on capital employed (ROCE) over the period – are illustrated in the charts below:

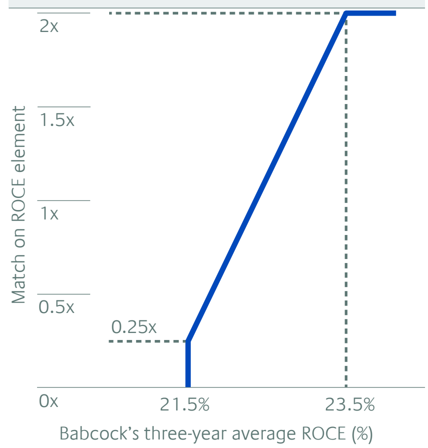
EPS element (33% of award)



TSR element (33% of award)



ROCE element (33% of award)



The target for maximum vesting is ROCE of 23.5% and for threshold vesting it is 21.5%. The maximum match is 2 for 1 on any shares held under the plan; 0.25 matching shares would be released for each such share at threshold vesting. Therefore for each measure, threshold vesting would be a (0.25/3) for 1 match (4.2% of maximum) and maximum vesting would be a (2/3) for 1 match (33% of maximum).

For 2013/14 Executive Directors received awards in lieu of mandatorily and voluntarily deferred bonus and matching awards (in respect of the 2012/13 bonus) as follows:

Director	Deferred annual bonus (mandatorily deferred bonus) no of shares	Voluntarily Deferral Awards (no of shares)	Total shares invested in the DBMP	Potential Maximum number of matching shares
Peter Rogers	28,353	19,093	47,446	94,894
Bill Tame	17,948	6,802	24,750	49,502
Archie Bethel	13,006	10,510	23,516	47,032
Kevin Thomas	13,006	10,510	23,516	47,032
John Davies	12,753	10,306	23,059	46,119

2011 PSP awards vesting (audited)

Awards granted in 2011 under the PSP were subject to 3-year TSR and EPS targets outlined on page 106. 3-year TSR to 31 March 2014 was 15% p.a. above median TSR for the FTSE 350 (excluding investment trusts and financial services). Babcock's 3-year adjusted basic underlying EPS growth to 31 March 2014 was 11.1% p.a. in excess of RPI (historical EPS numbers were restated to ensure they were on the same accounting basis). Accordingly, 2011 PSP awards are expected to vest in June 2014 as to 94.7% for Peter Rogers and 93.0% for other Executive Directors.

Director	Award	Number expected to vest
Peter Rogers	PSP 2011	149,598
	PSP 2011	66,757
	PSP 2011 Funding[1]	TBC[1]
Bill Tame	CSOP 2011	3,217
Archie Bethel	PSP 2011	60,651
Kevin Thomas	PSP 2011	60,651
John Davies	PSP 2011	45,489

1. The actual number of PSP 2011 funding shares capable of being exercised can only be determined on the CSOP exercise date, but cannot exceed 3,217.

PSP and DBMP awards for 2014/15

The Committee intends to grant awards under the PSP and DBMP with the same maximum opportunities and performance measures as in 2013. EPS targets for the 2014 PSP and DBMP awards will vest from RPI +4% p.a. to RPI +11% p.a. over three years; TSR targets for the 2014 PSP and DBMP awards will vest between median and median +9% relative to the peer group; ROCE targets for the DBMP, however, will be set later in the year.

As mentioned in the circular issued by the Company on 27 March 2014 relating to the acquisition of the Avincis Group, the acquisition is only expected to achieve a return on invested capital in excess of the Company's current cost of capital from the second full financial year following the acquisition. However, this level of return, while value-creating for the business as a whole, is below Babcock's current ROCE. The Committee believes it is important to ensure that the performance of Babcock and the acquired business is taken into account for 2014 DBMP awards, and as such, the relevant ROCE targets will be reviewed during the year and set to ensure they are commensurate with those set in previous years. The Committee will communicate the targets in next year's report.

Sourcing of shares

Shares needed to satisfy share awards for Directors are either fresh issue shares issued to the Group's employee share trusts to meet share awards or shares purchased in the market by the trusts using funds advanced by the Company. The source selection is finalised on or before vesting, the choice being based on what the Board considers to be in the best interests of the Company at the time, and what is permissible within available headroom and dilution limits.

Remuneration report *continued*

Outstanding share awards summaries: grants made up to and during 2013

The following tables summarise the performance targets (if applicable) and other information about the schemes relevant to currently outstanding share awards held by Executive Directors (i.e. those awards yet to vest) and those that vested during the year to 31 March 2014 (the awards made in 2010 under the PSP and the CSOP and the DBP awards made in 2011).

Scheme	Performance Share Plan (nil price options) and Company Share Option Plan (market price options) – 2010–2013 awards
Performance period	For the 2010 awards: 1 April 2010 to 31 March 2013. (Vested in July 2013 as to 58.8% for Peter Rogers and 78.4% for other Executive Directors) For the 2011 awards: 1 April 2011 to 31 March 2014. (Expected to vest in June 2014 as to 94.7% for Peter Rogers and 93.0% for other Executive Directors) For the 2012 awards: 1 April 2012 to 31 March 2015. For the 2013 awards: 1 April 2013 to 31 March 2016.

General performance target	EPS growth test	Comparative TSR test	Proportion of total award that can vest
Maximum	Real compound annual growth of 12.5% (2010-2012)/ 11% (2013) or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	50%
Threshold	Real compound annual growth of 4%	TSR performance equivalent to the median for the peer group as a whole	8.3%
	Intermediate growth between the above points	Intermediate ranking between the above points	Straight–line basis between 8.3% and 50%
	Real compound annual growth of less than 4%	Performance less than equivalent to median for the whole peer group	0%

Chief Executive's additional award in 2010 and 2011 over shares equal to a further 50% of salary	If comparative TSR performance exceeded median TSR performance for the peer group taken as a whole by more than 9% per annum further shares vest, with full vesting of this additional award for more than 12.5% per annum. This will affect the relative proportion of the award vesting in his case. For 2010, none of the additional award vested. The 2011 additional award is expected to vest in full.
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.
Other information	The awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is after exceptional items. Real EPS growth is that in excess of the change in the retail prices index. The awards carry the right to receive on vesting a payment equal to the value of any dividends paid in the period between grant and vesting but this right applies only to the shares that actually vest under the award. Exercise periods commence not less than three years from actual or nominal award grant date. CSOP and PSP awards are linked so that in aggregate the holder cannot receive more gross value from them than a standalone PSP award of shares equal to the relevant award multiple of the Director's base salary.

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

Scheme	Deferred Bonus Matching Plan (nil price options) 2012 and 2013 matching awards
Performance period	For the 2012 awards: 1 April 2012 to 31 March 2015. For the 2013 awards: 1 April 2013 to 31 March 2016.

General Performance target	EPS growth test	Comparative TSR test	ROCE test	Match that can vest under each measure
Maximum	Real compound annual growth of 12.5% (2012)/11% (2013) or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	ROCE of 20.5% (2012)/23.5% (2013) or more	0.33x maximum
Threshold	Real compound annual growth of 4%	TSR performance equivalent to the median for the peer group as a whole	ROCE of 17.5% (2012)/21.5% (2013)	0.042x maximum
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight–line basis between 0.042x and 0.33x maximum
	Real compound annual growth of less than 4%	Performance less than equivalent to median for the whole peer group	ROCE of less than 17.5% (2012)/21.5% (2013)	0x
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.			
Other information	Matching awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is after exceptional items. Real EPS growth is that in excess of the change in the retail prices index. ROCE is underlying Earnings Before Interest and Tax ('EBIT') after amortisation of acquired intangibles but before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Average Capital Employed where Capital Employed is calculated as Total Shareholders' Equity plus Net Debt (or minus Net Funds), as stated in the Company's consolidated audited accounts for the relevant Financial Year; and Average Capital Employed will be calculated as the average of the opening and closing value of Capital Employed for each year of the Performance Period. The awards carry the right to receive on vesting a payment equal to the value of any dividends paid in the period between grant and vesting but this right applies only to the shares that actually vest under the award. Exercise periods commence not less than three years from actual or nominal award grant date.			

Remuneration report *continued*

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

The Committee links the remuneration of executives to the long-term interests of shareholders and key strategic and risk management objectives by the performance criteria it uses in the annual bonus and long-term incentive schemes. Examples include the following:

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

Exit payments made in year (audited)

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

Payments to past Directors (audited)

No payments were made to past Directors in the year.

Non-Executive Directors (including the Chairman)

The Chairman and Non-Executive Directors receive fixed fees. These fees are reviewed against market practice from time to time (by the Chairman and the Executive Directors in the case of the Non-Executive Director fees and by the Remuneration Committee in respect of the fees payable to the Chairman). The fees were last reviewed as of 1 April 2013.

Annual rate of fees	Year to 31 March 2015 £	Year to 31 March 2014 £
Chairman	295,000	295,000
Senior Independent Director (inclusive of basic fee)	65,000	65,000
Basic Non-Executive Director's fee	55,000	55,000
Chairmanship of Audit and Risk Committee[1]	12,500	12,500
Chairmanship of Remuneration Committee[1]	12,500	12,500

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

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for other employees. The analysis is based on UK employees as they are operating in the same geography and economic background as the CEO.

	% change 2012/13 to 2013/14	
	CEO	Other employees
Base salary	9%	2.4%
Taxable benefits	75%[1]	4.5%
Single-year variable	2.3%	4.2%

1. Represents an increase from £20k for 2012/13 to £35k for 2013/14.

Relative importance of spend on pay

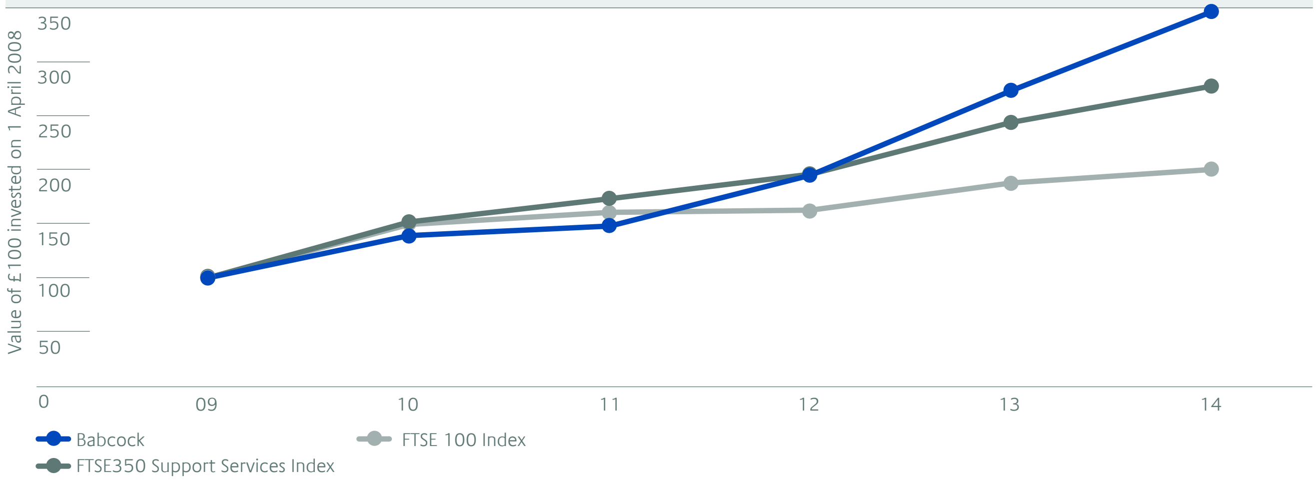
	2012/13	2013-14	% change
Distribution to shareholders	£94m	£107m	13%
Employee remuneration	£1,065m	£1,151m	8%

Governance

Performance graphs

The following graph shows the TSR (Total Shareholder Return) for the Company compared to the FTSE100 Index and FTSE350 Support Services Index, assuming £100 was invested on 31 March 2009 (investment in the Company was worth £346 on 31 March 2014). The Board considers that these indices currently represent the most appropriate of the published indices for these purposes as it provides a view of performance against the broad equity market and sector index of which the Company is a constituent. The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

Babcock International vs: FTSE350 Support Services Index and FTSE100 Index



Babcock CEO single figure of remuneration and % of variable awards vesting

	2009/10	2010/11	2011/12	2012/13	2013/14
Single figure (£k)	1,706	1,792	2,185	2,731	3,603
Bonus vesting (% max)	97%	98%	99%	99%	93%
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	n/a
PSP/CSOP vesting (% max)	100%	82.9%	57.8%	58.8%	94.7%

Remuneration report *continued*

Directors' share ownership

Directors' interests in shares (audited)

The interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2014, and Directors' interests in shares and options under Babcock's long-term incentives are set out in the sections below:

	At 31 March 2013	At 31 March 2014							
	Shares held	Shares held	Options held						
Director	Owned outright by director or spouse[1]	Owned outright by director or spouse[1]	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	S/holding req. (% salary)	Current shareholding (% of salary)[2]	Req. met?[2]
Peter Rogers	710,535	889,639	45,056	0	612,145	65,786	300%	2,093%	✓
Bill Tame	362,927	451,645	6,802	0	285,269	41,644	200%	1,660%	✓
Archie Bethel	124,304	194,197	24,802	0	271,312	30,350	200%	894%	✓
Kevin Thomas	84,149	168,150	24,802	0	273,260	30,350	200%	789%	✓
John Davies	18,962	18,962	10,306	59,145	204,838	25,761	200%	300%	✓
Mike Turner	40,000	40,000							
Justin Crookenden	11,647	11,647							
David Omand	0	0							
Ian Duncan	0	0							
Kate Swann	5,000	5,000							
Anna Stewart	0	0							

1. Beneficially held shares.
2. Current shareholdings for comparison with the shareholding requirements for Executive Directors is calculated based on shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised and options unvested and subject to continued employment, valued assuming exercise of options on 31 March 2014 and calculated post-tax.
3. Disclosure of these shareholdings in next year's annual report will reflect the rights issue which completed during May 2014.

There have been changes to directors' (or their spouses') shareholdings between 31 March 2014 and 19 May 2014 as a result of taking up of rights in the Rights Issue made by the Company as announced on 27 March 2014.

	Shares owned outright by director or spouse	
Director	At 31 March 2014	At 19 May 2014
Peter Rogers	889,639	1,231,807
Bill Tame	451,645	526,929
Archie Bethel	194,197	262,063
Kevin Thomas	168,150	230,081
John Davies	18,962	26,255
Mike Turner	40,000	55,384
Justin Crookenden	11,647	16,126
David Omand	0	0
Ian Duncan	0	0
Kate Swann	5,000	6,923
Anna Stewart	0	0

Directors' share-based rewards and options (audited)

The table below shows the various share awards held by Directors under the Company's various share schemes. The Company's mid-market share price at close of business on 31 March 2014 was 1,347p. The highest and lowest mid-market share prices in the year ended 31 March 2014 were 1,471p and 1,027p, respectively.

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2013	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2014	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Peter Rogers	L-TIP 2008	65,596		65,596[a]		0		594.33	June 2011	Jun 2018
	PSP 2009	76,327		76,327[a]		0		544.67	Jul 2012	Jul 2014
	PSP (A) 2010[5,6]	156,494		90,024[a]	66,470	0		619.83	Jul 2013	Jul 2014
	PSP(B) 2010[5,5A,6]	4,840		2,509[a]	2,331	0		619.83	July 2013	Jul 2014
	CSOP 2010[5,6]	4,840		4,840[a]		0	619.83	619.83	Jul 2013	Jul 2020
	DBP 2010	45,023		45,023[a]		0		619.83	Jul 2012	Jul 2014
	PSP 2011	157,971				157,971		690.00	Jun 2014	Jun 2015
	DBP 2011	42,609		42,609[a]		0		690.00	Jun 2013	Jun 2014
	PSP 2012	32,454				32,454		864.83	Jul 2015	Jul 2016
	PSP 2012	95,975				95,975		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	37,433				37,433		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	74,866				74,866		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)	25,963				25,963		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)	51,926				51,926		864.83	Jul 2015	Jul 2016
	PSP 2013		104,059			104,059		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic award)		28,353			28,353		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)		56,707			56,707		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)		19,093			19,093		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)		38,187			38,187		1,176.00	Jun 2016	Jun 2017

a. Market value of each share at date of exercise (9 August 2013) = 1,197p.

Remuneration report *continued*

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2013	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2014	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Bill Tame	PSP 2009	49,664		49,664[a]		0		544.67	Jul 2012	Jul 2014
	PSP (A) 2010	76,182		59,454[a]	16,728	0		619.83	Jul 2013	Jul 2014
	PSP (B) 2010	1,258		652[a]	606	0		619.83	Jul 2013	Jul 2014
	CSOP 2010	1,258		1,258[a]		0	619.83	619.83	Jul 2013	Jul 2020
	DBP 2010	29,598		29,598[a]		0		619.83	Jul 2012	Jul 2014
	PSP (A) 2011	71,782				71,782		690.00	Jun 2014	Jun 2015
	PSP (B) 2011	3,217				3,217		690.00	Jun 2014	Jun 2015
	CSOP 2011	3,217				3,217	690.00	690.00	Jun 2014	Jun 2021
	DBP 2011	27,270		27,270[a]		0		690.00	Jun 2013	Jun 2014
	PSP 2012	60,755				60,755		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	23,696				23,696		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	47,392				47,392		864.83	Jul 2015	Jul 2016
	PSP 2013		49,404			49,404		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic award)		17,948			17,948		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)		35,897			35,897		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)		6,802			6,802		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)		13,605			13,605		1,176.00	Jun 2016	Jun 2017

a. Market value of each share at date of exercise (9 August 2013) = 1,197p.

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2013	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2014	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Archie Bethel	PSP (A) 2009	33,810		33,810[a]		0		544.67	Jul 2012	Jul 2014
	PSP (B) 200	5,507		2,550[a]	2,957	0		544.67	Jul 2012	Jul 2014
	CSOP 20095	5,507		5,507[a]		0	544.67	544.67	Sep 2012	Sep 2019
	PSP 2010	66,550		52,175[a]	14,375	0		619.83	Jul 2013	Jul 2014
	DBP 2010	19,128		19,128[a]		0		619.83	Jul 2012	Jul 2014
	PSP 2011	65,217				65,217		690.00	Jun 2014	Jun 2015
	DBP 2011	18,939		18,939[a]		0		690.00	Jun 2013	Jun 2014
	PSP 2012	52,831				52,831		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	17,344				17,344		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	34,688				34,688		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)	14,292				14,292		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)	28,584				28,584		864.83	Jul 2015	Jul 2016
	PSP 2013		42,960			42,960		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic award)		13,006			13,006		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)		26,012			26,012		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)		10,510			10,510		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)		21,020			21,020		1,176.00	Jun 2016	Jun 2017

a. Market value of each share at date of exercise (14 August 2013) = 1,177p.

