

## Governance statement

### Babcock and Good Governance

*“Good governance is not just a matter of having policies and procedures or ticking boxes: it must be part of our culture, the way we go about things – almost without having to think about it. I and my colleagues on the Board are committed to this culture for Babcock in the interests of our customers, our employees and our shareholders. The pages that follow describe the arrangements that we use to underpin this objective and comply with formal governance codes, but good governance is an ethos, an attitude, an approach – often more implicit than explicit.”*

Mike Turner CBE  
Chairman

**The reports of the Nominations, Audit and Risk and Remuneration Committees and the information contained or referred to in the section “Other statutory and regulatory information and Directors’ responsibility statement” on pages 54 to 63 form part of our Governance statement.**

### Governance focus in the year to 31 March 2011

The table on page 50 summarises what the Board did this year. Inevitably, much of the Board’s governance focus this year has been on the VT acquisition, its integration and the delivery of synergy benefits. Other matters accorded high governance priority included:

- business and management restructuring;
- succession planning;
- management resources;
- refinancing;
- IT transformation plans;
- strategy;
- the impact of government spending plans and strategic reviews.

### Expected areas of focus in the year to 31 March 2012

In the financial year that started on 1 April 2011, the Board will continue to focus its attention on the same priorities as mentioned above, but will be paying particular attention to:

- strategic development;
- the challenge of increasing the rate of profitable revenue growth.

### Risk: the Board’s responsibility

The Board acknowledges its overall responsibility for the Group’s system of internal controls and for monitoring its effectiveness. More information on how this responsibility is discharged is to be found on pages 43 to 45 of this Annual Report.

### Combined Code compliance

The principal governance rules applying to UK companies listed on the London Stock Exchange are now contained in The UK Corporate Governance Code (‘the Governance Code’) issued by the Financial Reporting Council (‘the FRC’) in June 2010, but they apply for financial years commencing on or after 29 June 2010. For financial years commencing prior to that date (which is the case for the Company’s financial year covered by this Annual Report) the principal governance rules were those in the FRC’s Combined Code on Corporate Governance (‘the Combined Code’). See [www.frc.org.uk/corporate](http://www.frc.org.uk/corporate).

Except as noted below under the description of Board balance, the Board considers that the Company complied with the provisions of section 1 of the Combined Code during the year under review. It intends that for the financial year commenced on 1 April 2011 the Company will comply with the provisions of the Governance Code and considers that it has been doing so since that date so far as applicable.

### The Board and its Committees

The Board 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 Annual Report.

### Reserved matters and delegation

The Board delegates some of its powers to committees and certain Directors. Matters reserved to the Board include:

- strategy;
- budget approval and monitoring of performance;
- acquisitions and disposals;
- approving significant contracts outside the ordinary course of business;
- treasury and borrowing policy; and
- ethical, social, health, safety, environmental and governance policy.

Committee terms of reference and other delegated authorities are formalised and periodically reviewed.

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. This was the case, for example, in the past year when special committees were established in connection with the acquisition of VT Group plc and the refinancing of part of the Company’s borrowing facilities.

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

## Governance statement continued

### Matters dealt with by the Board in the year to 31 March 2011 (in addition to ongoing monitoring of operational and financial performance and matters delegated to the Audit and Risk, Remuneration and Nominations Committees) included:

Topic	Areas of focus
Health, safety and environmental performance	Discussion of half-yearly reports. The Chief Executive also informs the Board at its monthly meetings of any areas of management concern or attention and plans for ongoing improvement. Monthly operating reports seen by the Board also contain commentary as to incidents and performance.
VT acquisition (The acquisition and its terms were announced in March 2010, i.e. in the preceding financial year)	Preparations for the speedy and efficient implementation and integration of the acquisition from 'day one'. Management and business restructurings following the acquisition. Risk mitigation in the integration process. Plans to secure the synergy and other opportunities presented by the acquisition, and monitoring their progress.
The impact of the UK Government's Strategic and Defence Review ('SDSR') and the Comprehensive Spending Review ('CSR')	The Board was kept abreast of and considered the implications of these reviews for the Company.
Strategy	Reviewing and updating the Group's long-term strategic plans following the VT acquisition, the SDSR and CSR.
Order book and pipeline	Monthly reports of the development of the Group's order book and pipeline and the outlook for them.
Business presentations	Presentations from the heads of the new Defence and Security division and VT US on their businesses, management and strategic plans. Presentation on the RSME contract operations.
Succession planning	Presentation on the Group's succession plans for senior management following the VT acquisition.
Management and talent development	The Board was updated on the many initiatives underway further to improve management training and development and the recruitment and development of graduates and apprentices.
Pension schemes	Regular reports on the position as regards the Group's defined benefit schemes, their impact on the Group and plans to manage the risks presented by them.
Insurance	The Company's strategic approach to insurance in the context of risk mitigation.
Financing	The Company's financing needs for the VT acquisition and general business operations; options for and the terms of refinancing were reviewed and approved, with a special committee being established to oversee this.
IT	The Board received presentations on the adequacy and integration of the Group's IT systems in light of the enlarged size and scale of operations of the Group following the VT acquisition and on a major programme to transform them.
Bribery Act	The Board was kept informed of developments and plans for adequate procedures to meet the Act's requirements.
Board, Committee and Director annual evaluation	The Board considered and debated the results of the evaluation reviews.
Tax	The Board discussed the Group's approach to tax planning.
Budgets	The Board reviewed the 2010/11 budget following the VT acquisition and reviewed and approved the budgets for 2011/12 and succeeding years.
Delegated authorities	The Board reviewed these in light of the enlarged Group and changed business and management structures following the VT acquisition.

### *Board effectiveness and skills*

The Board fully understands and accepts its responsibility for the success of the Company.

It considers that the Company's successful track record to date supports its view that it is effective in the discharge of its duties and responsibilities and that, as can be seen from the Director biographies on pages 46 and 47, it has a balance of skills, understanding and experience directly relevant to the Group's principal customers and businesses and the political and commercial worlds in which the Group operates. The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities.

The Board believes that the recent appointment of Ian Duncan and the pending appointment of Kate Swann as new Non-Executive Directors, with effect from 10 November 2010 and 1 June 2011 respectively, add to the breadth and diversity of its outlook and the commercial and operational experience and expertise available to it.

### *Balance between Independents and Non-Independents*

The Combined Code and the Governance Code recommend that there should be a balance between Executive and Non-Executive Directors (particularly Independent Directors) and that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be Independent.

The Company was, for a time, not compliant with the Combined Code in this respect. On 1 May 2010, Archie Bethel and Kevin Thomas were appointed as Executive Directors to the Board. As a result, the Board then consisted, disregarding the Chairman, of five Non-Independent Directors (four Executive Directors and Lord Hesketh) and four Independent Non-Executives, leaving the Independent Directors in a minority. On 8 November 2010, Lord Hesketh resigned as a Director. On 10 November 2010, Ian Duncan became a new Independent Non-Executive Director.

Since 10 November 2010, the Board has been in compliance with the Combined Code and the Governance Code, in having five Independent Non-Executive Directors, four Executive Directors and the Chairman.

On 13 June 2011, John Rennocks will have been on the Board for nine years. The Board nonetheless considers that, having announced his decision to retire on 31 December 2011, his independence is not affected for the short period between June and his retirement date and he will continue as a member of the Remuneration, Nominations and Audit and Risk Committees and as Senior Independent Director until he retires at the end of December. He will, however, step down from his position as Chairman of the Audit and Risk Committee at the time of the Company's Annual General Meeting in July when he will be replaced in that role by Ian Duncan.

### *Refreshing of the Board*

Since 1 April 2011 and over the last three financial years, the following changes have been made or, in the case of the current year, announced.

Year	Board changes
2011/2012	Appointment of new Independent Non-Executive Director; Intended retirement of Senior Independent Non-Executive Director; Change of Chairman of the Audit and Risk Committee.
2010/2011	Resignation of Deputy Chairman; Appointment of new Independent Non-Executive Director; Appointment of two new Executive Directors.
2009/2010	Retirement of Non-Executive Director; Appointment of new Independent Non-Executive Director.
2008/2009	Retirement of the Chairman; Appointment of a new Chairman; Appointment of new Independent Non-Executive Director; Change of Chairman of the Remuneration Committee.

### **Chairman and Chief Executive functions**

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

### **Senior Independent Director**

John Rennocks is, and was throughout the year, recognised by the Board as the Senior Independent Director to whom concerns can be conveyed by shareholders if they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive or Finance Director. The Chairman looks to him as a sounding board and he is available as an intermediary between the other Directors and the Chairman.

### **Group Executive Committee**

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

## Governance statement continued

### Board proceedings

#### *General*

The Board has at least ten scheduled meetings a year. Additional meetings to address specific matters are held as necessary; for example, in connection with major acquisitions.