Remuneration report *continued*

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2013	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2014	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Kevin Thomas	L-TIP 2008	31,786		31,786[a]		0		594.33	Jun 2011	Jun 2018
	PSP (A) 2009	34,641		34,641[a]		0		544.67	Jul 2012	Jul 2014
	PSP (B)2009	2,368		1,096[a]	1,272	0		544.67	Jul 2012	Jul 2014
	CSOP 2009	2,368		2,368[a]		0	544.67	544.67	Sep 2012	Sep 2019
	PSP 2010	66,550		52,175[a]	14,375	0		619.83	Jul 2013	Jul 2014
	DBP 2010	17,825		17,825[a]		0		619.83	Jul 2012	Jul 2014
	PSP 2011	65,217				65,217		690.00	Jun 2014	Jun 2015
	DBP 2011	18,939		18,939[a]		0		690.00	Jun 2013	Jun 2014
	PSP (A) 2012	50,881				50,881		877.33	Jun 2015	Jun 2016
	PSP (B) 2012	1,949				1.949		877.33	Jun 2015	Jun 2016
	CSOP 2012	1,949				1,949	877.33	877.33	Jun 2015	Jun 2022
	DBMP 2012 (basic award)	17,344				17,344		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching award)	34,688				34,688		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral award)	14,292				14,292		864.83	Jul 2015	Jul 2016
	DBMP 2012 (voluntary deferral matching award)	28,584				28,584		864.83	Jul 2015	Jul 2016
	PSP 2013		42,960			42,960		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic award)		13,006			13,006		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)		26,012			26,012		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)		10,510			10,510		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)		21,020			21,020		1,176.00	Jun 2016	Jun 2017

a. Market value of each share at date of exercise (14 August 2013) = 1,177p.

Director	Scheme[1] and year of award	Number of shares subject to award at 1 April 2013	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2014	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
John Davies	PSP (A) 2010	45,980			10,978	35,002		619.83	Jul 2013	Jul 2014
	PSP (B) 2010[5,5A]	4,840				4,840		619.83	Jul 2013	Jul 2014
	CSOP 2010	4,840				4,840	619.83	619.83	Jul 2013	Jul 2020
	PSP 2011	48,913				48,913		690.00	Jun 2014	Jun 2015
	DBP 2011	14,463				14,463		690.00	Jun 2013	Jun 2014
	PSP 2012	42,743				42,743		877.33	Jun 2015	Jun 2016
	DBMP 2012 (basic award)	13,008				13,008		864.83	Jul 2015	Jul 2016
	DBMP 2012 (basic matching awards)	26,016				26,016		864.83	Jul 2015	Jul 2016
	PSP 2013		41,047			41,047		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic award)		12,753			12,753		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (basic matching award)		25,507			25,507		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral award)		10,306			10,306		1,176.00	Jun 2016	Jun 2017
	DBMP 2013 (voluntary deferral matching award)		20,612			20,612		1,176.00	Jun 2016	Jun 2017

1. L-TIP = 2003 Long-Term Incentive Plan; PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBP = 2009 Deferred Bonus Plan. DBMP = 2012 Deferred Bonus Matching Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 103 to 107.
2. The PSP, DBP, DBMP and L-TIP awards are structured as nil priced options. DBP awards and DBMP (basic awards represent the amount of the annual bonus mandatorily deferred and DBMP voluntary deferral awards represent the amount voluntarily deferred by the Director), in each case converted into shares at their value at the award date.
3. Subject to the rules of the scheme concerned, including as to meeting performance targets for PSP, LTIP, CSOP and DBMP Matching Awards.
4. Where this date is less than ten years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
5. The vesting of the CSOP award is subject to performance measures that are identical to those for the PSP award granted on the same date. When a CSOP award is granted at the same time as a PSP award, the PSP award has two parts. The CSOP and PSP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of the two awards is limited to that number of shares that had a market value on the date of the awards (and after deducting any exercise price payable on exercise of the CSOP award) equal to the relevant grant multiple of the Director's base salary at the date of the awards (the 'Limit'). This is achieved making the level of vesting of Part B of the PSP Award accord to the level of vesting of the linked CSOP award but the actual number of vested Part B award shares that can be exercised is then limited according to the exercise price on the day of exercise such that the total value of Part B PSP award shares so exercisable does not then exceed the exercise price payable on exercise of the vested CSOP award. If there is less than full vesting, it is possible for the Director to choose to exercise the CSOP to its fullest extent within the Limit and then to exercise the PSP award to the extent of any balance left within the Limit.

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

6. Awards shown in the table for John Davies for 2010, 2011, and 2012 were made prior to his appointment as a Director, which took effect on 1 January 2013.
7. Outstanding awards will be adjusted to reflect the rights issue which completed during May 2014 using a standard adjustment factor of 1.13417. Any reference price, including the exercise prices shown will also be adjusted.

Remuneration report *continued*

During the year to 31 March 2014 the following awards vested:

Director	Award	Number vesting	Vesting date	Market Value of vested shares on award £	Market Value of vested shares on vesting date £	Exercise Price payable for vested shares (if any) £
Peter Rogers	PSP 2010	90,024	13-Jul-13	557,996	1,055,982	•
	PSP 2010 Funding	2,509	9-Aug-13	n/a[2]	30,000	
	CSOP 2010	4,840	13-Jul-13	30,000	56,773	6.1983
	DBP 2011	42,609	14-Jun-13	294,002	474,025	•
Bill Tame	PSP 2010	59,454	13-Jul-13	368,514	697,395	•
	PSP 2010 Funding	652	9-Aug-13	n/a[2]	7,797	
	CSOP 2010	1,258	13-Jul-13	7,797	14,756	6.1983
	DBP 2011	27,270	14-Jun-13	188,163	303,379	•
Archie Bethel	PSP 2010	52,175	13-Jul-13	323,396	612,013	•
	DBP 2011	18,939	14-Jun-13	130,679	210,696	•
Kevin Thomas	PSP 2010	52,175	13-Jul-13	323,396	612,013	•
	DBP 2011	18,939	14-Jun-13	130,679	210,696	•
John Davies	PSP 2010	35,002	13-Jul-13	216,953	410,573	•
	PSP 2010 Funding	TBC[1]	13-Jul-13	n/a[2]	TBC[1]	
	CSOP 2010	4,840	13-Jul-13	30,000	56,773	6.1983
	DBP 2011	14,463	14-Jun-13	99,795	160,901	•

Notes:

1. The actual number of PSP 2010 Funding shares capable of being exercised can only be determined on the CSOP exercise date, but cannot exceed 4,840.
2. Market value on vesting cannot exceed market value on award of relating CSOP 2010 awards.

General Notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 68.4p per vested share had accrued on the PSP 2010 awards and of 43.2p per vested share on the DBP 2011 awards, in each case for the period between grant and vesting. It is payable by the Company to the award holder on exercise of the award concerned.
2. DBP awards represented, on award, the gross amount of annual bonus compulsorily deferred into shares out of the annual bonus awards in respect of the financial year 2010/11.
3. Closing Share Price on the last dealing date before vesting was for PSP 2010 and CSOP 2010 awards 1,173p (13 July 2013), and for the DBP 2011 awards 1,112p (14 June 2013).

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in 2014

The table below details the fees received by Peter Rogers and Bill Tame during the year, in respect of their other directorships, which are retained by the Executive Director.

Name of director	Company	Fees received £000
Peter Rogers	Galliford Try	42
Bill Tame	Carclo	36

This Remuneration report was approved by the Board on 19 May 2014 and signed on its behalf by:

Justin Crookenden
Chairman of the Remuneration Committee

19 May 2014

Directors' report

Introduction

This report is required to be produced by law. The UKLA's Disclosure and Transparency Rules (DTRs) and Listing Rules (LRs) also require us to make certain disclosures.

The Corporate Governance statement along with the reports of the Nominations, Audit and Risk and Remuneration Committees, which can be found on pages 74 to 116, form part of this Directors' report. Disclosures elsewhere in the Annual Report will be cross referenced where appropriate. Taken together they fulfill the combined requirements of company law, the DTRs and LRs.

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 2342138, is the holding company for the Babcock International Group of companies. The principal activities of the Group and its subsidiaries are described in the Strategic report on pages 2 and 3 and in note 39 to the accounts on page 174.

The Directors and their powers

Biographies of the current Directors of the Company are to be found on page 73. The table on page 79 shows the Directors who served during the year to 31 March 2014.

Rules relating to the appointment and removal of Directors can be found on page 77.

The powers of the Directors are set out in the Company's Articles of Association, which may be amended by way of a special resolution of the members of the Company. For further information see page 75.

Directors' interests in contracts

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

Results and dividends

The profit attributable to the owners of the parent Company for the financial year was £180.5 million (2013: £142.7 million (restated)). An interim dividend of 5.0p per 60p ordinary share was declared in the year (2013: 4.6p), as adjusted for the rights issue. The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 16.4p (2013: 14.4p, as adjusted for the rights issue) on each of the ordinary shares of 60p to be paid on 12 August 2014 to those shareholders on the register at the close of business on 4 July 2014.

Employee share schemes and plans

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

Name of Plan	Who it covers	Performance related?	Summary description	Source of shares
The Babcock Approved Employee Share Ownership Plan	Open to all UK employees (including Executive Directors) who meet necessary service criteria.	No	Employees can buy Company shares (partnership shares) in the market out of pre-tax income. The Plan allows for the Company to award free and/or matching shares to participants. In November 2013 the Company introduced a one free share for every ten shares purchased element to the scheme. Shares are bought on behalf of the employee via a tax-approved employee trust which holds them on behalf of the individual participants. The shares must generally be kept in trust for at least three years to obtain any tax advantages, and for five years to obtain maximum tax advantages.	Purchased in the market.
VT Group Share Incentive Plan	UK employees of VT Group at the time of its acquisition by the Company in July 2010 who held shares in VT Group plc and accepted Company shares wholly or partly in exchange for such shares under the terms of the acquisition.	No	As above for the Babcock shares acquired on the acquisition.	The Company issued and allotted new shares to the Trustee under the terms of the acquisition by the Company of VT Group PC in 2010.

Directors' report *continued*

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

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

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

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

Currently active share plans namely, The Performance Share Plan, The Company Share Option Plan, The Deferred Bonus Plan and the Deferred Bonus Matching Plan, are described in the Directors' Remuneration report on pages 88 to 116.

Share awards outstanding under all plans are as follows:

	Number of shares covered by Outstanding Awards	
Scheme	Yet to Vest	Vested
Performance Share Plan	4,202,627	386,084
Company Share Option Plan	243,625	69,310
The Babcock 1999 Approved Executive Share Option Scheme	–	1,870
The Babcock 1999 Unapproved Executive Share Option Scheme	–	10,000
Long Term Incentive Plan	–	27,841
Deferred Bonus Plan	135,469	78,891
Deferred Bonus Matching Plan (DBP2012)	8,802	
Deferred Bonus Matching Plan	1,381,467	–

Shares intended to be used towards satisfying existing share awards and options are held by the trustees of the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The trustees of these Schemes have no present intention of exercising the voting rights attached to the shares held by them. As at 19 May 2014, the total number of ordinary shares in the trusts was 1,607,730 which represented 0.32% of the Company's issued share capital. Shares are also held by the trustees of the Approved Employee Share Ownership Plan. The trustees of that plan exercise voting rights attached to those shares in accordance with directions from the employees on whose behalf they are held.

The trustees of the Babcock Employee Share Trust effectively waive dividends on shares held by them – see note 25 on page 160.

Authority to purchase own shares

At the Annual General Meeting in July 2013, members authorised the Company to make market purchases of up to 36,207,393 of its own ordinary shares of 60p each. That authority expires at the forthcoming Annual General Meeting in July 2014 when a resolution will be put to renew it so as to allow purchases of up to a maximum of no more than 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 9 July 2013 (the date the current authority was granted) to the date of this Report. The Company currently does not hold any treasury shares.

Details of issues and purchases of the Company's shares made in the year to 31 March 2014 by the Babcock Employee Share Trust and the Peterhouse Employee Share Trust are to be found in note 25 on page 160. Since 31 March 2014 the Babcock Employee Share Trust acquired a further 429,473 shares and the Peterhouse Employee Share Trust a further 17,118 shares pursuant to the rights issue announcement by the Company on 27 March 2014.

Corporate Governance Compliance Statement

A statement regarding compliance with the UK Corporate Governance Code is included in the Governance Statement on page 75.

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.

Significant shareholders

Notifications received by the Company of major interests held in the Company shares, in accordance with Chapter 5 of the Disclosure and Transparency rules, are set out on page 82.

Political donations

No donations were made during the year for political purposes.

Financial risk management

Details relating to financial risk management can be found in note 2 on pages 136 to 139.

Information contained in the Strategic report

Details of important events affecting the Group which have occurred since 31 March 2014 and an indication of likely future developments in the business of the Group can be found in the Strategic report on pages 2 to 71.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic report on page 63.

Annual General Meeting

Details of the 2014 Annual General Meeting of the Company are set out on page 82.

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its current Directors, including Jeff Randall who joined the Board on 1 April 2014, which are qualifying third-party indemnity provisions for the purpose of the Companies Act 2006 in respect of their Directorships (and, in the case of Jeff Randall, in respect of his position as a prospective Director in connection with the prospectus issued by the Company on 27 March 2014) of the Company and, if applicable, of its subsidiaries.

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

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

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

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

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

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

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

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

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

Marine

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

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

Directors' report *continued*

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.

Group

Air Operator's Certificates

Completion of the acquisition of the Avincis Group occurred on 16 May 2014. Certain of the operating subsidiaries of the Avincis Group (which are now subsidiaries of the Company) are required to hold operating licences in order to operate their principal business. Under the Regulation (EC) No. 1008/2008 (the Regulation), a holder of an air operator's certificate (an operating licence) is required to be majority owned and effectively controlled by EU nationals. Failure to be so could lead to the suspension or revocation of those operating licences, which could have a material adverse impact on the Company's business. Where operating licence holders form part of a listed company group, such as the Company, the nationality test is applied to the nationality of the listed company's shareholders.

Currently the Company satisfies the relevant nationality requirements of the Regulation. However, as compliance with the Regulation is an ongoing requirement, the Company proposes to seek shareholder approval to make certain amendments to the Company's Articles of Association which will grant to the Company and its Directors certain powers to monitor and, in certain circumstances, actively manage the nationality requirements with a view to protecting the value of the group undertakings that currently hold operating licences. These amendments would bring our Articles of Association in line with other listed companies that are subject to the Regulation.

Borrowing facilities

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

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

Bridge facility

The Company entered into a bridge facility agreement on 27 March 2014 between J.P. Morgan Limited, Lloyds Bank plc, Barclays Bank plc and HSBC Bank plc as mandated lead arrangers and bookrunners and Lloyds Bank plc as facility agent and certain financial institutions named therein as lenders, pursuant to which the lenders made available to the Company a £383 million multi-currency bridge loan facility and a €620 million bridge facility.

The facility may be used for the purpose of refinancing or cash collateralising certain indebtedness of the Avincis Group (including the financing of any related premiums, fees, costs and expenses of such refinancing or cash collateralisation) as well as for the general ongoing corporate and working capital purposes of the Avincis Group (other than the funding of any portion of the consideration for the acquisition of the Avincis Group).

Loans under the facility are mandatorily repayable in certain circumstances, including on a change of control of the Company.

Multi-Currency Loan Notes

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

US Dollar Loan Notes

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

Share plans

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

Contracts with employees or Directors
A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on page 95 to 96. One senior employee, who is not a Director of the Company, has an agreement providing for payment of 12 months' salary plus 40% in lieu of all benefits in the event of a dismissal (including constructive dismissal) by the Company within 12 months following a change of control.

Share capital and rights attaching to the Company's shares

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

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

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

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

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

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

At the date of this report 501,333,136 ordinary shares of 60p each have been issued and are fully paid up and are quoted on the London Stock Exchange.

Employees

Information regarding our employees and their involvement within the business, including the Company's policy towards discrimination and diversity, can be found within the Sustainability report on pages 59 to 61.

Directors' duty to avoid conflicts of interest

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

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

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

Going concern basis

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

Events after the reporting period

The acquisition of Avincis Mission Critical Services took place after the year end. More details regarding the acquisition can be found in the Chief Executive Officer's Statement on page 17 and note 13 on page 182.

Internal controls

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 March 2014 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review, and data for consolidation into the Group's financial statements are reviewed by management to ensure that they reflect a true and fair view of the Group's results in compliance with applicable accounting policies.

Directors' report *continued*

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Board considers the system to be effective and in accordance with Internal Controls: Guidance for Directors on the Combined Code (the Turnbull Guidance). Further information on the principal internal controls in use in the Company is to be found on pages 64 to 71.

Auditors

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

Disclosure of relevant audit information

So far as the Directors who are in office at the time of the approval of this report are aware, there is no relevant audit information (namely, information needed by the Company's auditors in connection with the preparation of their auditors' report) of which the auditors are unaware. Each such Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself 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 accounting estimates that are reasonable and prudent;
- state whether IFRSs, as adopted by the European Union and applicable UK Accounting Standards, have been followed, subject to any material departures disclosed and explained in the Group's and Company's financial statements respectively; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

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

- the Group financial statements (set out on pages 127 to 174) 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 Strategic report and Directors' report contained on pages 2 to 122 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.

In addition, each of the directors listed below considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

Approval of the Strategic report and the Directors' report

The Strategic report (pages 2 to 71) and the Directors' report (pages 117 to 122) for the year ending 31 March 2014 have been approved by the Board and signed on its behalf by

Mike Turner CBE
Chairman

19 May 2014

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

Report on the Group financial statements

Our Opinion

In our opinion the Group financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements (the "financial statements"), which are prepared by Babcock International Group PLC, comprise:

- the Group balance sheet as at 31 March 2014;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the Group statement of changes in equity and Group cash flow statement for the year then ended; and
- the notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts 2014 *(the "Annual Report")*, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the financial statements as a whole to be £14 million. This represents approximately 5% of profit before tax adjusted for amortisation on acquired intangibles. We believe using profit before tax adjusted for amortisation on acquired intangibles more appropriately reflects the underlying business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is primarily structured and monitored across four divisions being Marine and Technology, Defence and Security, Support Services and International. The financial statements are a consolidation of the Group's reporting units, which include operating businesses and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

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

Accordingly, we identified 27 reporting units, spread across the divisions, which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. We also performed specific risk based audit procedures on specific financial statement line items at one further reporting unit and three joint venture entities to primarily address the risk of fraud in revenue recognition. This, together with additional procedures performed at the Group level relating primarily to pensions, treasury and taxation gave us the evidence we needed for our opinion on the financial statements.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 86.