The Chairman also discusses matters with Non-Executive Directors without Executive Directors or other managers present.

In addition to its regular meetings, the Board has at least one special meeting each financial year to discuss Group strategy at length.

Debate and discussion at Board and committee meetings is open, challenging and constructive. Directors regularly receive presentations by functional and operational senior managers.

In the Board and Committee evaluation reviews, the Directors confirmed that they were satisfied with the timing and quality of the information provided.

### Board appointments – the process

Appointments to the Board are led by the Nominations Committee. It decides upon the desired candidate profile for the post in question and this frames the search for candidates with the objective of ensuring that there is the requisite balance of skills, independence and knowledge amongst Board members.

The process for the appointment of Ian Duncan and Kate Swann as Non-Executive Directors was conducted with the help of independent external search consultants, as is the Board's normal practice when seeking new Non-Executive Directors. The promotion of Archie Bethel and Kevin Thomas to the Board as Executive Directors was discussed and approved by the whole Board.

### Annual re-election of Directors

Directors are normally reappointed at the first Annual General Meeting following their appointment by the Board and the Company's Articles of Association require them subsequently to offer themselves for reappointment at least every three years. However, in accordance with the recommendations of the Governance Code, the entire Board will be submitting itself for re-election at this year's Annual General Meeting and plans to do so in future years.

Non-Executive Directors are normally expected to serve, subject to re-election, a term of at least three years but their terms of appointment allow for either the Company or the Director to terminate the appointment at any time.

### 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. The last external review was completed towards the end of financial year 2009/10. An internal review was carried out in November/December 2010 by the Company Secretary by means of confidential one-on-one interviews with each Board member. A summary of these interviews and the findings were then presented to the Chairman and subsequently to the whole Board at a meeting at which the findings were discussed. The evaluation found all Directors to be performing satisfactorily and that the Board and its Committees were functioning well and effectively.

### Information and training for Directors

The Company makes arrangements for new Non-Executive Directors to receive detailed business briefings as regards the Group's operations and arranges induction visits for them to the Group's principal sites. Ian Duncan has since his appointment in November 2010 visited the Group's Marine and Technology operations in Bristol and Devonport, Support Services Education and Training operations in Berkshire and Defence and Security's Royal School of Military Engineering contract at Chatham. He will be making more visits in the current year, as will Kate Swann.

Training for new Directors, when appropriate, is arranged with external providers. General Director training that might be of potential interest or relevance to Directors generally can be arranged on request, for which the Company pays if necessary. 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. The Board held its June 2010 meeting at Chatham and will be holding its October 2011 meeting at Rosyth. 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.

### Change in Chairman's significant external commitments

During the year there were no changes to Mike Turner's significant external commitments. The Board is satisfied that his external commitments have no impact on the discharge of his responsibilities to the Company.

### Relations with shareholders

The Board is keenly aware of the importance of there being a dialogue with shareholders to ensure that the Board keeps abreast of and understands shareholders' views and opinions.

It achieves this in a variety of ways:

- the Chief Executive, Group Finance Director and Head of Investor Relations regularly meet institutional shareholders, potential investors and analysts either individually or as part of group meetings;
- communication with major shareholders on specific matters such as executive remuneration, where appropriate;
- there are presentations to or conference calls with analysts and investors at the time of announcement of results or major news;
- to provide more detailed knowledge of the Group, the Company arranges seminars, investor and analyst visits to Company sites or contract operations;
- investor relations reports describing investor and analyst opinions are provided regularly to the Board;
- the Chairman, in addition to any meetings initiated by major shareholders, sends leading shareholders an annual invitation to meet him, should they wish to do so, to discuss any matter. He reports on the meetings to the Board;
- at the Annual General Meeting, shareholders have the opportunity to raise questions with the Board in the meeting. All the Company's Directors in office at the time attended the 2010 Annual General Meeting;
- Directors also make themselves available before and after the formal general meeting to talk informally to shareholders, should they wish to do so;
- the Company's website keeps shareholders abreast of developments. It is regularly updated with press releases and analyst presentations. Shareholders may register on the website to be sent news releases automatically.

### In the year to 31 March 2011 formal contacts\* with shareholders, potential investors and analysts

Contacts with shareholders, investors and analysts	When
Letter from the Group Chairman and Remuneration Committee Chairman to leading shareholders (and follow-up meetings if requested) on proposals for CEO remuneration	May/June 2010
Letter from the Chairman to leading shareholders inviting them to meet him, should they wish to do so, and subsequent meetings	July 2010
21 meetings with analysts	Throughout
139 meetings with shareholders	November and May 2010
Roadshow in the USA	June 2010 and March 2011
Presentations to investors from divisional CEOs	December 2010 and March 2011
Results presentations and conference calls	May, September and November 2010, January and March 2011
Annual General Meeting	July 2010
Extraordinary general meeting (VT acquisition)	June 2010

\* In addition to regular contact on a daily basis with analysts and shareholders responding to questions and requests for information.

## Report of the Nominations Committee

### Committee Membership

Current membership of the Committee, and its membership during the year to 31 March 2011, is shown in the table on page 48 of this Annual Report. The Company Secretary is secretary to the Committee. Kate Swann will join the Committee when she takes up office as a Non-Executive Director on 1 June 2011.

The Committee is chaired by the Group Chairman and is open to all the Non-Executive Directors, provided that, when it meets, the majority of its members are Independent Non-Executive Directors. Other Directors are free to attend meetings of the Committee, if appropriate.

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

The Committee's terms of reference (which are available to view on the Company's website) include:

- evaluating the Board's structure and the balance of skills, knowledge and experience needed on the Board and the benefits of diversity;
- considering succession planning taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future; and
- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies.

### What it did during the year

During the year, the members of the Committee addressed the following matters:

- the desirability of additional Executive Directors being appointed to the Board, leading to the appointment of Kevin Thomas and Archie Bethel as Executive Directors;
- considering and approving plans for the Company's management continuity and succession needs at Executive Director and senior executive level in light of the VT acquisition and the Group's strategic plans, involving:
  - discussion with the Chief Executive of succession plans for his position;
  - discussion of senior executive training and development arrangements and management resourcing needs;
- identifying current and future requirements and agreeing the desired candidate profiles for new Independent Non-Executive Directors having in mind:
  - the desired balance between Independent Non-Executive Directors and other Directors;
  - the length of service of existing Non-Executive Directors;
  - the benefits of gender diversity;
  - the increased size and scope of operations following the VT acquisition;

which, so far, has led to the appointment of:

- Ian Duncan as a Non-Executive Director with the necessary financial experience to succeed John Rennocks as Chairman of the Audit and Risk Committee and senior executive management experience in the worldwide civil nuclear industry; and
- Kate Swann as a Non-Executive Director, the first woman to serve on the Babcock Board and with extensive operational and commercial experience in the private sector.

In recruiting Ian Duncan and Kate Swann, the Nominations Committee used independent search firms and consultants.

**Mike Turner CBE**

Committee Chairman

16 May 2011

## Report of the Audit and Risk Committee

*"I am pleased to present the report of the Audit and Risk Committee for the year. I would like to thank Committee members, the executive management team and our auditors, both internal and external, for the open and honest discussions that take place at our meetings and the importance they all attach to its work. I shall be standing down as Committee Chairman in July and am sure that the new Chairman, Ian Duncan, will continue to enjoy this support in the years ahead."*

**John Rennocks**  
Committee Chairman

### Committee's role

The table on page 56 describes what the Committee does. Its formal terms of reference are available on the Company's website at [www.babcock.co.uk](http://www.babcock.co.uk)

### Committee membership

Current membership of the Committee, and its membership during the year to 31 March 2011, is shown in the table on page 48 of this Annual Report. The Company Secretary is secretary to the Committee. Kate Swann will join the Committee when she takes up office as a Non-Executive Director on 1 June 2011.

### Chairman

John Rennocks acted as Committee Chairman throughout the financial year and will continue to do so until 7 July 2011 when his role as Chairman will be taken over by Ian Duncan.

John Rennocks is a former Finance Director of Corus Group PLC and sits or has sat on several other audit committees. Ian Duncan was until June 2010 Finance Director of Royal Mail Holdings PLC. He is a Chartered Accountant and his former roles have included the position of Corporate Finance Director at British Nuclear Fuels and Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA. Both John Rennocks and Ian Duncan are considered by the Board to have the necessary recent and relevant financial experience for the role of Committee Chairman.

### Who attends its meetings?

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

The Group Risk Manager attends Committee meetings for discussion of Group risk reports and related items.

Ernst & Young LLP provides internal audit services to the Company. PricewaterhouseCoopers LLP is the Group's external auditor.

Both auditors usually attend all or part of the Committee's meetings.

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

### Auditors' independence

PricewaterhouseCoopers LLP (PwC) has been the Company's external auditor since 2002, and Ernst & Young LLP have provided the internal audit service since 2003. The Committee continues to be satisfied with the performance and independence of both auditors.

PwC partners overseeing the Group and divisional level audits are changed at regular intervals.

Fees are re-evaluated periodically and following significant changes to the Group's size or structure.

There are no contractual obligations that restrict the Company's choice of auditors.

### Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the internal and external auditors for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. If their use would lead to non-audit fees in the year exceeding 20% of their audit fee, the Committee Chairman's approval is required. They are used for non-audit services only if it is in the Company's interest to do so. For example, it was entirely appropriate and in the Company's interest for the Company to retain PwC in connection with the preparation and/or review of the public documents required for the VT Group acquisition, including a review of the Directors' working capital and going concern statements made in connection with the transaction, the investigation and evaluation of the accounting policies and practices of VT and their reconciliation with those of the Group. This inevitably resulted in a significant level of non-audit fees paid to PwC in the year.

### What the Committee did in the year

The Committee met formally four times in the year to 31 March 2011 and, on behalf of the Board, addressed the following principal topics:

## Report of the Audit and Risk Committee continued

### Matters considered by the Committee in the year to 31 March 2011

Topic	Action
Financial results	<p>The Committee reviewed full and half year financial statements and related results announcements, having received reports from external auditors. Those reports drew attention to material matters that require the exercise of a significant element of management judgement and commented on the approach being taken by management and possible alternatives. These matters were discussed with management in the presence of the auditors before the Committee reached a view on the matters concerned.</p> <p>The Chairman also met the auditors before significant Audit Committee meetings to hear their views in the absence of management.</p>
Internal controls	<p>The Committee reviewed the Company's system of internal controls (described on pages 43 to 45) and their effectiveness. A particular area of focus in the year was on management plans for the early integration of the VT Group businesses into the internal controls system of Babcock International Group.</p>
Fraud	<p>The Group Financial Controller reported to each meeting on fraud risk, covering any suspected incidents of fraud, their investigation and remedial or preventive action.</p>
Audit plans	<p>The Committee reviewed and approved internal and external audit plans for the year or particular audits, and requested modifications (to areas of focus or the timing of audit visits) in light of the acquisition of VT Group and the start-up of significant new contract operations.</p>
Internal audit	<p>Each meeting considered an internal audit report 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 controls performance of business units over time and how quickly any matters are addressed.</p>
Risk	<p>The Committee received regular detailed reports identifying areas of risk at business unit, divisional and Group level. The reports assess and prioritise potential impact, describe the risk mitigation steps in place and the pre- and post-mitigation assessment. The reports also contain a summary of key risks for the Group, tracking how those issues change over time. See pages 39 to 42 for the risks currently regarded by the Board as key risks.</p>
Whistleblowing	<p>The Committee received regular reports of calls to the external independent whistleblowing service and how they have been investigated and dealt with; it keeps the effectiveness of the arrangements under review.</p>
Audit fees; fees for non-audit services; auditor independence	<p>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.</p>

## Other statutory and regulatory information, including Directors' responsibility statement

### Principal activities

The Company is the holding company for the Babcock International Group of companies whose principal activities are described in the Business review on pages 24 to 33 of this report.

### Directors

Biographies of the current Directors of the Company are to be found on pages 46 and 47.

The table on page 48 shows the Directors who served in the year to 31 March 2011.

### Reappointment of Directors at the 2011 Annual General Meeting

Directors are required by the Company's Articles of Association to submit themselves for reappointment by shareholders at the first Annual General Meeting following their appointment by the Board and at least every three years thereafter. However, in accordance with recommendations in the UK Corporate Governance Code, each of the Directors in office will stand for re-election at this year's Annual General Meeting. Executive Directors are entitled to not less than 12 months' notice of termination of their service agreements. Non-Executive Directors, including the Chairman, have letters of appointment which can be terminated at will.

### 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.

### Annual General Meeting

This year's Annual General Meeting will be held at Grosvenor House, A JW Marriott Hotel, Park Lane, London W1K 7TN on Thursday, 7 July 2011, at 11 am. The notice of meeting with an explanation of the business to be conducted at it is being sent separately to shareholders (or made available to view online at [www.babcock.co.uk](http://www.babcock.co.uk) for those who have elected or who are deemed to have elected simply to receive notices of availability of documents).

### Results and dividends

The profit attributable to the owners of the parent for the financial year was £101.1 million (2010: £106.0 million). An interim dividend of 5.20p per 60p ordinary share was declared in the year (2010: 4.80p). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 14.20p on each of the ordinary shares of 60p to be paid on 9 August 2011 to those shareholders on the register at the close of business on 8 July 2011. Last year, in lieu of a final dividend, a second interim dividend of 12.80p per share was paid for the year to 31 March 2010.

### Significant shareholdings

As at 12 May 2011, 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	%
Standard Life Investment Limited	21,619,857	6.03
Cantillon Capital Management LLC	18,094,818	5.04
FMR LLC	17,995,103	5.01
BlackRock, Inc.	17,969,006	5.01
Ignis Investment Services Limited	14,059,461	3.92
Deutsche Bank AG	12,809,023	3.57
Legal & General Group Plc	11,471,276	3.20
Schroders plc	11,400,758	3.17
JPMorgan Chase & Co	11,376,214	3.17

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

### Employee share schemes and plans:

The table below summarises share-based plans in existence at the date of this Report that have outstanding awards.

Name of Plan	Who it covers	Performance-related?	Summary description	Outstanding awards (vested)	Source of shares
The Approved Employee Share Ownership Plan	Open to all UK employees (including Executive Directors) who meet necessary service criteria	No	Employees can buy Company shares (partnership shares) in the market out of pre-tax income.  The Plan allows for the Company to award free and/or matching shares to participants, though the Company has not yet done so. Shares are bought on behalf of the employee via a tax-approved employee trust which holds them on behalf of the individual participants. The shares must generally be kept in trust for at least three years to obtain any tax advantages, and for five years to obtain maximum tax advantages.	Not applicable	Purchased in the market
The 2009 Performance Share Plan ('the PSP')	Executive Directors and other employees as selected by the Remuneration Committee	Yes	Nil price options to acquire shares, subject to achievement of performance targets measured over a three-year period.	3,002,849 (None vested)	Intention is to purchase in the market, but can be fresh issue
The Company Share Option Plan ('the CSOP')	Executive Directors and other employees (in the UK) as selected by the Remuneration Committee	Yes	HM Revenue and Customs approved performance-linked share awards in the form of options to acquire shares in the Company at their market price at the time of the award.	424,099 (None vested)	Intention is to purchase in the market, but can be fresh issue
The Babcock 2003 Long-Term Incentive Plan ('the L-TIP')	Executive Directors and other employees as selected by the Remuneration Committee	Yes	This Plan was used from 2003 to 2008 to make performance-linked share awards to the Executive Directors and senior employees in the form of options granted at a nominal or nil price.	424,458 (146,862 vested)	Intention is to purchase in the market, but can be fresh issue
Deferred Bonus Plan ('the DBP')	Executive Directors and other senior executives whose annual bonus plans require a proportion of the bonus earned to be deferred into Company shares	No	A mechanism for implementing the mandatory deferral of part of annual bonuses. An award under the plan is structured in the form of a nil cost option to acquire that number of shares in the Company that has a market value on the date of the award equivalent to the amount of bonus deferred. The award may normally only be exercised by the Executive after two years if he is still an employee. No additional or matching shares can be earned.	239,908 (None vested)	Purchased in the market
The Babcock 1999 Approved Executive Share Option Scheme	UK employees (including Executive Directors) 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.	103,575 (All vested)	Purchased in the market and fresh issue

## Employee share schemes and plans – continued

Name of Plan	Who it covers	Performance-related?	Summary description	Outstanding awards (vested)	Source of shares
Babcock 1999 Unapproved Executive Share Option Scheme	Executive Directors and other employees as 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.	421,115 (All vested)	Purchased in the market and fresh issue
VT US Sharesave Scheme	Employees of VT Group Inc	No	The scheme allows employees to save monthly amounts to be applied, at the employee's election, to the exercise of options to acquire shares at the market price at the date of grant. The outstanding options are to acquire shares in the former VT Group plc which, following the Scheme of Arrangement in connection with its acquisition by the Company in 2010, are now effectively options to acquire shares in the Company. Although savings can continue to be made, the amount capable of being applied to exercise of the option is fixed at the amount saved at the date of the acquisition of VT.	20,704 (All vested)	Fresh issue

Further information relating to awards under the LTIP, PSP, CSOP, DBP and the 1999 Schemes can be found in the Remuneration report on pages 75 to 77.

Shares intended to be used to satisfy existing share awards and options granted under the PSP, CSOP, L-TIP, 1999 Schemes and the DBP are held by the trustees of the Babcock Employee Share Trust and the Peterhouse Employee Share Trust. The trustees of these Schemes do not intend to exercise the voting rights attached to the shares held by them. As at 16 May 2011, the total number of ordinary shares in the trusts was 776,053, which represented 0.22% 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 24 on pages 112 and 113.