Area of focus	How the scope of our audit addressed the area of focus
Contract accounting and fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition when management are under pressure to achieve planned results. In addition, due to the contracting nature of the business, revenue recognition involves a significant degree of judgement with respect to total contract costs, extent of completion and the recognition of one off pain/gain share amounts. We focused on this area due to the complex and judgemental nature of the timing and amount of revenue to recognise on contracts.	We read all key contracts and discussed with management to obtain a full understanding of the terms and risks to inform our consideration of whether revenue was appropriately recognised. We evaluated the relevant IT systems and tested the operating effectiveness of internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements, including controls over contract reviews and assessing the estimated costs to complete. We performed tests to agree revenue back to supporting documentation as well as testing the appropriateness of all significant one off pain/gain share arrangements and testing of revenue adjustments recognised around the year end.
Pension liabilities The Group operates a number of defined benefit pension plans, giving rise to pension liabilities (refer to note 27 in the notes to the Group financial statements). We focused on this area because of the magnitude of the pension liabilities in the context of the overall balance sheet and the inherent judgement and technical expertise required in determining appropriate assumptions. Changes in key assumptions can have a material impact on the liability recorded.	We considered and challenged the reasonableness of key actuarial assumptions (including pensionable salary increases, inflation, discount rates and mortality), using benchmark ranges based on market conditions and expectations at the balance sheet date and comparison across the wider pensions industry. We also performed testing to agree underlying membership data to supporting payroll documentation and assessed the appropriateness of the closing liability based on known movements and assumptions.
Goodwill impairment assessment The Directors' assess the carrying value of goodwill and conduct an annual impairment review (refer to note 13 in the notes to the financial statements). We focused on this area because of the materiality of the goodwill balance and because it involves complex and subjective judgements by the Directors about near term and long term sales growth rates, costs and the projected operating margins.	We evaluated the Directors' cash flow forecasts; including comparing them to the latest Board approved budgets. We challenged the Directors' key assumptions, including the long term growth rate by comparison to historic growth rates and managements' budgets and the discount rate by independently estimating a range based on market data and analysis of comparable companies. We performed sensitivity analysis around these assumptions to ascertain the extent of change that either individually or collectively would be required for the goodwill to be impaired. We then considered the likelihood of such movement in those key assumptions arising.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions and interviewed senior management and the Group's Internal Audit function. We considered whether there was evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements. We performed unpredictable audit procedures and tested journal entries including consolidation entries.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 121, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 122 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 86, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities statement set out on page 122, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK & 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.

Other matter

We have reported separately on the company financial statements of Babcock International Group PLC for the year ended 31 March 2014 and on the information in the Directors' remuneration report that is described as having been audited.

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

19 May 2014

Group income statement

For the year ended 31 March 2014	Note	2014 £m	2014 Total £m	2013 (restated) £m	2013 (restated) Total £m
Total revenue		3,547.6		3,243.5	
Less: joint ventures and associates revenue		226.6		214.1	
Group revenue	3		3,321.0		3,029.4
Group					
Operating profit before amortisation of acquired intangibles and exceptional items	3, 4, 5	317.2		284.2	
Amortisation of acquired intangibles	3, 6	(59.2)		(66.4)	
Exceptional items	6	(24.9)		(14.3)	
Group operating profit	3		233.1		203.5
Joint ventures and associates					
Share of operating profit	3	21.9		21.2	
Investment income	3	37.3		38.5	
Amortisation of acquired intangibles	3, 6	(6.2)		(6.2)	
Finance costs	3	(25.1)		(29.2)	
Income tax expense	3	(7.0)		(6.3)	
Share of results of joint ventures and associates			20.9		18.0
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		339.1		305.4	
Investment income		38.8		40.2	
Underlying operating profit*		377.9		345.6	
Amortisation of acquired intangibles		(65.4)		(72.6)	
Exceptional items		(24.9)		(14.3)	
Group investment income		(1.5)		(1.7)	
Joint ventures and associates finance costs		(25.1)		(29.2)	
Joint ventures and associates income tax expense		(7.0)		(6.3)	
Group operating profit plus share of joint ventures and associates			254.0		221.5
Finance costs					
Investment income	3	1.5		1.7	
Retirement benefit interest		(10.9)		(11.8)	
Finance costs	7	(35.2)		(38.7)	
Finance income	7	9.4		9.1	
			(35.2)		(39.7)
Profit before tax			218.8		181.8
Income tax expense	9		(30.8)		(18.0)
Profit for the year from continuing operations			188.0		163.8
Discontinued operations					
Loss for the year from discontinued operations attributable to owners of the parent	10		–		(15.2)
Profit for the year			188.0		148.6
Attributable to:					
Owners of the parent			180.5		142.7
Non-controlling interest			7.5		5.9
			188.0		148.6
Earnings per share from continuing operations	12				
Basic			50.1p		43.9p
Diluted			49.8p		43.4p
Earnings per share from continuing and discontinued operations	12				
Basic			50.1p		39.7p
Diluted			49.8p		39.2p

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

Group statement of comprehensive income

For the year ended 31 March 2014	Note	2014 £m	2013 (restated) £m
Profit for the year		188.0	148.6
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		(19.5)	(0.8)
Fair value adjustment of interest rate and foreign exchange hedges		(2.2)	1.2
Tax on fair value adjustment of interest rate and foreign exchange hedges		0.5	(0.3)
Fair value adjustment of joint venture and associates derivatives	16	23.1	(23.0)
Tax on fair value adjustment of joint venture and associates derivatives	16	(5.3)	5.5
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	27	(43.0)	(16.2)
Tax on remeasurement of retirement benefit obligations		9.9	3.9
Impact of change in UK tax rates		(9.5)	(3.1)
Other comprehensive loss, net of tax		(46.0)	(32.8)
Total comprehensive income		142.0	115.8
Total comprehensive income attributable to:			
Owners of the parent		137.8	111.0
Non-controlling interest		4.2	4.8
Total comprehensive income		142.0	115.8

Group statement of changes in equity

For the year ended 31 March 2014	Share capital £m	Share premium £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2012	215.5	873.0	30.6	(160.9)	(41.9)	(4.9)	911.4	8.6	920.0
Total comprehensive income/(loss)	–	–	–	127.2	(16.6)	0.4	111.0	4.8	115.8
Shares issued in the financial year	1.7	–	–	–	–	–	1.7	–	1.7
Dividends	–	–	–	(83.6)	–	–	(83.6)	(3.1)	(86.7)
Share-based payments	–	–	–	8.6	–	–	8.6	–	8.6
Tax on shared-based payments	–	–	–	6.5	–	–	6.5	–	6.5
Acquisition of non-controlling interest	–	–	–	–	–	–	–	19.8	19.8
Disposal of non-controlling interest	–	–	–	–	–	–	–	0.4	0.4
Transaction with non-controlling interest	–	–	–	(4.6)	–	–	(4.6)	(8.7)	(13.3)
Own shares and other	–	–	–	(3.9)	–	–	(3.9)	–	(3.9)
Net movement in equity	1.7	–	–	50.2	(16.6)	0.4	35.7	13.2	48.9
At 31 March 2013	217.2	873.0	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9
At 1 April 2013	217.2	873.0	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9
Total comprehensive income/(loss)	–	–	–	137.9	16.1	(16.2)	137.8	4.2	142.0
Dividends	–	–	–	(96.7)	–	–	(96.7)	(4.3)	(101.0)
Share-based payments	–	–	–	12.2	–	–	12.2	–	12.2
Tax on share-based payments	–	–	–	3.3	–	–	3.3	–	3.3
Own shares and other	–	–	–	0.7	–	–	0.7	–	0.7
Net movement in equity	–	–	–	57.4	16.1	(16.2)	57.3	(0.1)	57.2
At 31 March 2014	217.2	873.0	30.6	(53.3)	(42.4)	(20.7)	1,004.4	21.7	1,026.1

Group balance sheet

As at 31 March 2014	Note	2014 £m	2013 £m
Assets			
Non-current assets			
Goodwill	13	1,609.6	1,563.0
Other intangible assets	14	275.8	299.2
Property, plant and equipment	15	252.1	248.9
Investment in joint ventures and associates	16	52.3	18.6
Loan to joint ventures and associates	16	50.6	51.1
Retirement benefits	27	15.2	10.1
Trade and other receivables	19	1.2	0.5
IFRIC 12 financial assets		20.5	22.2
Other financial assets	23	–	45.1
Deferred tax asset	17	46.6	43.4
		2,323.9	2,302.1
Current assets			
Inventories	18	105.9	73.9
Trade and other receivables	19	577.5	519.0
Income tax recoverable		28.0	8.6
Other financial assets	23	9.6	3.5
Cash and cash equivalents	20	86.3	97.1
		807.3	702.1
Total assets		3,131.2	3,004.2
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	25	217.2	217.2
Share premium		873.0	873.0
Capital redemption and other reserves		(32.5)	(32.4)
Retained earnings		(53.3)	(110.7)
		1,004.4	947.1
Non-controlling interest		21.7	21.8
Total equity		1,026.1	968.9
Non-current liabilities			
Bank and other borrowings	22	649.4	684.0
Trade and other payables	21	9.2	7.9
Deferred tax liabilities	17	2.4	4.0
Other financial liabilities	23	12.3	10.0
Retirement liabilities	27	282.9	271.2
Provisions for other liabilities	24	95.0	115.2
		1,051.2	1,092.3
Current liabilities			
Bank and other borrowings	22	17.7	8.8
Trade and other payables	21	974.4	884.4
Other financial liabilities	23	11.7	7.2
Provisions for other liabilities	24	50.1	42.6
		1,053.9	943.0
Total liabilities		2,105.1	2,035.3
Total equity and liabilities		3,131.2	3,004.2

The notes on pages 131 to 174 are an integral part of the consolidated financial statements. The Group financial statements on pages 127 to 174 were approved by the Board of Directors on 19 May 2014 and are signed on its behalf by:

P L Rogers
Director

W Tame
Director

Group cash flow statement

For the year ended 31 March 2014	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	28	279.5	293.4
Income tax paid		(55.8)	(45.8)
Interest paid		(36.5)	(38.7)
Interest received		4.7	8.2
Net cash flows from operating activities		191.9	217.1
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	32	0.7	68.0
Dividends received from joint ventures and associates		4.8	7.1
Proceeds on disposal of property, plant and equipment		4.2	6.2
Purchases of property, plant and equipment		(37.4)	(52.7)
Purchases of intangible assets		(16.1)	(6.6)
Investment in, loans to and interest received from joint ventures and associates		5.2	(30.2)
Transactions with non-controlling interest		–	1.3
Acquisition of subsidiaries net of cash acquired	31	(62.5)	(22.2)
Net cash flows from investing activities		(101.1)	(29.1)
Cash flows from financing activities			
Dividends paid	11	(96.7)	(83.6)
Finance lease principal payments		(3.5)	(3.7)
Loans repaid		(1.0)	(101.1)
Dividends paid to non-controlling interest		(4.3)	(3.1)
Net proceeds on issue of shares		–	1.7
Movement on own shares		0.7	(3.9)
Net cash flows from financing activities		(104.8)	(193.7)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(14.0)	(5.7)
Cash, cash equivalents and bank overdrafts at beginning of year		90.6	98.4
Effects of exchange rate fluctuations		(5.4)	(2.1)
Cash, cash equivalents and bank overdrafts at end of year	30	71.2	90.6

Notes to the Group financial statements

1. Basis of preparation and significant accounting policies

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

Principal accounting policies

The principal accounting policies adopted by the Group are disclosed below. They have been applied consistently throughout the year, except that the definition of net debt has been changed as reflected in the net debt accounting policy.

Basis of consolidation

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

(a) Subsidiaries

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

(b) Joint ventures and associates

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

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

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

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

Revenue

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

(a) Sale of goods

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

(b) Sale of services

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

(c) Long-term service contracts

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

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

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

Notes to the Group financial statements *continued*

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

Exceptional items

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

Transactions with non-controlling interest

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

Provisions

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

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

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

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

Goodwill and intangible assets

(a) Goodwill

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

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

Annual impairment reviews are performed as outlined in note 13.

(b) Acquired intangibles

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

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

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

(c) Research and development

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

(d) Computer software

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

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

Property, plant and equipment (PPE)

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

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Net debt

Net debt consists of the total of loans, bank overdrafts, cash and cash equivalents and finance leases plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency and interest rate basis of the company carrying the debt and fair value hedges. The policy has been changed to include joint venture and associate loans which has resulted in a reduction of £50.6 million (2013: £51.1 million)

Leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Contract accounting balances

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Taxation

(a) Current income tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Notes to the Group financial statements *continued*

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

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of the net investment of a foreign operation.

Exchange differences arising from the translation of the balance sheets and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign subsidiary undertakings are translated using the average exchange rate for the month of the applicable results. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised. Capitalisation of applicable interest commenced in 2009/10.

Employee benefits

(a) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Groups' pension schemes, are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the Income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the Statement of comprehensive income so that the Group's balance sheet reflects the fair value of the schemes' surpluses or deficits at the balance sheet date.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's ESOP trusts are recognised as a deduction to equity.

(c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Discontinued and held for sale

A significant business stream sold in a prior year or during the year or being actively marketed with an expectation of being sold within a year will be treated as discontinued within the income statement. The prior year comparatives will be restated. If such a business has not been sold at year end the relevant assets and liabilities will be shown as held for sale within the balance sheet.

In addition businesses bought as part of a larger acquisition but identified for sale on purchase will be treated as discontinued.

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

Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. The key areas of estimates and judgements for the Group are contract accounting and revenue recognition (see above), the accounting for defined benefit pension schemes (see note 27), impairment of goodwill (see note 13).

Fair value adjustments on acquisitions are by nature subject to critical judgements. The size of recent acquisitions do not make them significant in Group terms however any future acquisitions might do so.

Profit and revenue recognition on contracts is a key judgement exercised by management on a contract by contract basis. In order to make such a judgement an estimate of contract outturn is made and for all significant contracts both local management and Group review and challenge estimates made.

Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2013 or later periods but which the Group has not early adopted.

(a) Standards, amendments and interpretations effective in 2013 with minimal or no impact on the Group with the exception of IAS 19 (amendment):

- IFRS 7 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2013;
- IFRS 13, 'Fair value measurement', effective 1 January 2014;
- IAS 1, 'Presentation of financial statements' on COI (effective 1 July 2012);
- IAS 19 (amendment), 'Employee benefits', effective 1 January 2013. The impact on the results for the year ended 31 March 2013 has been to reduce operating profit by £31.0 million, increase finance costs by £11.8m, and reduce the taxation charge by £10.3 million, resulting in an overall decrease in earnings per share of 9.1 pence. There was no impact on the net retirement liability. The comparative figures have been restated accordingly; and
- 2011 Annual improvements.

Notes to the Group financial statements *continued*

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

(b) New standards and interpretations to existing standards that are not yet effective or are effective but only endorsed for periods beginning on or after 1 January 2014 and have not been early adopted by the Group. The impact on the Group's operations is currently being assessed:

– IAS 27 'Consolidated and separate financial statements', endorsed 1 January 2014;

– IAS 28 'Investments in associates and joint ventures', endorsed 1 January 2014;

– IFRS 10, 'Consolidated financial statements', endorsed 1 January 2014;

– IFRS 11, 'Joint arrangements', endorsed 1 January 2014;

– IFRS 12, 'Disclosure of interests in other entities', endorsed 1 January 2014;

– IAS 32 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2014;

– IAS 36 (amendment), 'Impairment of assets' effective 1 January 2014; and

– IAS 39 (amendment), 'Financial instruments; Recognition and measurement', effective 1 January 2014.

(c) Interpretations to existing standards that are not yet effective, have not been endorsed by the EU and the impact on the Group's operations is currently being assessed but is not expected to be significant:

– IAS 19 (amendment), 'Employee benefits' effective 1 July 2014;

– IFRS 9, 'Financial instruments' effective 1 January 2018;

– IFRIC , 'Levies', effective 1 January 2014; and

– 2012 and 2013 Annual improvements effective 1 July 2014.

2. Financial risk management

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

Capital availability

The Company defines capital as shareholder equity plus net debt but in addition considers available financial capital which adds committed undrawn facilities to capital as a measure.

Objective on available financial capital

To ensure an appropriate level of capital and available financial capital to maintain operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth. The Group seeks to maintain the necessary headroom to cover the peaks and troughs in its working capital cycle, and sufficient liquidity to see it through any periods of tightened liquidity in the market.

Policy

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

The Group, in considering its capital structure and financial capital, views net debt to EBITDA at circa two times as being steady state and sustainable in the current market and against the current economic backdrop. This is not to rule out acquisition spikes above two times, as illustrated by the recently announced Avincis acquisition and those in the past, but only if the Group can see a clear path to reducing net debt to EBITDA back to circa two times within a reasonable time frame.

Performance

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

		Covenant	2014	2013 (restated)
Debt service cover	EBITDA/net interest	>4	15.0x	11.9x
Debt cover	Net debt/EBITDA	<3.5	1.3x	1.3x
Gearing	Net debt/shareholders' funds	n/a	41%	41%

Debt ratios are well below covenanted levels and gearing is at a level that readily allows further acquisitions and funding of organic growth. As such we believe capital markets remain readily accessible when required.

2. Financial risk management (continued)

Financial risk management

Financial instruments, in particular forward currency contracts and interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities.

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents. The Group's customers are mainly from government, government backed institutions or blue chip corporations and as such credit risk is considered small.

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

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

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

Management of capital

The Group's capital structure is derived from equity and net debt and is overseen by the Board through the Group Finance Committee.

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

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt divided by earnings before interest, tax, depreciation and amortisation), Gearing ratio (defined as net debt, excluding retirement benefit deficits or surpluses, divided by shareholders' funds), ROIC (defined as net income divided by total capital (equity, excluding retirement benefit deficits or surpluses, plus net debt)) and EBITDA interest cover (defined as profit before interest, tax, depreciation, amortisation and exceptionals divided by net interest payable). These ratios are discussed under the business review.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded, balancing risk and price on the capital markets and to retain sufficient flexibility to fund future organic and acquisitive growth.

Foreign exchange risk

The functional and presentational currency of Babcock International Group PLC and its UK subsidiaries is pounds Sterling. The Group has two main areas of currency exposure; firstly, the US$650 million US Private Placements which are swapped into Sterling and secondly, through its activities in South Africa where both translational and transactional exposure exist.

Objective	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the US Dollar and South African Rand.
Policy – Transactional risk	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IAS 39 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
Policy – Translational risk	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments.
Performance	There have been no material unhedged foreign exchange losses in the year.

A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

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

The foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies expressed in the Group's presentation currency is insignificant with the largest exposure being £1.4 million Sterling to Canadian Dollars (2013: Sterling to Omani Rial £1.5 million).

The pre-tax effect on profit and equity, increase or (decrease), if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant would in total be £0.1 million (2013: £0.1 million). The reasonable shifts in exchange rates are based on historic volatility and range from 10% for Sterling to Euro and US Dollars; 25% for Sterling to Canadian and Australian Dollars; 25% for South African Rand to Euro; and 15% Sterling to Omani Rial.

Notes to the Group financial statements *continued*

2. Financial risk management (continued)

Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of ±50bp (2013: ±50bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt. All other variables are held constant. The Group believes ±50bp is an appropriate measure of volatility at this time.

	2014		2013	
	£m +50bp	£m –50bp	£m +50bp	£m –50bp
Net results for the year	(1.6)	1.6	(1.6)	1.6
Equity	11.1	(11.1)	13.6	(13.6)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department, and is subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2014, the Group had 49% fixed rate debt (March 2013: 55%) and 51% floating rate debt (March 2013: 45%) based on gross debt including derivatives of £670.6 million (March 2013: £647.7 million). For further information see note 22 to the Group accounts.

Liquidity risk

The key objectives are to ensure that the Group has an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines (see note 22).

The Group's committed Revolving Credit Facility (RCF) of £500 million has an expiry date of September 2016, and is available to meet general corporate funding requirements. At 31 March 2014, £127 million was drawn on this facility.

The Group has US Private Placements with a value of US$650 million maturing between four and seven years.

The Group has two Sterling loan notes with a value of £100 million maturing between three and six years.

Each of the business divisions in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business divisions is a KPI.

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

Objective	With debt as a key component of Available Capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. Current committed facilities and headroom are thought to be sufficient to meet the Group's ongoing commitments. The following are a summary of the Group's main debt facilities; £100 million of loan notes issued in January 2010, US$650 million US private placement notes issued in March 2011, and the refinancing of the £500 million Revolving Credit Facility (RCF) signed in June 2011, with a term of five years. In March 2014 the Group entered into a Bridge Facility comprising £383 million Sterling tranche and a €620 million Euro tranche, with a term of one year, plus two six month extensions at the company's option to support the Avincis acquisition. The aforementioned debt provides the Group with total committed banking facilities and loan notes of £1.9 billion. For further information see note 22 to the Group accounts.

2. Financial risk management (continued)

The table below analyses the Group's liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contract maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2014				
Bank and other borrowings	33.3	29.4	351.8	403.2
Derivative financial instruments	3.4	(1.6)	8.4	3.4
Trade and other payables*	952.8	1.7	3.8	2.4
At 31 March 2013				
Bank and other borrowings	37.5	31.6	370.6	456.7
Derivative financial instruments	1.6	0.4	0.5	(33.8)
Trade and other payables*	867.2	1.3	3.1	2.3

* Does not include other taxes and social security.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Held for trading contracts are economic hedges and not hedge accounted.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2014				
Forward derivative contracts – hedges:				
– outflow	167.5	154.0	109.1	307.7
– inflow	169.6	155.5	106.3	307.4
Forward derivative contracts – held for trading:				
– outflow	0.3	–	–	–
– inflow	0.4	–	–	–
At 31 March 2013				
Forward derivative contracts – hedges:				
– outflow	50.7	21.5	121.4	307.7
– inflow	50.2	21.5	126.5	348.3
Forward derivative contracts – held for trading:				
– outflow	43.1	–	–	–
– inflow	42.5	–	–	–

Notes to the Group financial statements *continued*

3. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM).

2014	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Total revenue	1,377.3	852.6	1,040.1	277.6	–	3,547.6
Less: joint ventures and associates revenue	12.7	115.8	98.1	–	–	226.6
Group revenue	1,364.6	736.8	942.0	277.6	–	3,321.0
Operating profit* – Group	152.9	74.6	69.4	23.2	(2.9)	317.2
IFRIC 12 investment income – Group	–	0.8	0.7	–	–	1.5
Share of operating profit – joint ventures and associates	1.0	14.4	6.5	–	–	21.9
Share of IFRIC 12 investment income – joint ventures and associates	–	28.8	8.5	–	–	37.3
Underlying operating profit	153.9	118.6	85.1	23.2	(2.9)	377.9
Share of finance costs – joint ventures and associates	–	(16.6)	(8.5)	–	–	(25.1)
Share of tax – joint ventures and associates	(0.3)	(5.3)	(1.4)	–	–	(7.0)
Acquired intangible amortisation – Group	(12.8)	(10.5)	(35.9)	–	–	(59.2)
Share of acquired intangible amortisation –joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)
Net finance costs – Group	–	–	–	–	(36.7)	(36.7)
Exceptional items – Group	–	–	–	–	(24.9)	(24.9)
Group profit before tax	140.8	80.4	38.9	23.2	(64.5)	218.8

* Before amortisation of acquired intangibles and exceptional items.

	Continuing operations						Discontinued operations	Total
2013	Marine and Technology (restated) £m	Defence and Security (restated) £m	Support Services (restated) £m	International £m	Unallocated (restated) £m	Total continuing operations (restated) £m	International £m	Group Total (restated) £m
Total revenue	1,201.6	820.2	943.7	278.0	–	3,243.5	38.9	3,282.4
Less: joint ventures and associates revenue	7.8	110.8	95.5	–	–	214.1	–	214.1
Group revenue	1,193.8	709.4	848.2	278.0	–	3,029.4	38.9	3,068.3
Operating profit* – Group	136.0	65.0	67.3	24.7	(8.8)	284.2	1.1	285.3
IFRIC 12 investment income – Group	–	1.0	0.7	–	–	1.7	–	1.7
Share of operating profit – joint ventures and associates	0.6	14.3	6.3	–	–	21.2	–	21.2
Share of IFRIC 12 investment income – joint ventures and associates	–	29.9	8.6	–	–	38.5	–	38.5
Underlying operating profit	136.6	110.2	82.9	24.7	(8.8)	345.6	1.1	346.7
Share of finance costs – joint ventures and associates	–	(20.0)	(9.2)	–	–	(29.2)	–	(29.2)
Share of tax – joint ventures and associates	(0.2)	(4.7)	(1.4)	–	–	(6.3)	–	(6.3)
Acquired intangible amortisation – Group	(11.7)	(12.1)	(42.6)	–	–	(66.4)	–	(66.4)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)	–	(6.2)
Net finance costs – Group	–	–	–	–	(41.4)	(41.4)	–	(41.4)
Exceptional items – Group	–	–	–	–	(14.3)	(14.3)	(18.2)	(32.5)
Group profit before tax	124.7	67.6	29.3	24.7	(64.5)	181.8	(17.1)	164.7

* Before amortisation of acquired intangibles and exceptional items.

3. Segmental information (continued)

Inter divisional revenue is immaterial.

Revenues of £2.0 billion (2013: £1.9 billion) are derived from a single external customer. These revenues are attributable to the Marine and Technology, Defence and Security, and Support Services segments.

The segment assets and liabilities at 31 March 2014 and 31 March 2013 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Marine and Technology	868.0	784.9	650.9	639.4	29.8	29.0
Defence and Security	927.5	900.5	273.3	239.3	15.2	2.7
Support Services	967.4	941.4	274.1	262.9	10.3	7.7
International	156.5	158.5	117.0	105.9	4.6	11.0
Unallocated	211.8	218.9	789.8	787.8	12.6	9.5
Group total	3,131.2	3,004.2	2,105.1	2,035.3	72.5	59.9

Capital expenditure represents additions to property, plant and equipment and intangible assets.

All assets and liabilities are allocated to their appropriate segments except for cash, cash equivalents, borrowings, income and deferred tax and discontinued operations which are included in the unallocated segment.

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2014 and 31 March 2013 are as follows:

	Depreciation		Amortisation of intangible assets	
	2014 £m	2013 £m	2014 £m	2013 £m
Marine and Technology	21.1	19.2	13.9	12.5
Defence and Security	4.5	5.0	10.6	12.3
Support Services	5.2	6.0	36.6	43.4
International	4.7	4.3	0.2	0.2
Unallocated	4.5	2.9	5.4	5.2
Group total	40.0	37.4	66.7	73.6

The geographic analysis by origin for the years ended 31 March 2014 and 31 March 2013 is as follows:

	Revenue		Assets		Capital expenditure	
Geographic analysis	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
United Kingdom	2,798.0	2,542.0	2,744.0	2,731.0	66.3	45.7
Africa	270.2	272.1	181.4	169.0	4.6	11.0
North America	136.4	129.9	67.9	62.0	0.7	1.8
Rest of World	116.4	85.4	137.9	42.2	0.9	1.4
Group total	3,321.0	3,029.4	3,131.2	3,004.2	72.5	59.9

The analysis of revenue for the years ended 31 March 2014 and 31 March 2013 is as follows:

	Continuing operations		Discontinued operations		Group total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Sales of goods	337.9	268.3	–	–	337.9	268.3
Sales of services	2,981.6	2,758.3	–	38.9	2,981.6	2,797.2
Rental income	1.5	2.8	–	–	1.5	2.8
	3,321.0	3,029.4	–	38.9	3,321.0	3,068.3

Notes to the Group financial statements *continued*

4. Operating expenses

	Continuing operations		Discontinued operations		Group total	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m	2014 £m	2013 (restated) £m
Cost of sales	2,885.0	2,631.9	–	37.8	2,885.0	2,669.7
Distribution expenses	11.4	11.2	–	–	11.4	11.2
Administration expenses	191.5	182.8	–	18.2	191.5	201.0
	3,087.9	2,825.9	–	56.0	3,087.9	2,881.9

5. Operating profit for the year

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

	Continuing operations		Discontinued operations		Group total	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m	2014 £m	2013 (restated) £m
Employee costs (note 8)	1,151.4	1,064.9	–	17.7	1,151.4	1,082.6
Inventories						
– cost of inventories recognised as an expense	293.0	322.3	–	–	293.0	322.3
– increase in inventory provisions	0.4	1.9	–	–	0.4	1.9
Depreciation of Property, plant and equipment (PPE)						
– owned assets	38.4	36.5	–	–	38.4	36.5
– under finance leases	1.6	0.9	–	–	1.6	0.9
	40.0	37.4	–	–	40.0	37.4
Amortisation of intangible assets						
– acquired intangibles	59.2	66.4	–	–	59.2	66.4
– other	7.5	7.2	–	–	7.5	7.2
	66.7	73.6	–	–	66.7	73.6
Loss/(profit) on disposal of PPE	0.3	(4.1)	–	–	0.3	(4.1)
Loss on disposal of intangibles	–	1.1	–	–	–	1.1
Operating lease rentals payable						
– property	20.2	19.9	–	0.4	20.2	20.3
– vehicles, plant and equipment	47.4	13.9	–	–	47.4	13.9
Research and development	1.5	1.9	–	–	1.5	1.9
Trade receivables (release)/impairment	(0.1)	(0.9)	–	–	(0.1)	(0.9)
Net foreign exchange losses/(gains)	1.5	(0.8)	–	–	1.5	(0.8)

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

	Total	
	2014 £m	2013 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	0.5	0.5
Fees for other services:		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	1.2	1.1
Taxation advisory services	0.3	0.2
Other assurance services	0.1	–
Services relating to corporate finance transactions	1.8	–
Other non-audit services	0.5	–
Total fees paid to the Group's auditor and network firms	4.4	1.8

6. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Continuing operations						
Acquisition costs	24.9	–	–	–	24.9	–
Profit on disposal of subsidiaries (note 32)	–	(0.2)	–	–	–	(0.2)
Reorganisation cost	–	14.5	–	–	–	14.5
Exceptional items	24.9	14.3	–	–	24.9	14.3
Acquired intangible amortisation	59.2	66.4	6.2	6.2	65.4	72.6
Continuing total	84.1	80.7	6.2	6.2	90.3	86.9
Discontinued operations						
Loss on disposal of subsidiaries (note 32)	–	8.9	–	–	–	8.9
Reorganisation costs	–	–	–	–	–	–
Impairment of US defence goodwill	–	–	–	–	–	–
Provision for costs on previous years disposals (note 32)	–	9.3	–	–	–	9.3
Exceptional items	–	18.2	–	–	–	18.2
Acquired intangible amortisation	–	–	–	–	–	–
Discontinued total	–	18.2	–	–	–	18.2

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

Acquisition costs relate to the acquisition of Avincis Mission Critical Services comprising of legal and professional fees and stamp duty.

Reorganisation costs, in the previous year, relate to the integration of Babcock International Group PLC and VT Group plc which is now complete.

In 2013 the loss on disposal of subsidiaries relates to the VT US disposal. £5 million reflects recycling of foreign exchange rate fluctuations from date of acquisition to completion of sale. The balance relates to movements in the disposal balance sheet since the year end and provisions against future claims and costs.

Previous year disposal losses arise from long-term property liabilities retained as part of past disposals.

7. Net finance costs

	2014 £m	2013 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges*	28.2	36.1
Finance leases	0.8	0.3
Amortisation of issue costs of bank loan	1.5	1.2
Other	4.7	1.1
Total finance costs	35.2	38.7
Finance income		
Bank deposits and loans	9.4	9.1
Total finance income	9.4	9.1
Net finance costs	25.8	29.6

* Interest rate hedges included above is £(1.1) million costs (2013: £0.1 million).

Notes to the Group financial statements *continued*

8. Employee costs

	Continuing operations		Discontinued operations		Group total	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m	2014 £m	2013 (Restated) £m
Wages and salaries	957.2	893.0	–	16.5	957.2	909.5
Social security costs	90.2	86.9	–	1.2	90.2	88.1
Share-based payments (note 26)	12.2	8.6	–	–	12.2	8.6
Pension costs – defined contribution plans (note 27)	42.5	31.6	–	–	42.5	31.6
Pension charges – defined benefit plans (note 27)	49.3	44.8	–	–	49.3	44.8
	1,151.4	1,064.9	–	17.7	1,151.4	1,082.6

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

	Continuing operations		Discontinued operations		Group total	
	2014 Number	2013 Number	2014 Number	2013 Number	2014 Number	2013 Number
Operations	24,668	22,257	–	337	24,668	22,594
Administration and management	3,717	3,535	–	26	3,717	3,561
	28,385	25,792	–	363	28,385	26,155

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the key cash-generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2014 £m	2013 £m
Salaries	9.7	7.9
Post-employment benefits	0.3	0.2
Share-based payments	3.7	3.0
	13.7	11.1

9. Income tax expense

	Continuing operations		Discontinued operations		Group total	
	2014 £m	2013 (restated) £m	2014 £m	2013 £m	2014 £m	2013 (restated) £m
Analysis of tax charge in the year						
Current tax						
– UK current year charge	57.9	26.9	–	–	57.9	26.9
– Overseas current year charge	13.6	13.1	–	0.3	13.6	13.4
– UK prior year credit	(9.3)	(4.5)	–	–	(9.3)	(4.5)
– Overseas adjustment in respect of prior year	0.1	–	–	–	0.1	–
	62.3	35.5	–	0.3	62.3	35.8
Deferred tax						
– UK current year credit	(27.6)	(17.1)	–	(2.2)	(27.6)	(19.3)
– Adjustment in respect of prior year	–	–	–	–	–	–
– Overseas current year (credit)/charge	(1.5)	0.8	–	–	(1.5)	0.8
– Impact of change in UK tax rate	(2.4)	(1.2)	–	–	(2.4)	(1.2)
	(31.5)	(17.5)	–	(2.2)	(31.5)	(19.7)
Total income tax expense	30.8	18.0	–	(1.9)	30.8	16.1

9. Income tax expense (continued)

The tax for the year is lower (2013: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2014 £m	2013 (restated) £m
Profit before tax	218.8	181.8
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 23% (2013: 24%)	50.3	43.6
Effects of:		
Expenses not deductible for tax purposes	6.2	1.6
Re-measurement of deferred tax re change in UK tax rate	(2.4)	(1.2)
Difference in respect of joint venture results	(4.8)	(4.3)
Adjustment in respect of foreign rates and UK consortium relief rates	(2.7)	(6.1)
Adjustments in respect of earlier years	(9.2)	(4.6)
Other (including R&D tax relief)	(6.6)	(11.0)
Total income tax expense	30.8	18.0

During the year, as a result of the change in the UK corporate tax rate which will be effective from 1 April 2014, deferred tax balances have been remeasured. Deferred tax relating to temporary differences expected to reverse after 1 April 2014 is measured at the tax rate of 20% as these are the tax rates that will apply on reversal. As a result, a credit of £2.4 million (2013: £1.2 million) has been taken to the income statement in respect of the re-measurement of the year end deferred tax balances to 20%, and a charge of £9.5 million (2013: £3.1 million) has been taken to reserves.

10. Discontinued operations

Following the sale of the US defence business in the previous year, it was treated as a discontinued operation within these financial statements.