### Authority to purchase own shares

At the Annual General Meeting in July 2010, members authorised the Company to make market purchases of up to 35,870,029 of its own ordinary shares of 60p each. That authority expires at the forthcoming Annual General Meeting in July 2011 when a resolution will be put to renew it so as to allow purchases of up to a maximum of 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 8 July 2010 (the date the current authority was granted) to the date of this Report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made in the year to 31 March 2011, or since then to the date of this Report, by the Babcock Employee Share Trust and the Peterhouse Employee Share Trust are to be found in note 24 on pages 112 and 113.

### Research and development

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

### Charitable and political donations

During the year the Group donated £236,000 (2010: £197,000) to charitable organisations. Donations were typically of relatively small individual amounts made to a range of local and national charitable organisations or events, for example: schools and other educational or training institutions or charities; hospital, hospice or medical charities; charities helping serving and/or former servicemen and women; sporting events or charities; and charities intended to benefit children and young adults. No donations were made during the year for political purposes.

### Supplier payments

The Group's policy is to pay suppliers in accordance with practices or arrangements agreed with them. The Company itself had £113,000 in trade creditors at 31 March 2011 (representing 31 creditor days) and £87,000 in trade creditors at 31 March 2010 (representing 32 creditor days).

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

### Qualifying third-party indemnity provisions

Under their respective Articles of Association, the Directors of the Company and of Group subsidiary companies are, and were during the year to 31 March 2011, entitled to be indemnified by, respectively, the Company and those UK subsidiaries of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006. There are also qualifying third-party indemnity provisions entered into between the Company and Archie Bethel and Kevin Thomas in their capacity as Directors of International Nuclear Solutions PLC (a subsidiary of the Company) 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. The following agreements are those agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control following a takeover bid.

#### Marine

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

Under the Partnering Agreement (as subsequently amended), Babcock Marine (Clyde) Limited provides services to the Ministry of Defence ('MoD') in relation to the operation of HM Naval Base Clyde. In 2005, the period of the Agreement was extended and it will now expire in 2013.

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

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

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

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

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

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

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

## Group

### *Borrowing facilities*

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

The facility was originally established in part to fund the acquisition of Devonport Management Limited in 2007 and in part to provide funds for general corporate purposes. The facility agreement provides that in the event of a change of control of the Company, the lenders may, within a certain period, call for the prepayment of any outstanding loans and cancel the credit facility.

### *Multi-Currency Loan Notes*

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

### *US Dollar Loan Notes*

On 17 March 2011, the Company issued to 21 financial institutions (i) US\$ 150,000,000 aggregate principal amount of 4.94% Series A Senior Notes due 17 March 2018 and (ii) US\$500,000,000 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 79. 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 Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

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

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

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

At the date of this report 358,838,092 ordinary shares of 60p each have been issued and are fully paid up and are quoted on the London Stock Exchange.

### Appointment and powers of Directors

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

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

### Articles of Association

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

### Directors' duty to avoid conflicts of interest

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

The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any actual or potential conflict of interest with their duties to the Company or of any material change in existing actual or potential conflicts that may have been authorised by the Board. Notified actual or potential conflicts will be reviewed by the Board as soon as possible.

The Board will consider whether a conflict or potential conflict does, in fact, exist and, if so, whether it is in the interest of the Company that it be authorised and, if so, on what terms. In making their judgement on this, the other Directors must have regard to their general duties to the Company. A register is maintained for the Board of all such disclosures and the terms of any such authorisation. Authorisations may be revoked, or the terms on which they were given varied, at any time. Cleared conflicts will in any event be reviewed annually by the Board. In the event of any actual conflict arising in respect of any matter, mitigating action would also be considered (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him of relevant papers).

### Going concern basis

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

### Internal controls

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 March 2011 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review, and data for consolidation into the Group's financial statements are reviewed by management to ensure that they reflect a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Board considers the system to be effective and in accordance with Internal Controls: Guidance for Directors on the Combined Code ('the Turnbull Guidance'). Further information on the principal internal controls in use in the Company is to be found on pages 43 to 45.

### Auditors

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

### Disclosure of relevant audit information

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

### Approval of report

The Directors' report for the year ended 31 March 2011, from pages 1 to 63 of this Annual Report document, has been approved by the Board of Directors on 16 May 2011 and signed on its behalf by:

**Albert Dungate**  
Company Secretary  
16 May 2011

### 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 knowledge:

- the Group financial statements (set out on pages 82 to 124) which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and
- the Business review contained on pages 2 to 45 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.

<a href="#">Mike Turner</a>	Chairman
<a href="#">Peter Rogers</a>	Chief Executive
<a href="#">Bill Tame</a>	Group Finance Director
<a href="#">Archie Bethel</a>	CEO, Marine and Technology
<a href="#">Kevin Thomas</a>	CEO, Support Services
<a href="#">John Rennocks</a>	Non-Executive Director
<a href="#">Sir Nigel Essenhigh</a>	Non-Executive Director
<a href="#">Justin Crookenden</a>	Non-Executive Director
<a href="#">Sir David Omand</a>	Non-Executive Director
<a href="#">Ian Duncan</a>	Non-Executive Director

On behalf of the Board

[Mike Turner CBE](#)  
Chairman

16 May 2011

## Remuneration report

### Introduction by the Chairman of the Committee

*"I am pleased to present the Directors' Remuneration report for the year to 31 March 2011.*

*The Remuneration Committee believes that over recent years it has met the policy objective approved by shareholders of providing executive remuneration arrangements that are fair and allow for upper quartile rewards for upper quartile performance, that align Directors' and shareholders' interests and that take proper account of risk. We believe that, consistent with this policy, the rewards earned by executives to date have been justified by the Company's performance. Despite the tough challenges faced by many companies over the last three years, Babcock has continued its strong financial performance, growing its EPS by over 60% over this period and regularly delivering top quartile TSR performance.*

*The Remuneration Committee has devoted considerable time and thought over the past two years to the question of how best to ensure that the remuneration packages for your Executive Directors continue to be capable of meeting this approved policy objective against a rapidly changing background of the recent financial and economic crises and at a time of major change for the Company itself, following the acquisition last summer of VT Group and the consequent challenges that this brings for the management team to deliver the benefits of that transaction.*

*We now feel that it is increasingly difficult for the remuneration packages, looked at in comparison to peers outside the Company, to be able to meet our objective of being capable of delivering upper quartile reward for upper quartile performance; this is unlikely to be in the long-term interests of shareholders. Nonetheless, we recognise the constraints within which the Company must operate.*

*I hope that this Report will explain this issue and show how we are trying to address it in a manner that seeks to be fair to both our management team and to shareholders."*

Justin Crookenden  
Committee Chairman

### Overview

#### *Our remuneration policy*

The table on pages 65 to 67 summarises our policy for remunerating Executive Directors, how we seek to apply it, whether we think we are succeeding in delivering it and any issues that arise in that respect. It also explains arrangements for the financial year 2011/12, which started on 1 April 2011. It should be read in conjunction with the other parts of this Report which give further details on various aspects of the remuneration packages.

### The Committee

#### *Members*

Details of Committee members who served at any time during the year, and their attendance at Committee meetings, are shown in the table on page 48. All members were and remain independent Non-Executive Directors. Kate Swann will join the Committee when she takes up office as a Non-Executive Director on 1 June 2011.

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

#### *Advisers*

Kepler Associates ('Kepler') were appointed by the Committee in late 2008 to provide it with independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. They report directly to the Committee Chairman. A representative from Kepler typically attends Committee meetings. Kepler provides no other services to the Company.

#### *How often it meets*

Reflecting the increasing complexity of issues around executive remuneration generally and the Board's determination to give thorough consideration to all aspects of Director remuneration in our rapidly growing Company, the Committee significantly increased the number of meetings it held this year. In total there were nine meetings.

### Principal areas of focus for the Committee during the year to 31 March 2011

The year was, of course, dominated by the impact of the VT acquisition, which was announced in March 2010 and completed in July.

Inevitably, the acquisition had direct and immediate implications for the work of the Committee.

#### *Revising annual bonus plans and increased share award for the Chief Executive*

The annual bonus plans for 2010/11 had initially been set on the basis of Babcock continuing on an 'as is' basis. The substantial in-year impact of the VT acquisition and accompanying Group restructuring would, however, have made year-on-year comparison difficult and was bound to have a distorting effect on actual performance measurement. The Committee, therefore, devoted much time and attention to considering this and formulating appropriate proposals that maintained a fair test of executive performance.

Details of the structure of the annual bonus schemes for 2010/11 (and also for 2011/12) are set out on pages 69 and 70 below.