	2014 £m	2013 £m
Financial performance of discontinued operations		
Revenue	–	38.9
Operating profit before amortisation of acquired intangibles	–	1.1
Amortisation of acquired intangibles	–	–
Profit before tax and exceptional items	–	1.1
Taxation	–	(0.3)
Profit after taxation and before exceptional items	–	0.8
Exceptional items:		
Loss on disposal, in year, of subsidiary (US defence business) (note 32)	–	(18.2)
Profit on disposal, in year, of subsidiary (Waste business) (note 32)	–	9.3
Provision for costs on previous years disposals (note 32)	–	(9.3)
	–	(18.2)
Taxation	–	2.2
Exceptional loss	–	(16.0)
Loss after taxation from discontinued operations	–	(15.2)
Cash flows from discontinued operations		
Net cash flows from operating activities	–	(10.2)
Net cash flows from investing activities	–	66.3
Net cash flows from financing activities	–	–
	–	56.1

Notes to the Group financial statements *continued*

11. Dividends

	2014 £m	2013 £m
Final dividend for the year ended 31 March 2013 of 14.4p (2012: 12.3p) per 60p share	71.8	61.0
Interim dividend for the year ended 31 March 2014 of 5.0p (2013: 4.6p) per 60p share	24.9	22.6
	96.7	83.6

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2014 of 16.4p (2013: 14.4p as adjusted for rights issue) per share which will absorb an estimated £82.1 million (2013: £71.8 million) of shareholders' equity. It will be paid on 12 August 2014 to shareholders who are on the register of members on 4 July 2014. These financial statements do not reflect this dividend payable which is subject to approval at the Annual General Meeting on 21 July 2014.

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

	2014 Number	2013 Number
Weighted average number of ordinary shares for the purpose of basic EPS	360,262,890	358,912,359
Effect of dilutive potential ordinary shares: share options	3,204,338	4,084,538
Weighted average number of ordinary shares for the purpose of diluted EPS	363,467,228	362,996,897

Earnings

	2014 Earnings £m	2014 Basic per share Pence	2014 Diluted per share Pence	2013 Earnings (restated) £m	2013 Basic per share (restated) Pence	2013 Diluted per share (restated) Pence
Continuing operations						
Earnings from continuing operations	180.5	50.1	49.8	157.9	43.9	43.4
Add back:						
Amortisation of acquired intangible assets, net of tax	50.3	14.0	13.8	55.2	15.4	15.2
Exceptional items, net of tax	24.9	6.9	6.8	11.6	3.2	3.2
Impact of change in UK tax rate	(2.4)	(0.7)	(0.7)	(1.2)	(0.3)	(0.3)
Earnings before discontinued operations, amortisation, exceptional items and other	253.3	70.3	69.7	223.5	62.2	61.5
Discontinued operations						
Earnings from discontinued operations	–	–	–	(15.2)	(4.2)	(4.2)
Add back:	–	–	–			
Amortisation of acquired intangible assets, net of tax	–	–	–	–	–	–
Exceptional items, net of tax	–	–	–	16.0	4.4	4.4
Earnings from discontinued operations before amortisation, exceptional items and other	–	–	–	0.8	0.2	0.2
Continuing and discontinued operations						
Earnings from continuing and discontinued operations	180.5	50.1	49.8	142.7	39.7	39.2
Add back:						
Amortisation of acquired intangible assets, net of tax	50.3	14.0	13.8	55.2	15.4	15.2
Exceptional items, net of tax	24.9	6.9	6.8	27.6	7.6	7.6
Impact of change in UK tax rate	(2.4)	(0.7)	(0.7)	(1.2)	(0.3)	(0.3)
Earnings before amortisation, exceptional items and other	253.3	70.3	69.7	224.3	62.4	61.7

13. Goodwill

	2014 £m	2013 £m
Cost		
At 1 April	1,567.8	1,545.7
On acquisition of subsidiaries (note 31)	50.4	25.1
On disposal of subsidiary (note 32)	–	(3.4)
Exchange adjustments	(3.8)	0.4
At 31 March	1,614.4	1,567.8
Accumulated impairment		
At 1 April	4.8	4.8
Impairment charge	–	–
At 31 March	4.8	4.8
Net book value at 31 March	1,609.6	1,563.0

During the year, the goodwill was tested for impairment in accordance with IAS 36. The recoverable amount for all the cash-generating units (CGUs) has been measured based on a value in use calculation derived from Board approved three year budgeted cash flows and extrapolated cash flows thereafter based on an estimated growth rate of 3% (effectively zero real growth allowing for inflation). A pre-tax discount rate in the range 9.5% to 11.0% was used in the pre-tax value in use calculation for the cash-generating units within each segment. The Group's weighted average cost of capital post-tax is approximately 7.0% to 8.0% (2013: 7.0% to 8.0%).

Goodwill is allocated to the Group's CGUs based on value in use, identified according to the business segment. A segment level summary of goodwill allocation is presented below:

	2014 £m	2013 £m
Marine and Technology	429.5	409.3
Defence and Security	626.5	627.4
Support Services	551.3	523.4
International – Africa	2.3	2.9
	1,609.6	1,563.0

Notes to the Group financial statements *continued*

14. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	IFRIC 12 intangibles £m	Software £m	Total £m
Cost						
At 1 April 2013	566.6	–	566.6	5.9	32.9	605.4
Additions	–	–	–	–	16.1	16.1
On acquisition of subsidiaries (note 31)	21.9	6.4	28.3	–	0.2	28.5
Exchange adjustments	(0.9)	–	(0.9)	–	(0.5)	(1.4)
At 31 March 2014	587.6	6.4	594.0	5.9	48.7	648.6
Accumulated amortisation and impairment						
At 1 April 2013	283.5	–	283.5	2.6	20.1	306.2
Amortisation charge	59.0	0.2	59.2	0.2	7.3	66.7
Exchange adjustments	0.2	–	0.2	–	(0.3)	(0.1)
At 31 March 2014	342.7	0.2	342.9	2.8	27.1	372.8
Net book value at 31 March 2014	244.9	6.2	251.1	3.1	21.6	275.8
Cost						
At 1 April 2012	543.9	–	543.9	5.9	29.8	579.6
Additions	–	–	–	–	6.6	6.6
Disposals	–	–	–	–	(3.0)	(3.0)
On acquisition of subsidiaries (note 31)	20.1	–	20.1	–	–	20.1
On disposal of subsidiaries (note 32)	–	–	–	–	(0.3)	(0.3)
Exchange adjustments	2.6	–	2.6	–	(0.2)	2.4
At 31 March 2013	566.6	–	566.6	5.9	32.9	605.4
Accumulated amortisation and impairment						
At 1 April 2012	214.8	–	214.8	2.4	15.2	232.4
Amortisation charge	66.4	–	66.4	0.2	7.0	73.6
Disposals	–	–	–	–	(1.9)	(1.9)
On disposal of subsidiary (note 32)	–	–	–	–	(0.2)	(0.2)
Exchange adjustments	2.3	–	2.3	–	–	2.3
At 31 March 2013	283.5	–	283.5	2.6	20.1	306.2
Net book value at 31 March 2013	283.1	–	283.1	3.3	12.8	299.2

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

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

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

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

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependant on market characteristics of the acquired business brand. These are amortised on a straight line basis up to ten years.

15. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2013	68.5	6.3	349.2	424.0
Exchange adjustments	(0.3)	–	(15.3)	(15.6)
On acquisition of subsidiaries (note 31)	–	–	1.9	1.9
Additions	8.9	1.7	45.2	55.8
Capitalised borrowing costs	–	–	0.6	0.6
Disposals	(1.0)	–	(14.5)	(15.5)
At 31 March 2014	76.1	8.0	367.1	451.2
Accumulated depreciation				
At 1 April 2013	30.8	2.7	141.6	175.1
Exchange adjustments	–	–	(5.0)	(5.0)
Charge for the year	3.8	0.8	35.4	40.0
Disposals	(0.3)	–	(10.7)	(11.0)
At 31 March 2014	34.3	3.5	161.3	199.1
Net book value at 31 March 2014	41.8	4.5	205.8	252.1
Cost				
At 1 April 2012	66.7	5.4	292.5	364.6
Exchange adjustments	(0.1)	–	(5.9)	(6.0)
On acquisition of subsidiaries (note 31)	–	–	25.6	25.6
Additions	4.4	1.3	47.2	52.9
Capitalised borrowing costs	–	–	0.4	0.4
Disposals	(2.5)	(0.4)	(10.6)	(13.5)
At 31 March 2013	68.5	6.3	349.2	424.0
Accumulated depreciation				
At 1 April 2012	29.2	2.0	119.7	150.9
Exchange adjustments	–	–	(1.8)	(1.8)
Charge for the year	4.1	0.7	32.6	37.4
Disposals	(2.5)	–	(8.9)	(11.4)
At 31 March 2013	30.8	2.7	141.6	175.1
Net book value at 31 March 2013	37.7	3.6	207.6	248.9

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

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

	2014 £m	2013 £m
Cost	31.5	16.0
Aggregate depreciation	(7.1)	(6.0)
Net book value	24.4	10.0

Notes to the Group financial statements *continued*

16. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
At 1 April	18.6	19.3	51.1	24.9	69.7	44.2
Loans to/(repayments from) joint ventures and associates	–	–	(1.5)	28.3	(1.5)	28.3
Investment in joint ventures and associates	(0.1)	5.9	–	–	(0.1)	5.9
Share of profits	20.9	18.0	–	–	20.9	18.0
Interest accrued	–	–	4.6	1.8	4.6	1.8
Interest received	–	–	(3.6)	(3.9)	(3.6)	(3.9)
Dividend received	(4.8)	(7.1)	–	–	(4.8)	(7.1)
Fair value adjustment of derivatives	23.1	(23.0)	–	–	23.1	(23.0)
Tax on fair value adjustment of derivatives	(5.3)	5.5	–	–	(5.3)	5.5
Foreign exchange	(0.1)	–	–	–	(0.1)	–
At 31 March	52.3	18.6	50.6	51.1	102.9	69.7

Included within investment in joint venture and associates is goodwill of £1.2 million (2013: £1.2 million).

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2014							
Holdfast Training Services Limited	United Kingdom	38.1	(26.9)	15.4	0.9	–	74%
ALC (Superholdco) Limited	United Kingdom	64.3	(47.9)	18.8	6.1	5.2	50%
Airtanker Limited	United Kingdom	361.5	(321.0)	51.1	2.3	5.5	13%
Airtanker Services Limited	United Kingdom	44.9	(23.4)	22.0	2.5	1.9	23%
Ascent Flight Training (Holdings) Limited	United Kingdom	41.9	(32.1)	8.5	2.1	3.5	50%
Greenwich BSF SPV Limited	United Kingdom	55.8	(57.2)	1.6	0.2	–	50%
Lewisham Schools for the Future LEP Limited	United Kingdom	87.9	(75.4)	2.4	0.4	0.2	40%
Babcock Dounreay Partnership Limited	United Kingdom	8.1	(5.8)	78.3	4.7	3.7	50%
Other		19.6	(29.5)	28.5	2.7	0.9	
		722.1	(619.2)	226.6	21.9	20.9	

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit £m	Retained profit £m	% interest held
2013							
Holdfast Training Services Limited	United Kingdom	38.1	(26.1)	29.3	1.0	–	74%
ALC (Superholdco) Limited	United Kingdom	58.2	(47.7)	18.1	6.7	5.5	50%
Airtanker Limited	United Kingdom	316.4	(299.0)	45.1	1.9	5.0	13%
Airtanker Services Limited	United Kingdom	40.0	(19.6)	8.4	1.3	1.0	23%
Ascent Flight Training (Holdings) Limited	United Kingdom	43.5	(37.1)	9.9	3.3	1.6	50%
Greenwich BSF SPV Limited	United Kingdom	53.1	(57.9)	2.4	0.2	0.1	50%
Lewisham Schools for the Future LEP Limited	United Kingdom	89.7	(78.5)	7.7	0.3	(0.6)	40%
Babcock Dounreay Partnership Limited	United Kingdom	3.3	(2.0)	68.7	4.4	3.3	50%
Other		24.5	(29.2)	24.5	2.1	2.1	
		666.8	(597.1)	214.1	21.2	18.0	

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

Holdfast Training Services Limited is shown as a joint venture as the Group does not have management control. Airtanker Limited is shown as an associate due to the level of management input and the relative share ownership.

17. Deferred tax

	2014 £m	2013 £m
Deferred tax asset	46.6	43.4
Deferred tax liability	(2.4)	(4.0)
	44.2	39.4

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2013	(8.8)	60.1	0.8	(12.7)	39.4
Income statement credit	–	13.9	–	15.3	29.2
Tax credit to equity	–	9.9	–	3.8	13.7
Transfer to corporation tax	–	(22.3)	–	(3.1)	(25.4)
Acquisition of subsidiaries (note 31)	–	–	–	(6.5)	(6.5)
Effect of change in UK tax rate					
– Income statement	1.2	–	–	1.2	2.4
– Equity	–	(8.0)	–	(1.5)	(9.5)
– Exchange differences	–	–	–	0.9	0.9
At 31 March 2014	(7.6)	53.6	0.8	(2.6)	44.2
At 1 April 2012	(9.2)	63.8	0.8	(24.1)	31.3
Income statement credit	–	3.3	–	15.1	18.4
Tax credit to equity	–	14.2	–	6.0	20.2
Transfer to corporation tax	–	(18.6)	–	(0.6)	(19.2)
Acquisition of subsidiaries (note 31)	–	–	–	(9.4)	(9.4)
Effect of change in UK tax rate					
– Income statement	0.4	–	–	0.8	1.2
– Equity	–	(2.6)	–	(0.5)	(3.1)
At 31 March 2013	(8.8)	60.1	0.8	(12.7)	39.4

The deferred tax in respect of 'other' includes a liability of £1.6 million (2013: £3.2 million liability) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2014 £m	2013 £m
Deferred tax asset	(53.6)	(60.1)
Deferred tax liability	7.8	17.5
	(45.8)	(42.6)

Deferred tax expected to be recovered within 12 months:

	2014 £m	2013 £m
Deferred tax asset	–	–
Deferred tax liability	(10.8)	(13.1)
	(10.8)	(13.1)

At the balance sheet date, the Group has unused tax losses (excluding UK capital losses and advance corporation tax) of £16.0 million (2013: £16.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil million (2013: £nil million) of such losses, which may be carried forward.

Notes to the Group financial statements *continued*

18. Inventories

	2014 £m	2013 £m
Raw materials	18.6	11.2
Work-in-progress and long-term contracts	6.7	9.6
Finished goods and goods for resale	80.6	53.1
Total	105.9	73.9

19. Trade and other receivables

	2014 £m	2013 £m
Current assets		
Trade receivables	197.6	197.7
Less: provision for impairment of receivables	(3.0)	(3.7)
Trade receivables – net	194.6	194.0
Amounts due from customers for contract work	238.8	176.4
Retentions	5.1	6.1
Amounts owed by related parties (note 37)	13.5	20.6
Other debtors	36.5	65.4
Prepayments and accrued income	89.0	56.5
	577.5	519.0
Non-current assets		
Other debtors	1.2	0.5

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

As of 31 March 2014, trade receivables of £3.0 million (2013: £3.8 million) were impaired. Impairment arises in the main, through contract disputes rather than credit defaults. The amount of the provision was £3.0 million (2013: £3.7 million). The individually impaired receivables mainly relate to receivables in the International division. It was assessed that a portion of these receivables is expected to be recovered.

The ageing of the net impaired receivables is as follows:

	2014 £m	2013 £m
Less than three months	–	–
Three to six months	–	0.1
Over six months	–	–
	–	0.1

As of 31 March 2014, trade receivables of £26.8 million (2013: £26.5 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:

	2014 £m	2013 £m
Less than three months	21.5	20.8
Three to six months	3.6	4.4
Over six months	1.7	1.3
	26.8	26.5

The carrying amounts of the Group's trade and other receivables are, in the main, denominated in Sterling.

19. Trade and other receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2014 £m	2013 £m
Balance at 1 April	(3.7)	(6.4)
Provision for receivables impairment	(1.6)	(1.3)
Receivables written off during the year as uncollectable	0.4	1.2
Unused amounts reversed	1.6	2.4
Exchange differences	0.3	0.4
Balance at 31 March	(3.0)	(3.7)

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 (note 23).

20. Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	71.5	83.1
Short-term bank deposits (overnight)	14.8	14.0
	86.3	97.1

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

	2014		2013	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	42.5	42.5	60.6	60.6
Euro	9.2	9.2	21.8	21.8
US Dollar	1.7	1.7	4.8	4.8
South African Rand	22.0	22.0	6.3	6.3
Canadian Dollar	2.9	2.9	0.6	0.6
Omani Rial	1.2	1.2	–	–
Australian Dollar	0.4	0.4	–	–
New Zealand Dollar	4.1	4.1	2.8	2.8
Brazilian Rial	2.0	2.0	–	–
Other currencies	0.3	0.3	0.2	0.2
	86.3	86.3	97.1	97.1

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.

Notes to the Group financial statements *continued*

21. Trade and other payables

	2014 £m	2013 £m
Current liabilities		
Contract cost accruals	215.8	171.2
Amounts due to customers for contract work	201.8	198.7
Trade creditors	217.0	169.3
Amounts owed to related parties (note 37)	0.5	0.5
Other creditors	35.2	34.7
Other taxes and social security	60.9	39.4
Accruals and deferred income	243.2	270.6
	974.4	884.4
Non-current liabilities		
Other creditors	9.2	7.9

22. Bank and other borrowings

	2014 £m	2013 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	1.9	1.7
Unsecured	12.9	5.1
	14.8	6.8
Finance lease obligations*	2.9	2.0
	17.7	8.8
Non-current liabilities		
Bank and other loans		
Secured	11.3	12.8
Unsecured	622.2	668.6
	633.5	681.4
Finance lease obligations*	15.9	2.6
	649.4	684.0

* Finance leases are secured against the assets to which they relate.

Bank and other loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR, base rates or foreign equivalents appropriate to the country in which the borrowing is incurred. The Group has entered into interest rate and currency swaps, details of which are included in note 23.

22. Bank and other borrowings (continued)

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

Currency	2014 Total £m	2014 Floating rate £m	2014 Fixed rate £m
Sterling	253.5	140.3	113.2
South African Rand	6.8	6.8	–
US Dollar*	393.2	–	393.2
Other	13.6	13.6	–
	667.1	160.7	506.4

Currency	2013 Total £m	2013 Floating rate £m	2013 Fixed rate £m
Sterling	239.5	125.0	114.5
South African Rand	9.2	9.2	–
US Dollar*	442.3	–	442.3
Other	1.8	1.8	–
	692.8	136.0	556.8

* US Dollars 650 million have been swapped into Sterling and US Dollars 300 million into floating rates.

The weighted average interest rates of Sterling fixed rate borrowings are 5.1%. The weighted average period for which these interest rates are fixed is four years.

The floating rate for borrowings is linked to LIBOR in the case of Sterling, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The exposure of the Group to interest rate changes when borrowings re-price is as follows:

Total borrowings	1 year £m	1–5 years £m	>5 years £m	Total £m
As at 31 March 2014	343.0	156.5	167.6	667.1
As at 31 March 2013	341.2	164.8	186.8	692.8

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

	2014 %	2013 %
UK bank overdraft	1.5	1.5
UK bank borrowings	3.0	3.0
US private placement – fixed	5.7	5.7
US private placement – floating	3.1	3.1
Other borrowings	4.8–12.0	4.8–5.5
Finance leases	4.6–10.0	8.0–14.0

Repayment details

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

	2014 Loans and overdrafts £m	2014 Finance lease obligations £m	2013 Loans and overdrafts £m	2013 Finance lease obligations £m
Within one year	14.8	2.9	6.8	2.0
Between one and two years	1.7	5.3	1.7	2.6
Between two and five years	281.6	3.9	287.8	–
Greater than five years	350.2	6.7	391.9	–
	648.3	18.8	688.2	4.6

Notes to the Group financial statements *continued*

22. Bank and other borrowings (continued)

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2014 £m	2013 £m
Expiring in less than one year	24.7	32.4
Expiring in more than one year but not more than five years	373.0	375.0
	397.7	407.4

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

	2014 £m	2013 £m
Not later than one year	3.9	2.2
Later than one year but not more than five years	10.3	2.9
More than five years	9.0	–
	23.2	5.1
Future finance charges on finance leases	(4.4)	(0.5)
Present value of finance lease liabilities	18.8	4.6

23. Financial instruments

Other financial assets and liabilities

				Fair value
	Assets		Liabilities	
	2014 £m	2013 £m	2014 £m	2013 £m
Non-current				
US private placement – currency and interest rate swaps	–	45.1	3.5	–
Non-controlling interest put option	–	–	8.8	10.0
Total non-current other financial assets and liabilities	–	45.1	12.3	10.0
Current				
Interest rate hedges	–	–	6.7	3.1
Other currency hedges	9.6	3.5	5.0	4.1
Total current other financial assets and liabilities	9.6	3.5	11.7	7.2

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

The Group enters into interest rate hedges against interest rate exposure and to create a balance between fixed and floating interest rates.

The fair values of the financial instruments, excluding the non-controlling interest put option, are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

The fair value of the non-controlling interest put option is based on valuation techniques (level 3) using discounted cash flows. Future cash flows are derived from approved budgets using discount rate of 14%.

Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2014 included £12.8 million of UK interest rate swaps and interest rate swaps in relation to the US$650 million US$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2014:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	7.3	5.45	0.62219	31/3/2019
Interest rate swap	5.5	4.745	0.62219	31/3/2029
Total interest rate swaps	12.8			

23. Financial instruments (continued)

	Amount US$m	Amount at swapped rates £m	Swap %	Maturity
Hedged				
Cross currency and interest rate swap	150.0	92.1	Fixed 4.94% US$ to fixed 5.4% GBP	19/3/2018
Cross currency and interest rate swap	200.0	122.9	Fixed 5.64% US$ to fixed 5.95% GBP	17/3/2021
Cross currency and interest rate swap	300.0	184.3	Fixed 5.64% US$ to floating three month LIBOR +margin GBP	17/3/2021
Total cross currency and interest rate swap	650.0	399.3		

Fair value of financial assets and financial liabilities

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

	2014		2013	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	(649.4)	(648.8)	(684.0)	(683.4)
Loan to joint venture	50.6	50.6	51.1	51.1
	(598.8)	(598.2)	(632.9)	(632.3)
Fair value of other financial assets and financial liabilities				
Short-term borrowings	(17.7)	(17.7)	(8.8)	(8.8)
Trade and other payables*	(962.0)	(960.7)	(875.1)	(874.0)
Trade and other receivables	578.7	578.7	519.5	519.5
Other financial assets – IFRIC 12	20.5	20.5	22.2	22.2
Short-term deposits	14.8	14.8	14.0	14.0
Cash at bank and in hand	71.5	71.5	83.1	83.1
Income tax receivable	28.0	28.0	8.6	8.6
Other financial (liabilities) and assets	(14.4)	(14.4)	31.4	31.4
	(280.6)	(279.3)	(205.1)	(204.0)

* Does not include other taxes and social security.

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4% to 5% (2013: 4% to 5%).

Notes to the Group financial statements *continued*

24. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Reorganisation costs (c) £m	Acquisition/ deferred consideration (d) £m	Property and other (e) £m	Total provisions £m
At 1 April 2013	3.4	55.1	15.0	–	84.3	157.8
On acquisition of subsidiaries (note 31)	–	–	–	9.9	5.3	15.2
(Released)/charged to income statement	–	(13.5)	(6.0)	9.0	(4.7)	(15.2)
Utilised in year	(0.1)	(0.8)	(1.8)		(7.8)	(10.5)
Foreign exchange	–	(1.1)	–	(0.4)	(0.7)	(2.2)
At 31 March 2014	3.3	39.7	7.2	18.5	76.4	145.1

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

	2014 £m	2013 £m
Current	50.1	42.6
Non-current	95.0	115.2
	145.1	157.8

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

(b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.

(c) The reorganisation costs arise mainly in relation to acquired businesses personnel related costs.

(d) Acquisition/deferred consideration arises from acquisitions during the year and costs on the acquisition of Avincis.

(e) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure.

Included within property and other provisions is £40 million expected to be utilised in approximately ten years. In addition within contract/warranty provisions there is £18 million expected to be materially utilised in approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

25. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2013	362,071,802	217.2
Shares issued	2,130	–
At 31 March 2014	362,073,932	217.2
At 1 April 2012	359,146,705	215.5
Shares issued	2,925,097	1.7
At 31 March 2013	362,071,802	217.2

25. Share capital (continued)

Potential issues of ordinary shares

The table below shows options existing over the Company's shares as at 31 March 2014 that are capable of being met on exercise by the issue of new shares. They represent outstanding options granted under the Company's executive share plans. The options were either granted directly by the Company or by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 6,159,046 (2013: 5,917,922) shares – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of 160,710 (2013: 206,973) shares. The Company decides from time to time whether to meet the exercise of such options by way of a fresh issue of shares (either to the option holder or to the employee share trust) or by way of financing the employee share trusts to purchase already-issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise price Pence	Exercise period	2014 Number	2013 Number
30 June 2003	Option – vested	115.60	30/06/2006 – 29/06/2013	–	9,940
06 July 2004	Option – vested	126.00	06/07/2007 – 05/07/2014	11,870	45,118
06 July 2004	LTIP[1] – vested	–	06/07/2007 – 05/07/2014	–	83,333
24 July 2006	LTIP[1] – vested	–	24/07/2009 – 23/07/2016	17,060	17,060
19 June 2008	LTIP[1] – vested	–	19/06/2011 – 18/06/2018	10,781	146,401
11 September 2009	PSP[2] – vested	–	11/09/2012 – 10/09/2013	105,672	503,349
11 September 2009	CSOP[3] – vested	–	11/09/2012 – 10/09/2013	38,347	113,719
13 July 2010	PSP[2] – vested in year	–	13/07/2013 – 12/07/2014	280,412	1,471,563
13 July 2010	CSOP[3] – vested in year	–	13/07/2013 – 12/07/2014	30,963	91,007
14 June 2011	PSP[2]	–	14/06/2014 – 13/06/2015	1,499,186	1,526,516
14 June 2011	CSOP[3]	–	14/06/2014 – 13/06/2015	77,110	77,110
14 June 2012	PSP[2]	–	14/06/2015 – 13/06/2016	1,415,101	1,449,353
14 June 2012	CSOP[3]	–	14/06/2015 – 13/06/2016	63,857	70,239
16 July 2012	PSP[2]	–	16/07/2015 – 15/07/2016	32,454	32,454
24 January 2013	PSP[2]	–	24/01/2016 – 24/01/2017	11,617	11,617
16 July 2012	DBMP[4]	–	16/07/2015 – 15/07/2016	490,116	490,116
13 June 2013	PSP[2]	–	13/06/2016 – 13/06/2017	1,244,269	–
13 June 2013	CSOP[3]	–	13/06/2016 – 13/06/2017	102,658	–
13 June 2013	DBMP[4]	–	13/06/2016 – 13/06/2017	891,351	–
13 June 2013	DBMP[5]	–	13/06/2015 – 13/06/2016	8,802	
				6,331,626	6,138,895

Options granted to Directors are summarised in the Remuneration report on pages 88 to 116 and are included in the outstanding options set out above.

1. 2003 Long Term Incentive Plan,
2. 2009 Performance Share Plan,
3. 2009 Company Share Option Plan,
4. 2012 Deferred Bonus Matching Plan,
5. Award issued without matching shares, has two year vesting period.

Notes to the Group financial statements *continued*

25. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these options and also awards made under the 2009 Deferred Bonus Plan.

	2014		2013	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	893,062	223,568	2,394,033	529,179
PEST	44,509	–	117,880	–
Total	937,571	223,568	2,511,913	529,179

Share awards granted under the 2009 Deferred Bonus Plan are required by the rules of that plan to be satisfied with already issued shares purchased in the market.

A reconciliation of share option movements is shown below:

	2014		2013	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 April	55	£1.24	84	£1.21
Exercised	(43)	£1.23	(29)	£1.15
Outstanding at 31 March	12	£1.26	55	£1.24
Exercisable at 31 March	12	£1.26	55	£1.24

The weighted average share price for options exercised during the year was 1,283.07p per share (2013: 958.35p per share).

A reconciliation of LTIP, PSP, CSOP and DBMP movements is shown below:

	2014	2013
	Number '000	Number '000
Outstanding at 1 April	6,084	5,335
Granted	2,285	2,067
Exercised	(1,505)	(531)
Forfeited/lapsed	(551)	(787)
Outstanding at 31 March	6,313	6,084
Exercisable at 31 March	483	864

The weighted average share price for awards exercised during the year was 1,192.68p per share (2013: 933.50p per share).

During the year no ordinary shares (2013: 3,257,686 shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts'). The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2014 1,879,953 shares (2013: 639,761) were disposed of by the Trusts resulting from options exercised. At 31 March 2014, the Trusts held between them a total of 1,161,139 (2013: 3,041,092) ordinary shares at a total market value of £15,640,542 (2013: £33,087,081) representing 0.32% (2013: 0.84%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year, though full dividends were paid in respect of shares held by the Peterhouse Employee Share Trust. The Company meets the operating expenses of the Trusts.

The Trusts enable shares in the Company to be held or purchased and made available to employees through the exercise of rights or awards made under the Company's employee share schemes. The Trusts are discretionary settlements for the benefit of employees within the Group. The Company is excluded from benefiting under them. They are controlled and managed outside the UK and each has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company, but the trustee of the Peterhouse Employee Share Trust does not have the power to waive dividends due on Babcock ordinary shares and therefore receives the full amount of any dividends declared.

The options, LTIP, PSP, CSOP and DBMP will be adjusted for the post year end rights issue.

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 £12.2 million (2013: £8.6 million) all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £9.4million (2013: £6.5 million).

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

DBMP, PSPs and CSOP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2013 DBMP Matching	894,367	1,155.0	16.0%	4.0	40%	623.7	1,155.0	46%	15/8/13
2013 PSP	1,155,538	1,155.0	16.0%	4.0	40%	634.1	1,155.0	46%	15/8/13
2013 PSP Main	107,581	1,155.0	16.0%	4.0	40%	562.5	1,059.1	46%	15/8/13
2013 CSOP	107,581	1,155.0	16.0%	4.0	40%	95.9	71.6	46%	15/8/13
2012 DBMP Matching	326,744	874.5	18.0%	4.0	40%	623.5	874.5	46%	16/7/12
2012 PSP	32,454	874.5	18.0%	4.0	40%	628.8	874.5	46%	16/7/12
2012 PSP Main	1,389,376	879.5	18.0%	4.0	40%	653.5	879.5	46%	14/6/12
2012 PSP Funding	70,239	879.5	18.0%	4.0	40%	575.2	792.4	46%	14/6/12
2012 CSOP	70,239	879.5	18.0%	4.0	40%	78.3	87.1	46%	14/6/12
2011 PSP Main	1,622,534	701.0	25.9%	4.0	90%	433.0	701.0	46%	14/6/11
2011 PSP Funding	80,703	701.0	25.9%	4.0	90%	339.0	582.0	46%	14/6/11
2011 CSOP	80,703	701.0	25.9%	4.0	90%	92.0	116.0	46%	16/6/11

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are just split evenly between TSR and EPS.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The DBMP, PSP and CSOP will be adjusted for the post year end rights issue.

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and CSOP = 2009 Company Share Option Plan.

27. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2014 £m	2013 £m
Defined contribution schemes	42.5	31.6

Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2014 £m	2013 £m
Retirement benefits – funds in surplus	15.2	10.1
Retirement benefits – funds in deficit	(282.9)	(271.2)
	(267.7)	(261.1)

Notes to the Group financial statements *continued*

27. Retirement benefits and liabilities (continued)

The Group has a number of pension schemes around the world covering many of its employees. The principal schemes are those in the UK where the Group operates three defined benefit pension schemes for employees in the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes). The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees who are advised by an independent, qualified actuary.

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by taking out longevity swaps for the pensioners and their spouses and through a common investment committee have significantly hedged the interest rate and inflation risk though derivative instruments.

The Group also participates in the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme (the Railways scheme). This scheme is a multi-employer shared cost scheme with the contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments agreed with the trustees who are advised by an independent, qualified actuary. The costs are shared such that the employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in this scheme.

The schemes are funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have an independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The detail of the latest formal actuarial valuation of the scheme is as follows. Valuations of the Babcock International Group scheme and the Railways scheme are currently being undertaken:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/11	31/03/10	31/03/12	31/12/10
Number of active members at above date	3,328	2,257	943	481
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£977.0m	£822.3m	£470.0m	£189.0m
Level of funding	90%	92%	83%	101%
Principal valuation assumptions:				
Excess of pre-retirement discount rate over earnings increases	2.4%	2.4%	3.75%	3.5%
Excess of post-retirement discount rate over earnings increases	1.3%	2.4%	1.0%	2.9%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes in which most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme for which the MoD fully reimburses the contributions payable.

The Group's cash contribution rates payable to the schemes are as follows:

	Devonport Royal Dockyard Scheme £m	Babcock International Group Scheme £m	Rosyth Royal Dockyard Scheme £m	Babcock Rail Ltd section of the Railways Pension Scheme £m	Other £m	Total £m
Future service contribution rate	19.1%	24.6%	16.6%	18.0%	–	–
Future service cash contributions	£20.1m	£14.5m	£5.0m	£2.0m	£9.6m	£51.2m
Deficit contributions	£13.5m	£15.7m	£8.7m	–	£1.3m	£39.2m
Longevity swap payments	£1.8m	£0.7m	£1.7m	–	–	£4.2m
Expected employer cash costs for 2014/15	£35.4m	£30.9m	£15.4m	£2.0m	£10.9m	£94.6m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme; valuations are carried out every three years.

27. Retirement benefits and liabilities (continued)

The expected payments from the schemes are primarily pension payments, most of which increase at a fixed rate or in line with RPI or CPI inflation when in payment and lump sums. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary.

The latest full actuarial valuation of the Group's defined benefit pension schemes have been updated to 31 March 2014 by qualified independent actuaries for IAS 19 purposes using the following assumptions:

March 2014	Devonport Royal Dockyard Scheme %	Babcock International Group Scheme %	Rosyth Royal Dockyard Scheme %	Babcock Rail Ltd section of the Railways Pension Scheme %
Rate of increase in pensionable salaries	2.4	2.4	2.4	2.4
Rate of increase in pensions (past service)	2.2	3.0	3.4	2.2
Discount rate	4.5	4.5	4.5	4.5
Inflation rate (RPI)	3.3	3.3	3.3	3.3
Inflation rate (CPI)	2.1	2.1	2.1	2.1
Weighted average duration of cashflows (years)	17	16	17	18
Total life expectancy for current pensioners aged 65 (years)	86.7	87.8	84.3	86.2
Total life expectancy for future pensioners currently aged 45 (years)	88.1	89.3	85.7	88.4

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:

	2014				2013 (restated)			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways schemes £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	659.6	98.2	97.8	855.6	596.1	93.1	98.0	787.2
Property	134.3	25.4	6.8	166.5	121.4	24.6	6.0	152.0
Absolute return and multi strategy funds	47.4	14.1	5.0	66.5	–	12.9	4.7	17.6
Low risk assets								
Bonds	1,023.8	61.6	83.3	1,168.7	1,323.4	57.9	74.9	1,456.2
Matching assets*	942.9	0.9	67.8	1,011.6	787.6	0.9	51.6	840.1
Collateral	51.9	–	–	51.9	51.6	–	–	51.6
Active position on longevity swaps	(100.7)	–	–	(100.7)	(99.9)	–	–	(99.9)
Fair value of assets	2,759.2	200.2	260.7	3,220.1	2,780.2	189.4	235.2	3,204.8
Percentage of assets quoted	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of assets unquoted	–	–	–	–	–	–	–	–
Present value of defined benefit obligations								
Active members	1,065.5	58.9	144.5	1,268.9	1,063.4	58.8	131.7	1,253.9
Deferred pensioners	633.8	57.4	57.6	748.8	632.5	59.0	56.2	747.7
Pensioners	1,330.0	92.6	47.4	1,470.0	1,327.3	90.0	46.9	1,464.2
Total liabilities	3,029.3	208.9	249.5	3,487.7	3,023.2	207.8	234.8	3,465.8
Deficit/(surplus)	270.1	8.7	(11.2)	267.6	243.0	18.4	(0.4)	261.0
Present value of unfunded obligations	–	–	0.1	0.1	–	–	0.1	0.1
Net liabilities/(assets) recognised in the balance sheet	270.1	8.7	(11.1)	267.7	243.0	18.4	(0.3)	261.1

* Included within matching assets are government bonds which are shown net of repurchase obligations of £1,913 million (2013: £1,495 million).

The schemes do not invest directly in assets or shares of the Group.

Notes to the Group financial statements *continued*

27. Retirement benefits and liabilities (continued)

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

	2014				2013 (restated)			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	40.5	1.9	1.6	44.0	38.7	1.9	1.2	41.8
Incurred expenses	5.1	0.1	0.1	5.3	2.9	–	0.1	3.0
Total included within operating profit	45.6	2.0	1.7	49.3	41.6	1.9	1.3	44.8
Net interest cost	10.2	0.8	(0.1)	10.9	11.7	0.5	(0.4)	11.8
Total included within operating profit	55.8	2.8	1.6	60.2	53.3	2.4	0.9	56.6

The change in pension costs as a result of revisions to IAS 19 Revised are shown in note 1.