Apart from the immediate in-year impact of the VT acquisition on annual bonus plans, it was clear that the main strategic priority for the Group, in the medium to longer term, had become the securing of the anticipated benefits of the acquisition and the challenge of finding ongoing profitable revenue growth. During the year, the Committee consulted with its major shareholders on changes to remuneration arrangements that support these objectives. The Committee decided not to make any changes to base salaries, bonus potential or share plans during the year, but instead, in the case of the Chief Executive, to make use of the existing Performance Share Plan (PSP) to make an additional award in recognition of the exceptional management challenge he now faces over the next few years following the VT acquisition. More information on this additional award can be found on page 73.

The Committee felt it was appropriate that these issues should be looked at again when considering arrangements for 2011/12 and has, as explained in the policy table, decided to repeat this additional PSP award for the Chief Executive; to move towards realignment of base salaries closer to market for the Executive Directors over the next few years; and to make a modest increase in annual bonus potential for the two new Executive Directors, as anticipated at the time of their appointment to the Board in May 2010, but otherwise to leave the shape of remuneration packages substantially unchanged.

#### *The impact of tax changes on pension benefits for high earners*

Changes to the taxation of pension benefits for high earners came into force in April 2011, increasing significantly the tax charge in respect of these benefits. The Company does not compensate for tax changes, but accepts that the limited number of individuals within the Company currently affected, including some of the

Executive Directors, may now wish to reduce their annual pension benefit accrual. As an alternative to continuing with their current rate of pension accrual and any existing supplement in lieu of pension benefits, the executives will be able, instead, to elect to take a supplement to salary, which would not be pensionable or taken into account when assessing annual bonus or share awards, of an amount (having taken into account employer's national insurance contributions payable on the supplement) broadly equivalent to, but no more than, the saving to the Company as a result of their reducing their pension accrual and giving up any existing salary supplement in lieu of pension benefits.

#### *Other matters*

The Committee considered other matters, including performance-related share awards for executives generally, the Company's approach to general employee share ownership, a review of the comparator group to be used in assessing TSR performance for performance-related share awards, and the non-financial measures to be attached to annual bonus awards designed to align with the Company's strategic and risk mitigation objectives.

#### *Internal relativity*

When setting Executive Directors' remuneration, the Committee takes note of pay and conditions 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. Hence, general pay reviews vary across the Group. The normal annual pay review process has resulted or is expected to result in general pay awards ranging from 0% to 3% depending on business unit. However, in addition, the significant changes for some employees to their roles and responsibilities (and to relevant comparators for those roles) following the VT acquisition have justified special individual reviews leading, for some, to significantly higher increases of up to 10% or more.

## Policy

### *Our approach to remunerating Babcock's Executive Directors*

Our Policy	General
	To provide remuneration arrangements that allow for enhanced but fair 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.
How we seek to achieve it	Emphasis on performance-related and long-term reward.
Are we delivering?	On a fair value basis around half or more of a Babcock Executive Director's package is performance-related – see charts on page 67 below. In recent years, the actual total remuneration of Executive Directors has been in accordance with our policy and reflected the Company's performance. However, the fair value of the overall remuneration packages for the Executive Directors is currently towards or below lower quartile.*
Comments	Although the current structure of our packages reflects our emphasis on performance-related pay, to deliver on our remuneration policy of enhanced but fair rewards for the delivery of superior performance by allowing for upper quartile reward for upper quartile performance, it is necessary to consider enhancing further the variable elements of pay and/or increasing base pay.
What are we doing for 2011/12?	The Committee decided that for 2011/12 it was not appropriate to alter significantly the structure of the remuneration arrangements, in particular the variable elements, but to begin to address the level of base pay where it is at a level that undermines our general policy.

\* Judged against market data based on an average of size, and size-adjusted sector, comparators compiled by Kepler Associates, the Committee's independent remuneration advisers.

## Remuneration report continued

### Policy (continued)

Our policy	Fixed element (base pay)
	Base pay 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.
How we seek to achieve it	Fixed remuneration should be at or just below median.
Are we delivering?	Market data* suggests that base pay for each of the Executive Directors was, by the end of the financial year 2010/11, at a level around or below lower quartile (and between 15% and 20% below market median).
Comments	The increasing disparity between market levels of base pay and Babcock base pay has in large part been driven by the rapid growth of Babcock. Base pay at current levels, taken together with the existing levels of gearing of performance-related rewards, makes it less likely that total actual remuneration can continue to deliver our policy as to rewarding upper quartile performance if delivered; this is unlikely to be in the long-term best interests of shareholders.
What are we doing for 2011/12?	Consistent with its general policy, the Committee intends to move base pay towards market median and narrow the 'gap' over the next few years. We have restricted the rises this year to no more than c. 9%. These salary increases for 2011 move Executive Director salaries to around 10% below market median (and the fair value of the remuneration package for all the Executive Directors is between lower quartile and median). The Committee believes that these increases are necessary to fulfil the Company's remuneration policy and to ensure that remuneration levels remain competitive. Salary increases were around 2% in 2009 for both the Group Finance Director and Chief Executive (who were then the only Executive Directors) and, respectively, 2.5% and 4% in 2010.*
Our policy	Performance-related rewards
	Variable pay should reward long-term sustainable growth and value creation.
How we seek to achieve it	Annual bonus rewards year-on-year growth in earnings as well as non-financial and financial performance against agreed targets; PSP awards reward a combination of TSR performance relative to the FTSE 350 (excluding financial services companies and investment trusts) and EPS growth over three years.
Are we delivering?	The Remuneration Committee believes that the remuneration structure in place over the last few years has been appropriate, with actual total remuneration delivered over the recent years reflecting the Company's performance.
Comments	Although we have succeeded in delivering our policy in recent years, this is becoming more difficult to sustain as the fixed element of remuneration (base pay) has fallen, comparatively, relative to market* (see above).
What are we doing for 2011/12?	We have decided to increase the maximum annual bonus potential for Archie Bethel and Kevin Thomas from 120% to 125% as part of our policy, adopted on their appointment to the Board in May 2010, of bringing them, over time, into closer alignment with the arrangements for the Group Finance Director. Performance-related share awards for Executive Directors, other than Peter Rogers, will be maintained at 150% of salary. In the case of Peter Rogers, the award will be (as it was last year) at the maximum of 200% of annual salary (with an extra stretch requirement for vesting of the final 50%) because we continue to regard as exceptional the management challenge facing him following the VT acquisition and in maximising the potential presented by that acquisition.
Our policy	Alignment with shareholders' interests
How we seek to achieve it	A major part of pay potential that is performance-related (both standalone and comparative) is delivered in the form of share awards, thus directly linking the Director's remuneration to the investment risk faced by shareholders. 40% of annual bonus must be deferred into Company shares, which can normally only be accessed after two years and is subject to potential clawback, ensuring that a substantial part of the reward is exposed to the longer term performance of Babcock. Performance-related share awards (PSP Awards) are subject to comparative (TSR vs. peers) and standalone (EPS growth) performance over a three-year period. In order further to align the interests of management and shareholders, the Committee's shareholding guidelines expect Executive Directors to hold Company shares (derived from share awards or purchased by them) equivalent in value to 200% of their base salaries.
Are we delivering?	The first annual bonus payments subject to the deferral requirement were those in respect of the year to 31 March 2010, with the associated share awards being made in July 2010 as shown on page 72. All Executive Directors currently meet or exceed the shareholding guidelines (see page 71).
What are we doing for 2011/12?	No substantive changes are being made to the structure of the annual bonus scheme, share awards or shareholding guidelines.

\* Judged against market data based on an average of size, and size-adjusted sector, comparators compiled by Kepler Associates, the Committee's independent remuneration advisers.

**Policy (continued)**

Our policy	Take account of risk
How we seek to achieve it	The combination of measures (financial for share awards and both financial (including cash generation) and non-financial for annual bonus schemes) used in performance-related pay are designed to incentivise sustainable, profitable growth linked to achievement of strategic objectives and risk mitigation priorities. Use of shares also exposes executives to the longer term risks in any of their decisions. 20% of maximum annual bonus potential is linked to tailored non-financial measures related to agreed strategic and risk mitigation priorities. In addition, the award of annual bonuses is subject to forfeiture or reduction for poor health, safety and environment performance at the discretion of the Committee.
Are we delivering?	By these means we seek to balance short-term and long-term priorities as well as strategic, reputational and other business objectives. The Committee is satisfied that the incentive structure for Executive Directors does not raise environmental, social or governance issues by inadvertently motivating irresponsible behaviour.
What are we doing for 2011/12?	We are continuing with the same approach.

*Summary of the structure of Executive Directors' remuneration packages*

Based on our policy, the principal elements of the arrangements for Executive Director remuneration in the year to 31 March 2011 were, and for the year to 31 March 2012 are, as 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.