Amounts recorded in the Group statement of comprehensive income

	2014				2013 (restated)			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	(112.3)	9.6	23.6	(79.1)	281.7	12.7	24.7	319.1
Experience gain/(losses) arising on scheme liabilities	(28.1)	(6.0)	(1.7)	(35.8)	(61.3)	2.3	(0.1)	(59.1)
Changes in assumptions on scheme liabilities	75.7	7.0	(14.4)	68.3	(261.5)	(23.2)	(30.3)	(315.0)
Other gains/(losses)	3.6	–	–	3.6	38.8	–	–	38.8
At 31 March	(61.1)	10.6	7.5	(43.0)	(2.3)	(8.2)	(5.7)	(16.2)

27. Retirement benefits and liabilities (continued)

Analysis of movement in the Group balance sheet

	2014				2013 (restated)			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	2,780.2	189.4	235.2	3,204.8	2,405.9	175.2	201.6	2,782.7
(Settlements)/transfers in	–	–	(3.3)	(3.3)	–	–	3.9	3.9
Interest on assets	125.6	4.9	5.0	135.5	121.4	5.0	5.1	131.5
Interest on reimbursement rights	(4.4)	–	–	(4.4)	(6.0)	–	–	(6.0)
Actuarial (loss)/gain on assets	(112.3)	9.6	23.6	(79.1)	281.7	12.7	24.7	319.1
Actuarial gain on reimbursement rights – demographics	18.6	–	–	18.6	25.5	–	–	25.5
Actuarial gain/(loss) on reimbursement rights – financial	4.2	–	–	4.2	(21.9)	–	–	(21.9)
Experience (loss)/gains on reimbursement rights	(19.2)	–	–	(19.2)	26.6	–	–	26.6
Employer contributions	89.9	2.0	4.9	96.8	71.3	2.2	4.1	77.6
Employee contributions	3.5	1.0	0.9	5.4	2.9	1.2	1.0	5.1
Benefits paid	(126.9)	(6.7)	(5.6)	(139.2)	(127.2)	(6.9)	(5.4)	(139.5)
Exchange differences	–	–	–	–	–	–	0.2	0.2
At 31 March	2,759.2	200.2	260.7	3,220.1	2,780.2	189.4	235.2	3,204.8
Present value of benefit obligations								
At 1 April	3,023.2	207.8	234.8	3,465.8	2,656.0	185.2	198.7	3,039.9
(Settlements)/transfers in	–	–	(3.3)	(3.3)	–	–	3.9	3.9
Service cost	40.5	1.9	1.6	44.0	38.7	1.9	1.2	41.8
Incurred expenses	5.1	0.1	0.1	5.3	2.9	–	0.1	3.0
Interest cost	131.5	5.8	4.9	142.2	127.1	5.5	4.7	137.3
Employee contributions	3.5	1.0	0.9	5.4	2.9	1.2	1.0	5.1
Experience losses	28.1	6.0	1.7	35.8	61.3	(2.3)	0.1	59.1
Actuarial loss – demographics	35.7	–	–	35.7	75.8	1.3	0.1	77.2
Actuarial (gain)/loss – financial	(111.4)	(7.0)	14.4	(104.0)	185.7	21.9	30.2	237.8
Benefits paid	(126.9)	(6.7)	(5.6)	(139.2)	(127.2)	(6.9)	(5.4)	(139.5)
Exchange differences	–	–	–	–	–	–	0.2	0.2
At 31 March	3,029.3	208.9	249.5	3,487.7	3,023.2	207.8	234.8	3,465.8
Present value of unfunded obligations	–	–	(0.1)	(0.1)	–	–	(0.1)	(0.1)
Net (deficit)/surplus at 31 March	(270.1)	(8.7)	11.1	(267.7)	(243.0)	(18.4)	0.3	(261.1)

The movement in net deficits for the year ending 31 March 2014 are as a result of the movement in assets and liabilities shown above.

Notes to the Group financial statements *continued*

27. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2014 and the charges to the Group income statement for the year to March 2015, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2014 £m	Income statement 2015 £m
Initial assumptions	3,352.2	57.9
Discount rate assumptions increased by 0.5%	(251.6)	(15.6)
Discount rate assumptions decreased by 0.5%	251.6	12.9
Inflation rate assumptions increased by 0.5%	157.0	9.5
Inflation rate assumptions decreased by 0.5%	(146.6)	(8.5)
Total life expectancy increased by half a year	48.3	2.8
Total life expectancy decreased by half a year	(48.3)	(2.5)
Salary increase assumptions increased by 0.5%	40.7	3.4
Salary increase assumptions decreased by 0.5%	(40.4)	(3.1)

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' equity and property assets are assumed not to be affected by any sensitivity changes shown. The balance sheet values would increase or decrease by the same amount as the change in the defined benefit obligations.

The sensitivity disclosed have changed compared to the prior year to meet the requirements of IAS 19 Revised.

28. Reconciliation of operating profit to cash generated from operations

	2014 £m	2013 (restated) £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible and exceptional items	317.2	284.2
Amortisation of acquired intangible and exceptional items	(84.1)	(80.7)
Group operating profit	233.1	203.5
Pre-tax loss from discontinued operations	–	(17.1)
Depreciation of property, plant and equipment	40.0	37.4
Amortisation of intangible assets	66.7	73.6
Investment income	1.5	1.7
Equity share-based payments	12.2	8.6
Loss on disposal of subsidiaries	–	18.0
Loss/(profit) on disposal of property, plant and equipment	0.3	(4.1)
Loss on disposal of intangible assets	–	1.1
Operating cash flows before movement in working capital	353.8	322.7
(Increase)/decrease in inventories	(43.7)	1.4
Increase in receivables	(67.6)	(34.8)
Increase in payables	91.3	48.5
Decrease in provisions	(31.3)	(11.5)
Exceptional items – acquisition costs incurred not paid	24.2	–
Retirement benefit contributions in excess of income statement	(47.2)	(32.9)
Cash generated from operations	279.5	293.4

29. Movement in net debt

	2014 £m	2013 (restated) £m
Decrease in cash in the year	(14.0)	(5.7)
Cash flow from the decrease in debt and lease financing	4.5	104.8
Change in net funds resulting from cash flows	(9.5)	99.1
Loans and finance leases acquired with subsidiaries	(1.3)	(6.3)
New finance leases	(19.0)	(0.6)
Movement in joint venture and associate loans	(0.5)	26.2
Foreign currency translation differences and other	(3.9)	(1.7)
Movement in net debt in the year	(34.2)	116.7
Net debt at the beginning of the year	(499.5)	(616.2)
Net debt at the end of the year	(533.7)	(499.5)

30. Changes in net debt

	31 March 2013 (restated) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	31 March 2014 £m
Cash and bank balances	97.1	(4.9)	(0.1)	–	(5.8)	86.3
Bank overdrafts	(6.5)	(9.0)	–	–	0.4	(15.1)
Cash, cash equivalents and bank overdrafts	90.6	(13.9)	(0.1)	–	(5.4)	71.2
Debt	(681.7)	1.0	(1.3)	–	48.8	(633.2)
Finance leases	(4.6)	3.5	–	(19.0)	1.3	(18.8)
	(686.3)	4.5	(1.3)	(19.0)	50.1	(652.0)
Net debt before derivatives and joint venture and associates loans	(595.7)	(9.4)	(1.4)	(19.0)	44.7	(580.8)
Net debt derivative	45.1	–	–	–	(48.6)	(3.5)
Joint venture and associate loans	51.1	(0.5)	–	–	–	50.6
Net debt	(499.5)	(9.9)	(1.4)	(19.0)	(3.9)	(533.7)

31 (a). Acquisitions – current year

On 23 July 2013 the Group acquired Conbras Engenharia Ltda (Conbras), a privately owned Brazilian company, for a consideration of £22.6 million (R$75 million), including a maximum £4.4 million (R$15 million) deferred consideration based on an earn out payable to non-employees based on financial performance. The full deferred consideration was paid subsequent to the year end. Conbras operates in the facilities management sector, serving private and public customers across Brazil.

On 16 December 2013 the Group acquired Context Information Services Limited (Context) for a consideration of £33.0 million including £4 million of deferred consideration which is payable over three years. Context provides specialist technical consultancy services in the cyber security market, with offices in London, Germany and Australia.

On 10 December 2013 the Group acquired Skills2Learn Limited for a consideration of £7.3 million including £1.5 million deferred consideration which is repayable which is payable over three years. Skills2Learn is one of the UK's premier developers of interactive digital learning and virtual reality simulation solutions. Deferred consideration relates to warranty obligations.

On 29 January the Group acquired National Training Institute LLC, (NTI) for a consideration of £12.3 million. NTI is an Oman based technical training specialist providing high quality training solutions to the energy, oil and gas, and construction sectors in Oman.

The goodwill arising on the acquisition derives from the market position of the entities involved and the value of the workforce acquired.

Notes to the Group financial statements *continued*

31 (a). Acquisitions – current year (continued)

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

	Conbras £m	Context £m	Other £m	Total £m
Cost of acquisition				
Cash paid	18.2	29.0	18.7	65.9
Deferred consideration	4.4	4.0	1.5	9.9
Purchase consideration	22.6	33.0	20.2	75.8
Fair value of assets acquired (see below)	6.5	12.3	6.6	25.4
Goodwill	16.1	20.7	13.6	50.4

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

	Conbras		Context		Other		Total	
	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m
Acquired intangibles*	–	9.3	–	13.5	–	5.5	–	28.3
Intangible assets	0.1	–	0.2	0.2	–	–	0.3	0.2
Property, plant and equipment	0.3	0.3	0.4	0.4	1.6	1.2	2.3	1.9
Investments	0.1	–	–	–	0.3	–	0.4	–
Deferred tax	(0.7)	(2.7)	(0.1)	(3.1)	–	(0.7)	(0.8)	(6.5)
Income tax	0.2	0.2	–	(0.1)	(0.2)	(0.2)	–	(0.1)
Cash, cash equivalents and bank overdraft	1.3	1.3	0.7	0.7	1.4	1.4	3.4	3.4
Bank loan	(1.3)	(1.3)	–	–	–	–	(1.3)	(1.3)
Current assets	9.1	8.9	2.9	2.9	4.2	3.8	16.2	15.6
Current and non-current liabilities	(6.1)	(6.8)	(1.9)	(2.0)	(2.0)	(2.0)	(10.0)	(10.8)
Provisions	–	(2.7)	–	(0.2)	(0.7)	(2.4)	(0.7)	(5.3)
Net assets acquired	3.0	6.5	2.2	12.3	4.6	6.6	9.8	25.4

* Acquired intangibles are: customer relationships, both contracted and non-contracted plus brand valuations (see note 14).

Cash outflow to acquire businesses net of cash acquired:

	Conbras £m	Context £m	Other £m	Total £m
Purchase consideration paid in cash	18.2	29.0	18.7	65.9
Cash, cash equivalents and bank overdrafts	(1.3)	(0.7)	(1.4)	(3.4)
Cash outflow/(inflow) in period	16.9	28.3	17.3	62.5

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2013 are:

	Conbras		Context		Other	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Revenue	26.1	42.0	3.0	9.9	2.6	13.1
Operating profit	1.5	3.8	0.3	0.5	0.6	2.4

31 (b). Acquisitions – prior year

During the previous financial year, on 1 June 2012 the Group acquired a controlling interest of 52% of Target Cranes (Pty) Limited (Target) a company based in South Africa involved in the rental of mobile cranes. The transaction was made via an exchange of shares and with Target also acquiring the assets and liabilities of the Plant division of Babcock Africa Services (Pty) Limited.

During the previous year, on 28 December 2012 the Group acquired the entire business of Liquid Gas Equipment Limited (LGE) a company based in Scotland that designs and builds plants for processing, storage and handling of liquid gasses and is the market leader in the supply of these solutions to the marine and onshore liquid gas sectors.

The goodwill arising on the acquisition derives from the market position of the entities involved and the value of the workforce acquired.

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

	LGE £m	Target £m	Other £m	Total £m
Cost of acquisition				
Cash paid	25.2	–	2.0	27.2
Deemed consideration	–	19.8	–	19.8
Purchase consideration	25.2	19.8	2.0	47.0
Fair value of assets acquired (see below)	3.2	16.7	2.0	21.9
Goodwill	22.0	3.1	–	25.1

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

	LGE		Target		Other		Total	
	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m	Book value of assets acquired £m	Fair value acquired £m
Goodwill	8.9	–	–	–	–	–	8.9	–
Acquired intangibles*	–	18.1	–	–	–	2.0	–	20.1
Property, plant and equipment	–	–	23.3	25.6	–	–	23.3	25.6
Deferred tax	–	(3.9)	(4.6)	(5.5)	–	–	(4.6)	(9.4)
Income tax	–	–	0.1	(0.2)	–	–	0.1	(0.2)
Cash, cash equivalents and bank overdraft	3.8	3.8	1.2	1.2	–	–	5.0	5.0
Finance leases	–	–	(6.3)	(6.3)	–	–	(6.3)	(6.3)
Inventory	–	–	0.1	0.1	–	–	0.1	0.1
Current assets	6.8	6.3	3.0	2.3	–	–	9.8	8.6
Current and non-current liabilities	(16.7)	(18.2)	(0.5)	(0.5)	–	–	(17.2)	(18.7)
Provisions	(2.9)	(2.9)	–	–	–	–	(2.9)	(2.9)
Net assets acquired	(0.1)	3.2	16.3	16.7	–	2.0	16.2	21.9

* Acquired intangibles are: customer relationships, both contracted and non-contracted (see note 14).

Cash outflow to acquire businesses net of cash acquired:

	LGE £m	Target £m	Other £m	Total £m
Purchase consideration paid in cash	25.2	–	2.0	27.2
Cash, cash equivalents and bank overdrafts	(3.8)	(1.2)	–	(5.0)
Cash outflow/(inflow) in period	21.4	(1.2)	2.0	22.2

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2012 are:

	LGE		Target	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Revenue	9.7	41.2	8.0	10.2
Operating profit	(0.7)	1.5	3.2	3.8

Mark-to-market losses on forward exchange contracts of £0.7 million are included above within LGE since date of acquisition as the contracts are deemed ineffective since acquisition.

Notes to the Group financial statements *continued*

32. Disposals and held for sale

There were no disposals during the year. However, the deferred consideration on the UKAEA Pension Administration Office disposal was received and the Group paid various costs relating to previously disposed of businesses.

During the previous year, in July 2012 the Group completed the disposal of its holding in VT Services Inc. (the US defence business), the net assets of which had been disclosed as held for sale at 31 March 2012.

During the previous year on 5 December 2012 the Group sold the trade and assets of the UKAEA Pension Administration Office that had been acquired as part of the UKAEA Limited acquisition in 2009.

During the previous year in January 2013 the Group disposed of its interest in the Waste business.

	2014			2013				
	UKAEA Pensions £m	Previously disposed of business £m	Total £m	UKAEA Pensions £m	Waste Business £m	VT Services £m	Previously disposed of business £m	Total £m
Goodwill	–	–	–	3.4	–	–	–	3.4
Other intangible assets	–	–	–	0.1	–	–	–	0.1
Cash, cash equivalents and bank overdrafts	–	–	–	–	–	2.6	–	2.6
Non-controlling interests	–	–	–	–	–	0.4	–	0.4
Held for sale assets and liabilities	–	–	–	–	–	62.2	–	62.2
Translation adjustment recycled from translation reserve	–	–	–	–	–	4.9	–	4.9
Net assets disposed/held for sale	–	–	–	3.5	–	70.1	–	73.6
(Loss)/profit on disposal of subsidiary		–	–	0.2	9.3	(18.2)	(9.3)	(18.0)
Other disposal costs accrued/deferred consideration	4.2	–	4.2	(1.4)	2.6	8.9	9.3	19.4
Sale proceeds	4.2	–	4.2	2.3	11.9	60.8	–	75.0
Sale proceeds less cash disposed of	4.2	–	4.2	2.3	11.9	58.2	–	72.4
Less costs paid in the year	–	(3.5)	(3.5)	(0.8)	(1.7)	(1.9)	–	(4.4)
Net cash inflow/(outflow)	4.2	(3.5)	0.7	1.5	10.2	56.3	–	68.0

33. Transactions with non-controlling interests

There were no transactions with non-controlling interests in the current year. The following are the transactions for the previous year 2013:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
Following the acquisition of Target Cranes, a further 12.4% of shares were purchased, in cash, from the non-controlling interest for £5.1 million. This resulted in a net gain on non-controlling interest of £4.0 million.	4.0	(9.1)	5.1
Following the acquisition of Target Cranes, an agreement was reached for a put option providing the non-controlling interest shareholders the right to force the Group to purchase further shares. The option exercise price is a multiple of EBITDA. The put option liability is shown as non-current Other financial liabilities on the balance sheet (see below).	(14.6)	–	–
The non-controlling interest in one of the Group's subsidiaries has been acquired with the vendor paying £6.4 million.	6.0	0.4	(6.4)
Transactions with non-controlling interests – 2013	(4.6)	(8.7)	(1.3)

The £14.6 million shown above reflects the option at inception which will be revalued at period ends.

34. Operating lease commitments – minimum lease payments

	2014		2013	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:				
Within one year	19.9	29.0	21.2	10.2
Later than one year and less than five years	51.9	26.0	52.4	14.1
After five years	20.9	–	24.0	–
	92.7	55.0	97.6	24.3

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.

35. Contingent liabilities

(a) Pursuant to the Rosyth Dockyard privatisation agreement, the MoD will share in the net proceeds of sale or development of the Dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MoD dated 30 January 1997. By way of security for the MoD's rights to such share, the Company has granted a fixed charge (standard security) over the Dockyard in favour of the Authority.

(b) The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.

(c) The Group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

36. Capital and other financial commitments

	2014 £m	2013 £m
Contracts placed for future capital expenditure not provided in the financial statements	18.0	6.2

Notes to the Group financial statements *continued*

37. Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 16.

	2014 Revenue to £m	2014 Purchases from £m	2014 Year end debtors' balance £m	2014 Year end creditor balance £m
Joint ventures and associates				
Debut Services (South West) Limited	139.4	–	0.3	–
Holdfast Training Services Limited	76.2	0.1	8.0	–
First Swietelsky Operation and Maintenance	10.1	–	1.9	0.5
Ascent Flight Training (Management) Company Limited	1.8	–	0.1	–
Advanced Jet Training Limited	1.6	–	0.2	–
Rear Crew Training Limited	0.8	–	0.1	–
Airtanker Services Limited	5.8	–	0.7	–
ALC (Superholdco) Limited	3.2	–	0.1	–
Naval Ship Management (Australia) Pty Limited	1.5	–	0.1	–
Lewisham Schools for the Future SPV Limited	1.5	–	0.3	–
Lewisham Schools for the Future SPV2 Limited	0.4	–	0.1	–
Lewisham Schools for the Future SPV3 Limited	0.8	–	0.1	–
Lewisham Schools for the Future SPV4 Limited	1.4	–	0.1	–
Greenwich BSF SPV Limited	0.2	–	–	–
Cura Classis (UK) Limited	4.1	–	–	–
Cura Classis (US) LLC	6.3	–	0.1	–
Cura Classis Canada Hold Co Inc.	5.9	–	–	–
Dounreay Site Licence Company	15.1	0.1	–	–
Related by common directorships				–
Finmeccanica UK Group	11.8	0.1	1.3	–
GKN	–	0.3	–	–
Northrop Grumman Sperry Marine Limited	0.1	–	–	–
	288.0	0.6	13.5	0.5

37. Related party transactions (continued)

	2013 Revenue to £m	2013 Purchases from £m	2013 Year end debtors' balance £m	2013 Year end creditor balance £m
Joint ventures and associates				
Debut Services (South West) Limited	128.9	1.2	–	–
Holdfast Training Services Limited	73.4	0.4	12.7	–
First Swietelsky Operation and Maintenance	9.5	–	1.2	0.5
Ascent Management Company (Weybridge) Limited	0.5	–	–	–
Ascent Flight Training (Management) Company Limited	1.8	–	0.7	–
Advanced Jet Training Limited	1.5	–	0.3	–
Rear Crew Training Limited	0.8	–	0.2	–
Airtanker Services Limited	6.9	–	1.0	–
Whitefleet Limited	0.4	17.9	–	–
ALC (Superholdco) Limited	3.1	–	–	–
Naval Ship Management (Australia) Pty Limited	2.1	–	0.2	–
Lewisham Schools for the Future LEP Limited	0.1	–	–	–
Lewisham Schools for the Future SPV Limited	2.2	–	0.9	–
Lewisham Schools for the Future SPV2 Limited	0.4	–	–	–
Lewisham Schools for the Future SPV3 Limited	0.5	–	0.1	–
Lewisham Schools for the Future SPV4 Limited	0.8	–	0.2	–
Greenwich BSF SPV Limited	0.2	–	–	–
Cura Classis (UK) Limited	5.1	–	–	–
Cura Classis (US) LLC	6.8	–	0.1	–
Cura Classis Canada Hold Co Inc.	7.2	–	–	–
Dounreay Site Licence Company	9.5	–	2.1	–
Related by common directorships				
Finmeccanica UK Group	9.3	0.1	0.9	–
	271.0	19.6	20.6	0.5

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

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

(c) Key management compensation is shown in note 8.

(d) Transactions in employee benefits trusts are shown in note 25.

38. Post balance sheet events

(a) Dividend

Details on dividends are given in note 11. There are no further material events subsequent to 31 March 2014 that require disclosure.

(b) Acquisition

The Group completed the acquisition of Avincis Mission Critical Services on 16 May 2014. A rights issue was completed prior to the acquisition completing.

Notes to the Group financial statements *continued*

39. Group entities

Principal related undertakings	Principal activities	Group interest in allotted capital	Country of incorporation
Babcock Marine (Rosyth) Limited	Trading company	100%	Scotland
Rosyth Royal Dockyard Limited	Owner of Rosyth dockyard	99.999%	Scotland
Babcock Marine (Devonport) Limited	Trading company	100%	England and Wales
Devonport Royal Dockyard Limited	Maintains Royal Navy ships and provides support services to naval base	100%	England and Wales
Babcock Marine (Clyde) Limited	Trading company	100%	Scotland
LSC Group Limited	Consultancy and project management	100%	England and Wales
Frazer-Nash Consultancy Limited	Systems and engineering technology services	100%	England and Wales
Appledore Shipbuilders (2004) Limited	Shipbuilding	100%	England and Wales
Babcock (Pty) Limited	Engineering and maintenance support	100%	Australia
Babcock Integrated Technology Limited	Design, supply and installation of specialist handling equipment	100%	England and Wales
Babcock Canada Inc.	Trading company	100%	Canada
Liquid Gas Equipment Limited	Design and build plants for processing, storage and handling of liquid gasses.	100%	Scotland
Context Information services Limited	Technical cyber security consulting.	100%	England and Wales
Air Power International Limited	Compressed air management and support services	100%	Scotland
Babcock Support Services Limited	Support services and facilities management	100%	England and Wales
Babcock Flagship Limited	Naval training services	100%	England and Wales
Babcock Aerospace Limited	Airfield support services	100%	England and Wales
Babcock Land Limited	Fleet management and training services	100%	England and Wales
Babcock Land (Whitefleet Management) Limited	Contract management services	100%	England and Wales
BNS Nuclear Services Limited	Engineering solutions and services	100%	England and Wales
Babcock Airports Limited	Airport support services	100%	England and Wales
Babcock Critical Services Limited	Fleet management and support services	100%	England and Wales
Cavendish Nuclear Limited	Nuclear site maintenance	100%	England and Wales
Babcock Rail Limited	Rail infrastructure repair and maintenance	100%	England and Wales
Babcock Networks Limited	Powerline erection and maintenance	100%	England and Wales
Babcock Communications Limited	Communication services	100%	England and Wales
Conbras Engenharia Ltda	Facilities management	100%	Brazil
Babcock Training Limited	Education and training services	100%	England and Wales
Babcock 4S Limited	Education and training services	80.1%	England and Wales
Babcock Learning & Development Partnership LLP	Education and training services	80.1%	England and Wales
Babcock Africa Services (Pty) Limited	Equipment sales, hire and maintenance	100%	South Africa
Equity accounted investments			
Holdfast Training Services Limited	Military training	74%	England and Wales
ALC (Superholdco) Limited	PFI operator	50%	England and Wales
Airtanker Limited	In-flight refueling support	13.3%	England and Wales
Ascent Flight Training (Holdings) Limited	Flight training	50%	England and Wales
Cavendish Dounreay Partnership Limited	Nuclear site decommissioning	50%	England and Wales

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 by providing information only in relation to related undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. A full list of subsidiary, equity accounted investments and other associated undertakings as at 31 March 2014 will be annexed to the Company's next annual return filed with the Registrar of Companies.

All subsidiary undertakings are included in the consolidation, except for Research Sites Restoration Limited which is treated as an investment due to restrictions in control.

Of the undertakings listed above, the Company holds 100% of the Group's interest in Babcock (Pty) Limited. It does not directly hold any share of the Group's interest in the other listed undertakings.

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

Report on the Company financial statements

Our opinion

In our opinion the Company financial statements:

– give a true and fair view of the state of the Company's affairs as at 31 March 2014;

– 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Company financial statements, which are prepared by Babcock International Group PLC, comprise:

– the Company balance sheet as at 31 March 2014; and

– the notes to the Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). 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 Company's circumstances and have been consistently applied and adequately disclosed;

– the reasonableness of significant accounting estimates made by the Directors; and

– the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2014 (the "Annual Report") to identify material inconsistencies with the audited Company financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

– The information given in the Strategic report and the Directors' report for the financial year for which the Company financial statements are prepared is consistent with the Company financial statements.

– The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

– we have not received all the information and explanations we require for our audit; or

– adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or

– the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Company financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibilities statement set out on page 122, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and ISAs (UK & 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.

Other Matter
We have reported separately on the Group financial statements of Babcock International Group PLC for the year ended 31 March 2014.

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

19 May 2014

Company balance sheet

As at 31 March 2014	Note	2014 £m	2013 £m
Fixed assets			
Investment in subsidiary undertakings	4	2,121.7	2,121.7
Tangible fixed assets	5	–	–
		2,121.7	2,121.7
Current assets			
Debtors – amounts due after more than one year	6	403.3	445.0
Debtors – amounts due within one year	6	368.1	280.7
Cash at bank and in hand		–	31.2
		771.4	756.9
Creditors – amounts due within one year	7	978.8	885.7
Net current (liabilities)/assets		(207.4)	(128.8)
Total assets less current liabilities		1,914.3	1,992.9
Creditors – amounts due after one year	7	622.0	667.3
Provisions	8	9.0	–
Net assets		1,283.3	1,325.6
Capital and reserves			
Called up share capital	9	217.2	217.2
Share premium account	10	873.0	873.0
Capital redemption reserve	10	30.6	30.6
Profit and loss account	10	162.5	204.8
Total shareholders' funds		1,283.3	1,325.6

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The financial statements on pages 177 to 182 were approved by the Board of Directors on 19 May 2014 and are signed on its behalf by:

P L Rogers
Director

W Tame
Director

Notes to the Company financial statements

1. Significant accounting policies

The principal accounting policies adopted by the Company are disclosed below:

Basis of accounting

The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and in accordance with applicable United Kingdom Accounting Standards and in compliance with the Companies Act 2006 and on a going concern basis. The Directors have reviewed the Company's existing accounting policies and consider that they are consistent with last year.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis.

Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award and recharged to subsidiaries.

Full details of the share-based compensation plans are disclosed in note 26 of the Group financial statements.

(b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. Refer to the Group financial statements note 25 for further details.

(c) Pension arrangement

The Company operates a multi-employer defined benefit pension scheme. The scheme is accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities.

There is no material difference between the FRS 17 (as amended): 'Retirement Benefits' and IAS 19: 'Employee Benefits' valuation. Refer to the Group financial statements note 27 for further details.

As a result of the level of surplus the Company's compulsory contribution to the Babcock International Group Pension Scheme is currently suspended until at least the results of the next formal valuation are available although voluntary contributions have been made (see note 27 of the Group financial statements).

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 profit and loss account immediately.

Financial risk management

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are approved and in the case of interims, when paid.

Cash flow statement and related party disclosure

A cash flow statement has not been prepared by the Company under the terms of FRS 1, available to wholly owned subsidiaries of a company whose consolidated financial statements include a consolidated cash flow statement and are publicly available. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Babcock International Group PLC group.

2. Company profit

The Company has taken advantage of the exemption granted by section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £37.9 million (2013: £147.0 million).

Fees payable to the parent auditors and its associates in respect of the audit of the Company's financial statements was £0.1 million (2013: £0.1 million).

3. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors emoluments, excluding Company pension contributions, were £7.9 million (2012: £6.2 million); these amounts are calculated on a different basis to emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for their services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gains made by directors from the exercise of Long-Term Incentive Plans in 2014 as at the date of exercise was £9.2 million (2013: £nil) and the net aggregate value of assets received by directors in 2014 from Long-Term Incentive Plans as calculated at the date of vesting was £4.9 million (2013:£ 2.7 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

4. Investment in subsidiary undertakings

	2014 £m	2013 £m
At 1 April	2,121.7	1,600.8
Additions	–	520.9
Investments in shares	2,121.7	2,121.7

On 19 November 2012 the Company acquired shares in Babcock (UK) Holdings Limited for £520.9 million.

The Directors believe that the carrying value of the investments is supported by the underlying net assets.

Financials

Notes to the Company financial statements *continued*

5. Tangible fixed assets

	Leasehold property £m
Cost	
At 1 April 2013	0.5
Additions	–
At 31 March 2014	0.5
Accumulated depreciation	
At 1 April 2013	0.5
Charge for the year	–
At 31 March 2014	0.5
Net book value at 31 March 2014	–
Net book value at 31 March 2013	–

6. Debtors

	2014 £m	2013 £m
Non-current debtors		
Amounts owed by subsidiary undertakings	5.7	0.7
Preference shares in a subsidiary undertaking	395.8	444.3
Other debtors	1.8	–
	403.3	445.0
Current debtors		
Amounts owed by subsidiary undertakings	352.5	268.2
Other financial assets	1.6	–
Deferred tax	13.1	9.8
Prepayments and accrued income	0.9	2.7
	368.1	280.7

Of the preference shares in a subsidiary undertaking, the A preference shares of US$150 million mature on 19 March 2018 and carry interest at 4.94%. The B preference shares of US$500 million mature on 17 March 2021 and carry interest at 5.64%. The non-current amount owed by subsidiary undertakings is repayable on demand and is interest free. The current amounts owed by subsidiary undertakings are repayable on demand and are interest free apart from £22.0 million which carries interest at LIBOR +4% and another loan of £5.0 million which carries interest at LIBOR +1%.

7. Creditors

	2014 £m	2013 £m
Amounts due within one year		
Bank loans and overdrafts	57.5	–
Trade creditors	1.6	–
Amounts owed to subsidiary undertakings	905.8	881.5
Other financial liabilities	0.7	–
Accruals and deferred income	13.2	4.2
	978.8	885.7
Amounts due after one year		
Bank loans	620.2	667.3
Other creditors	1.8	–
	622.0	667.3

The Company has £989.9 million (2013: £1,028.1 million) of committed borrowing facilities, of which £616.9 million (2013: £653.1 million) was drawn at the year end. The interest rate applying to bank loans is 1.22% (2013: 1.25%) and is linked to LIBOR whilst the interest rate applying to overdrafts is 1.5% (2013: 1.5%).

The amounts due to subsidiary undertakings are repayable on demand and £760.4 million is interest free. £136.3 million carries interest at LIBOR + 4% and £9.1 million carries interest at LIBOR + 1%.

8. Provisions

	2014 £m	2013 £m
At 1 April	–	–
Charged to the profit and loss account	9.0	–
At 31 March	9.0	–

The provisions relate to costs for the acquisition of Avincis Mission Critical Services.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2013	362,071,802	217.2
Shares issued	2,130	–
At 31 March 2014	362,073,932	217.2
At 1 April 2012	359,146,705	215.5
Shares issued	2,925,097	1.7
At 31 March 2013	362,071,802	217.2

Notes to the Company financial statements *continued*

10. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 1 April 2013	873.0	30.6	204.8
Shares issue in the period	–	–	–
Share-based payments	–	–	12.9
Tax on share-based payments	–	–	3.3
Fair value adjustments to interest rate hedges (net of tax)	–	–	0.3
Retained profit for the year – profit for the year	–	–	37.9
– dividends	–	–	(96.7)
At 31 March 2014	873.0	30.6	162.5
At 1 April 2012	873.0	30.6	131.5
Shares issue in the period	–	–	–
Share-based payments	–	–	4.5
Tax on share-based payments	–	–	6.4
Fair value adjustments to interest rate hedges (net of tax)	–	–	(1.0)
Retained profit for the year – profit for the year	–	–	147.0
– dividends	–	–	(83.6)
At 31 March 2013	873.0	30.6	204.8

11. Operating lease commitments

The Company has an operating lease commitment for land and buildings as at 31 March 2014 with an annual commitment expiring after more than five years of £2.2 million (2013: £2.2 million).

12. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities of £620.8 million (2013: £658.6 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 2014 these amounted to £173.1 million (2013: £163.7 million), of which the Company had counter-indemnified £119.4 million (2013: £89.3 million).

(c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

13. Post balance sheet events

(a) Dividends

The Directors have proposed a final dividend of 16.4p per 60p ordinary share (2013: 14.4p per 60p ordinary share as adjusted for the rights issue) and it will be paid on 12 August 2014 to shareholders registered on 4 July 2014. Subject to approval at the Annual General Meeting on 21 July 2014.

(b) Acquisition of Avincis Mission Critical Services

The Company completed the acquisition of Avincis Mission Critical Services on 16 May 2014. A rights issue was completed prior to the acquisition completing.

Shareholder information

Financial calendar

Financial year end	31 March 2014
2013/14 preliminary results announced	19 May 2014
Annual General Meeting	21 July 2014
Final dividend payment date (record date 4 July 2014)*	12 August 2014

* See also 'Results and dividends' on page 117.

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Company number 2342138

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Shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc., should be addressed to Capita Asset Services at their address given above.

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Share dealing services

Capita Asset Services provide Babcock shareholders with a quick and easy way to buy or sell Babcock International Group PLC ordinary shares. Commission starts from £21 if you deal online and £28.50 if you deal by phone.

In addition, stamp duty, currently 0.5%, is payable on purchases.

The commission amounts are correct at the time of printing and may be subject to change. Please visit www.capitadeal.com for the current costs.

The maximum deal size for online trades is £25,000. Deals over this amount can be done over the telephone and rates will be advised at the time of dealing.

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 a maximum of 90 business 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 0364 (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 Asset Services is a trading name of Capita IRG Trustees Limited, which is authorised and regulated by the Financial Conduct 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 Asset Services. 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

	2014 £m	2013 (restated) £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m
Continuing revenue	3,321.0	3,029.4	2,848.4	2,564.5	1,895.5
Operating profit from continuing operations	233.1	203.5	175.6	136.2	142.2
Share of profit/(loss) from joint ventures	20.9	18.0	4.3	6.1	(0.5)
Profit before interest from continuing operations	254.0	221.5	179.9	142.3	141.7
Net interest and similar charges	(35.2)	(39.7)	(45.9)	(66.0)	(14.8)
Profit before taxation from continuing operations	218.8	181.8	134.0	76.3	126.9
Income tax expense	(30.8)	(18.0)	(5.7)	(0.4)	(20.2)
Profit from continuing operations	188.0	163.8	128.3	75.9	106.7
Discontinued operations	–	(15.2)	(53.1)	3.7	–
Profit for the year	188.0	148.6	75.2	79.6	106.7
Non-controlling interest	(7.5)	(5.9)	(3.3)	(3.6)	(2.4)
Profit attributable to owners of parent	180.5	142.7	71.9	76.0	104.3
Non-current assets	2,323.9	2,302.1	2,232.5	2,447.6	877.4
Net current liabilities	(246.6)	(240.9)	(153.0)	(219.5)	(88.9)
Non-current liabilities	(1,051.2)	(1,092.3)	(1,159.5)	(1,207.5)	(702.7)
Total net assets	1,026.1	968.9	920.0	1,020.6	85.8
Equity holders of the parent	1,004.4	947.1	911.4	1,011.7	80.6
Non-controlling interest	21.7	21.8	8.6	8.9	5.2
Total equity	1026.1	968.9	920.0	1,020.6	85.8
Total earnings per share – basic	50.1p	39.7p	20.1p	23.5p	45.6p
Dividend per share (proposed)	21.4p	19.0p	16.4p	14.0p	12.7p

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