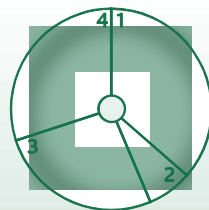
Director	Base pay 2010/11 £'000	Base pay 2011/12 £'000	Annual bonus potential 2010/11 (% of salary)	Annual bonus potential 2011/12 (% of salary)	Performance share awards 2010/11 (% of salary)	Performance share awards 2011/12 (% of salary)
Peter Rogers	500	545	150%	150%	150% + 50%=200%	150% + 50%=200%
Bill Tame	320	345	150%	150%	150%	150%
Archie Bethel	275	300	120%	125%	150%	150%
Kevin Thomas	275	300	120%	125%	150%	150%

**Balance of remuneration**

The charts below show the relative proportions of each element of the Executive Directors' total remuneration packages. Long-term incentive awards are valued on a fair value basis. The charts assume that PSP awards over shares have a value on grant equal to 150% of the Director's base salary (200% for Peter Rogers). These charts are based on annual bonus fair values (including the mandatorily deferred share element) of 72% of salary for Peter Rogers and Bill Tame and 60% of salary for Archie Bethel and Kevin Thomas, and Performance Share Plan fair values\* of 65% of salary for the Directors other than Peter Rogers, and 82% of salary for Peter Rogers.

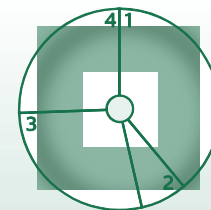
**Chief Executive**

1 Base Pay	36.4%
2 Pension	7.3%
3 Annual Bonus	26.3%
4 Performance Share Plan	30.0%



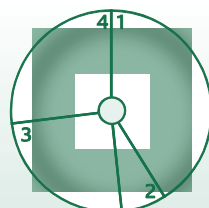
**Finance Director**

1 Base Pay	39.0%
2 Pension	7.5%
3 Annual Bonus	28.1%
4 Performance Share Plan	25.4%



**Other Executive Directors**

1 Base Pay	41.2%
2 Pension	7.2%
3 Annual Bonus	24.8%
4 Performance Share Plan	26.8%



\* Note: the fair value of PSP is its long-run average outcome. This takes into account the difficulty of achieving the associated performance conditions. It also takes account of factors such as volatility, time value of money, risk of forfeiture, correlation between the value of the share and the performance conditions, etc.

## Remuneration report continued

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

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

Objective	Annual bonus scheme metric	Long-term incentive metric
Delivering superior returns to our shareholders.	Financial measures focused on delivery of sustainable year-on-year delivery of budgets and especially on growth by rewarding superior earnings and/or profits growth whilst maintaining strict control of cash. Objectives linked to improvement of the financial performance of specific business areas.	Focus on delivery of top quartile performance and returns over the longer term.
Securing the strategic benefits of the VT acquisition and the synergy benefits.	Specific non-financial measures aimed at strategic benefits. Financial benefits factored into budgets.	As above; but with increased incentive for the Chief Executive for delivering even more stretching returns.
Organic growth	Non-financial measures targeting win rates, order book and pipeline growth. Specific business positioning objectives designed to underpin future growth. Financial objectives.	Long-term measures and deferral of significant part of bonus ensure steps taken to meet annual objectives are not at the expense of future performance.
Developing and maintaining leading market positions in the UK and selected overseas markets.	Specific non-financial objectives for: <ul style="list-style-type: none"> <li>the establishment or expansion of targeted domestic and overseas markets;</li> <li>securing key business development milestones;</li> <li>developing detailed strategic plans for expansion into target markets.</li> </ul>	
Customer-focused, long-term relationships with strategically important customers.	Non-financial objectives linked to customer satisfaction.	
Development of the Group's long-term technical and management expertise.	Non-financial objectives: for example, the establishment of a more effective ongoing talent management and succession planning process. Retentive nature of the requirement for deferral into shares of 40% of annual bonuses earned by senior executives.	Retentive nature of the long-term schemes.
Maintenance of an excellent health, safety and environmental record.	General underpin giving Remuneration Committee complete discretion over the reduction or annulment of bonus in the event of unsatisfactory performance.	
Balancing risk and reward.	A focus on year-on-year earnings or profit growth remains the prominent feature of the bonus schemes, placing a premium on delivery of sustainable growth, discouraging short-term risk-taking and encouraging planning for and underpinning of future prospects. The use of financial metrics that are principally cash flow, profit and earnings driven rather than sales based discourages poor quality sales growth. The use of non-financial objectives reinforces links to key strategic steps or risk mitigation objectives. The requirement to defer 40% of any bonus into shares for two years exposes executives to the future impact of current year decisions.	The long-term schemes and annual bonus schemes are mutually reinforcing, with the long-term schemes increasing the personal exposure of executives to the potentially negative consequences of short-term thinking and, as a further control, by requiring for full vesting superior performance in returns to shareholders.

### Annual bonus schemes

As explained in the Overview on pages 64 and 65, the Committee had to reconsider the shape of the annual bonus scheme for Directors during the year in the light of the VT acquisition.

Accordingly, the Committee adopted the following structures for the year to 31 March 2011:

Bonus element	Peter Rogers		Bill Tame		Archie Bethel		Kevin Thomas	
	Earned/ maximum potential % of salary	Weighting of this element	Earned/ maximum potential % of salary	Weighting of this element	Earned/ maximum potential % of salary	Weighting of this element	Earned/ maximum potential % of salary	Weighting of this element
EPS* performance	100%/100%	67%	100%/100%	67%	66%/66%	55%	66%/66%	55%
Stretching targets established against budget, with a sliding scale between threshold and maximum								
Achieving revised budgeted divisional PBIT	–	–	–	–	15%/15%	12.5%	15%/15%	12.5%
Achieving revised target year end net debt	20%/20%	13%	20%/20%	13%	–	–	–	–
Achieving revised budgeted divisional cash flow	–	–	–	–	15%/15%	12.5%	15%/15%	12.5%
Non-financial objectives	27%/30%	20%	27%/30%	20%	22.8%/24%	20%	22.8%/24%	20%
<b>Total</b>	<b>147%/150%</b>	<b>100%</b>	<b>147%/150%</b>	<b>100%</b>	<b>118.8%/120%</b>	<b>100%</b>	<b>118.8%/120%</b>	<b>100%</b>

\* Earnings per share before amortisation of acquired intangibles and (unless the Committee decides otherwise for any item) exceptional items.

## Remuneration report continued

For the financial year 2011/12 the Committee has set bonus schemes structured as follows:

Bonus element	Peter Rogers		Bill Tame		Archie Bethel		Kevin Thomas	
	Maximum potential % of salary	Weighting of this element	Maximum potential % of salary	Weighting of this element	Maximum potential % of salary	Weighting of this element	Maximum potential % of salary	Weighting of this element
<b>EPS* performance</b>	105%	70%	105%	70%	75%	60%	75%	60%
Stretching targets established against budget, with a sliding scale between threshold and maximum								
<b>Achieving budgeted Group cash flow</b>	15%	10%	15%	10%	–	–	–	–
<b>Achieving budgeted divisional PBIT</b>	–	–	–	–	12.5%	10%	12.5%	10%
<b>Achieving budgeted divisional cash flow</b>	–	–	–	–	12.5%	10%	12.5%	10%
<b>Non-financial objectives</b>	30%	20%	30%	20%	25%	20%	25%	20%
<b>Total (maximum potential)</b>	150%	100%	150%	100%	125%	100%	125%	100%

\* Earnings per share is before amortisation of acquired intangibles, the treatment of exceptional items is at the discretion of the Committee.

The maximum bonus potential for Archie Bethel and Kevin Thomas is increased from 120% to 125% in a step towards bringing them into closer alignment with the Group Finance Director, as envisaged at the time of their appointment to the Board in May 2010.

### Deferral into shares

To ensure that a substantial part of the Director's bonus is exposed to the longer term impact of decision-making and to further align them with shareholders, 40% of any annual bonus earned by Executive Directors (and other senior executives) must be deferred into Babcock shares for two years under the Deferred Bonus Plan.

There is no provision for the Company to match or augment these deferred shares on any basis.

## Directors and shares

### Share ownership

#### Directors' interests in shares

The table below shows the holdings of fully paid ordinary shares of 60p by each of the Directors (including family interests) who served in the year to 31 March 2011 or who hold office at the date of this Report in the issued share capital of the Company. The interests were beneficial interests.

Director	At 31 March 2011 <sup>1</sup>	At 1 April 2010	Holding for Share Guideline purposes <sup>2</sup>
<b>Chairman and Executive Directors</b>			
Mike Turner	40,000	20,000	n/a
Peter Rogers	710,535	710,535	874%
Bill Tame	385,046	375,046	772%
Archie Bethel	108,668	100,798	256%
Kevin Thomas	113,081	93,557	280%
<b>Non-Executive Directors</b>			
Alexander Hesketh (resigned 8 November 2010)	1,667 <sup>3</sup>	1,667	n/a
Nigel Essenhigh	–	–	n/a
John Rennocks	28,000	–	n/a
Justin Crookenden	11,647	6,961	n/a
David Omand	–	–	n/a
Ian Duncan (appointed 10 November 2010)	–	–	n/a

1. There were no changes in these interests between 31 March 2011 and 16 May 2011 (save in the case of Archie Bethel who participates in the Company's Approved Employee Share Ownership Plan, the trustee of which makes regular monthly purchases of shares on behalf of participants: in the case of Mr Bethel, this involved the purchase on 11 April of 20 shares and on 10 May of 19 shares).

2. Shown as a % of base salary applying from 1 April 2011. Calculated as at 10 May 2011 in accordance with our guidelines, these included share awards under the Deferred Bonus Plan, shares subject to vested but unexercised performance-related share awards (less that number as would need to be sold to meet tax and national insurance obligations on exercise), but do not include shares covered by awards that are not yet vested.

3. For Alexander Hesketh, the interest in shares shown is the interest in shares on the date he resigned as a Director.

### Shareholding guidelines for Executive Directors

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

## Remuneration report continued

### Directors and shares (continued)

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

The table below shows the various share awards held by Directors under the Company's various share schemes. There were no changes between 31 March 2011 and 16 May 2011. The Company's mid-market share price at close of business on 31 March 2011 was 621p. The highest and lowest mid-market share prices in the year ended 31 March 2011 were 635p and 492.80p respectively. No shares vested during the year.

Director	Scheme <sup>1</sup> and year of award	Number of shares subject to award at 1 April 2010 <sup>2</sup>	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2011	Exercise price (pence) <sup>3</sup>	Market value of each share at date of award (pence)	Exercisable from <sup>4</sup>	Expiry date <sup>5</sup>
Peter Rogers	L-TIP 2008	79,080	-	-	-	79,080	nil	594.33	May 2011	Jun 2018
	PSP 2009	132,053	-	-	-	132,053	nil	544.67	Jul 2012	Jul 2013
	PSP 2010 <sup>6</sup>	-	161,334	-	-	161,334	nil	619.83	Jul 2013	Jul 2014
	CSOP 2010 <sup>6</sup>	-	4,840	-	-	4,840	nil	619.83	Jul 2013	Jul 2014
	DBP 2010	-	45,023	-	-	45,023	nil	619.83	Jul 2012	Jul 2013
Bill Tame	Approved 2002	21,278	-	-	-	21,278	104.33	104.33	Jan 2005	Jan 2012
	L-TIP 2008	51,402	-	-	-	51,402	nil	594.33	May 2011	Jun 2018
	PSP 2009	85,924	-	-	-	85,924	nil	544.67	Jul 2012	Jul 2013
	PSP 2010 <sup>6</sup>	-	77,440	-	-	77,440	nil	619.83	Jul 2013	Jul 2014
	CSOP 2010 <sup>6</sup>	-	1,258	-	-	1,258	nil	619.83	Jul 2013	Jul 2014
DBP 2010	-	29,598	-	-	29,598	nil	619.83	Jul 2012	Jul 2013	
Archie Bethel	L-TIP 2008	40,717	-	-	-	40,717	nil	594.33	May 2011	Jun 2018
	PSP 2009 <sup>6</sup>	68,022	-	-	-	68,022	nil	544.67	Jul 2012	Jul 2013
	CSOP 2009 <sup>6</sup>	5,507	-	-	-	5,507	544.67	544.67	Sep 2012	Sep 2019
	PSP 2010	-	66,550	-	-	66,550	nil	619.83	Jul 2013	Jul 2014
	DBP 2010	-	19,128	-	-	19,128	nil	619.83	Jul 2012	Jul 2013
Kevin Thomas	Approved 2002	16,068	-	-	-	16,068	106.33	106.33	Nov 2005	Nov 2012
	L-TIP 2008	38,320	-	-	-	38,320	nil	594.33	May 2011	Jun 2018
	PSP 2009 <sup>6</sup>	64,030	-	-	-	64,030	nil	544.67	Jul 2012	Jul 2013
	CSOP 2009 <sup>6</sup>	2,368	-	-	-	2,368	544.67	544.67	Sep 2012	Sep 2019
	PSP 2010	-	66,550	-	-	66,550	nil	619.83	Jul 2013	Jul 2014
DBP 2010	-	17,825	-	-	17,825	nil	619.83	Jul 2012	Jul 2013	

1. Approved = Babcock 1999 Approved Executive Share Option Scheme; L-TIP = 2003 Long-Term Incentive Plan; PSP = 2009 Performance Share Plan; CSOP = 2009 Company Share Option Plan; DBP = 2009 Deferred Bonus Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 75 to 77 below.

2. The figures for Archie Bethel and Kevin Thomas is as at 1 May 2010, the date of their appointments to the Board.

3. The PSP and L-TIP awards are structured as nil priced options.

4. Subject to the rules of the scheme concerned, including as to meeting performance targets.

5. 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.

6. The vesting of the CSOP award is subject to performance measures which are identical to those for the PSP award granted on the same date. 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'). 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.

**Directors and shares (continued)**

*Performance-related awards made to Executive Directors in 2010*

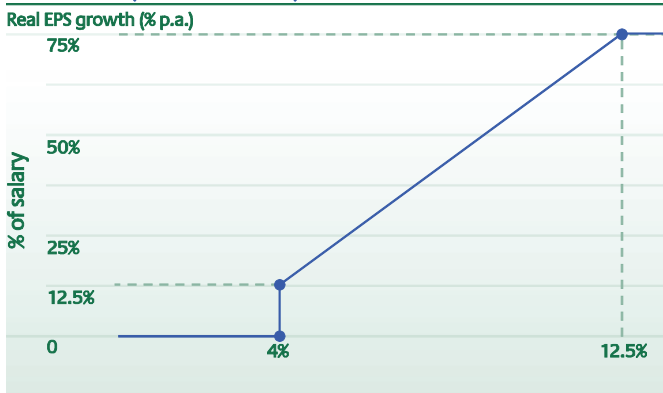
In July 2010, PSP awards were made to each of the Executive Directors. Peter Rogers and Bill Tame also received CSOP awards linked, as explained in note 6 under the table on page 72, to their PSP awards.

*PSP vesting schedules – Executive Directors, other than the Chief Executive*

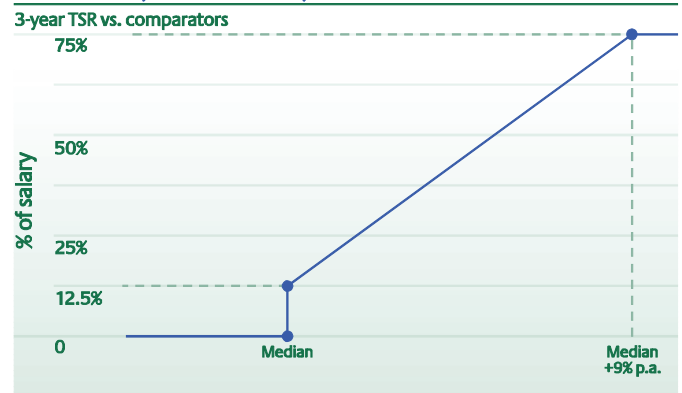
In accordance with past practice, the awards for Bill Tame, Archie Bethel and Kevin Thomas were made so that they were potentially exercisable over that number of shares that had a market value on award of 150% of their qualifying base salaries.

As anticipated in the last Remuneration report, the performance target attached to those awards – split between TSR performance relative to the peer group and real EPS growth (see table on page 76 for detail) – was toughened in respect of the EPS growth test compared to the awards made in 2009, in that maximum vesting for that element will require real annual compound growth of 12.5% or more over the performance period (1 April 2010 to 31 March 2013). This represented an increase from the 11% (real) EPS target applied to the 2009 awards. The performance measures are illustrated in the charts below:

**EPS element (50% of an award)**



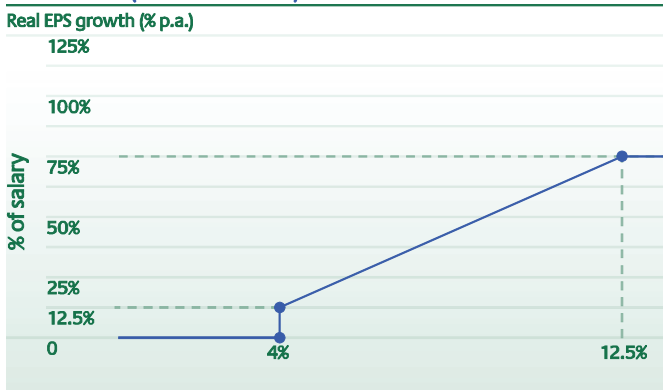
**TSR element (50% of an award)**



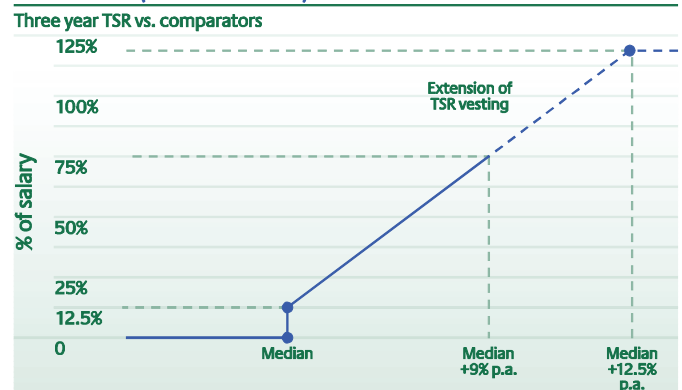
*Chief Executive*

In the case of Peter Rogers, in recognition of the exceptional management challenge particularly he now faces following the VT acquisition, and following discussions with leading shareholders, the Committee made him an award equivalent in value to 200% of his base salary. As regards that part of the award up to 150% of his salary, the performance measures applied were the same as for the awards to the other Executive Directors (above). In order, however, for the remainder of the award (equivalent on grant to 50% of his salary) to vest, more stretching TSR performance is required with vesting on a straight-line basis for out-performance of between 9% p.a. and 12.5% p.a. as illustrated below:

**EPS element (50% of an award)**



**TSR element (50% of an award)**



## Remuneration report continued

### PSP awards to be made in 2011

It is the Committee's intention to adopt the same approach and the same performance measures as followed in 2010 when making awards to Executive Directors. This will involve the grant of awards to Bill Tame, Archie Bethel and Kevin Thomas over shares having on the date of grant a value equal to 150% of their base salaries. The same exceptional management challenge continues to apply to Peter Rogers and his award will be of 200% of base salary, with the additional 50% being subject to the same added stretch target described above.

### Why TSR and EPS for Executive Directors' share awards?

The Remuneration Committee reviews the performance conditions to be attached to share awards prior to the start of each cycle to ensure they remain appropriate. No material reduction in targets would be made without prior consultation with shareholders. The Committee believes that continuing to use a balance of TSR and EPS performance conditions remains appropriate and provides a strong blend of performance metrics, in line with prevailing market practice.

The TSR performance measure is tested by reference to the Company's relative long-term share price performance against suitable peers. The use of relative TSR provides strong alignment with shareholders' interests by rewarding management for the delivery of above market returns, whilst the use of an EPS growth performance measure focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals.

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.

For certain senior managers, but not Directors, the performance targets attached to PSP awards in 2009 were set (wholly or in part) by reference to divisional profit targets and return on capital employed or operating cash flow, as appropriate to the division's business.

### Sourcing of shares

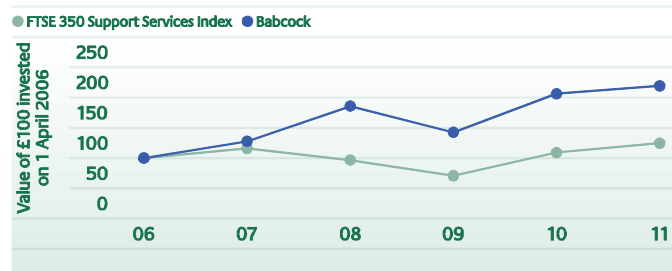
It is the intention of the Company that shares needed to satisfy share awards for Directors will be purchased in the market to the extent that they are not already held in the Group's employee share trusts at the date the options or awards are granted or are exercised, unless it is in the interests of the Company to do otherwise and issue new shares.

### Performance graphs

The graphs below were prepared by Kepler Associates. They show the total shareholder return for a holding in the Company's shares for the period from 1 April 2006 to 31 March 2011 relative to a holding of shares representing respectively the FTSE 350 Index (excluding investment trusts) and the FTSE 350 Support Services sector. The calculation of the return assumes dividends are reinvested to purchase additional equity. This FTSE 350 Index (excluding investment trusts) is a broad index that allows comparison of the Company's performance against the performance of the stock market as a whole; Support Services is the sector in which the Company's share price is reported.

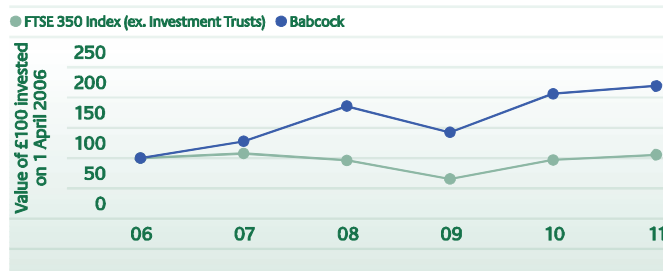
Over the five-year period, the Company has significantly out-performed both indices. An investment of £100 in the Company on 1 April 2006 would have been worth (assuming the dividends were reinvested in further Company shares) £219 at 31 March 2011.

#### Babcock International vs. FTSE 350 Support Services Index



#### Babcock International vs. FTSE 350 Index

(ex. Investment Trusts)



### Share awards summaries

The following tables summarise the performance targets (if applicable) and other information about the schemes relevant to outstanding share awards held by Directors (see also the information about share schemes on pages 58 and 59).

Scheme	1999 Approved Option Scheme (market price options) – 2002 awards
Performance periods	1 April 2001 to 31 March 2004 (74% vested). 1 April 2002 to 31 March 2005 (100% vested).
Performance target	Comparative TSR performance. Full vesting was for top quartile ranking, with 25% vesting for just above median, and straight-line vesting in between.
TSR comparator group	Companies in the FTSE Engineering and Machinery Sector when the options were granted (which was the sector in which the Company's shares were then listed).
Other information	They were not subject to re-testing. The exercise price was the undiscounted average of the mid-market closing price for the three business days' preceding the date of the grant. The options must be exercised before the tenth anniversary of the grant date, or earlier if there is a change of control, the Director leaves or dies, failing which they will lapse.

Scheme	2003 Long-Term Incentive Plan (nil price options) – 2008 awards			
Performance period	1 April 2008 to 31 March 2011.			
Performance targets	EPS growth test	Proportion of total award vesting	Comparative TSR test	Proportion of total award vesting
	Real compound annual growth of 8% or more	50%	Upper quartile ranking in peer group	50%
	Real compound annual growth of 4%	12.5%	Ranking immediately above median	12.5%
	Intermediate growth between the above points	Straight-line basis between 12.5% and 50%	Intermediate ranking between the above points	Straight-line basis between 12.5% and 50%
	Real compound annual growth of less than 4%	0%	At or below median ranking	0%
TSR comparator group	For the TSR element, companies in the FTSE 350 Support Services Index on date of award: these were the companies in the same FTSE sector as the Company. The peer group was chosen pending a full review of longer term incentives and the appropriate peer group, which was carried out in 2008/09.			
Other information	EPS was subject to adjustment at the discretion of the Committee in respect of exceptional items and is pre-acquired intangible amortisation. Real EPS growth is that in excess of the change in the consumer prices index.			

## Remuneration report continued

### Share awards summaries (continued)

Scheme	2009 Performance Share Plan (nil price options) and Company Share Option Plan (market price options) – 2009 and 2010 awards*			
Performance period	For the 2009 awards: 1 April 2009 to 31 March 2012. For the 2010 awards: 1 April 2010 to 31 March 2013.			
General Performance target	EPS growth test	Proportion of total award vesting	Comparative TSR test	Proportion of total award vesting
	Real compound annual growth of 11% (2009)/12.5% (2010) or more	50%	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	50%
	Real compound annual growth of 4%	8.3%	TSR performance equivalent to the median for the peer group as a whole	8.3%
	Intermediate growth between the above points	Straight-line basis between 8.3% and 50%	Intermediate ranking between the above points	Straight-line basis between 8.3% and 50%
	Real compound annual growth of less than 4%	0%	Performance less than equivalent to median for the whole peer group	0%
Chief Executive's additional award in 2010 over shares equal to a further 50% of salary	If comparative TSR performance exceeds median TSR performance for the peer group taken as a whole by more than 9% per annum further shares vest (see page 73 for further details). This will affect the relative proportion of the award vesting in his case.			
TSR comparator group 2009 and 2010 awards	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	<p>Participants will be entitled to a vesting of shares under the TSR element only to the extent the Remuneration Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. The awards are not subject to re-testing.</p> <p>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.</p> <p>The awards carry the right to receive on vesting any dividends that would have been paid in the period between grant and vesting but this right applies only to the shares that actually vest under the award.</p> <p>CSOP and PSP Awards are linked so that in aggregate the holder cannot get more value from them than a standalone PSP award of shares equal to the relevant award multiple of the Director's base salary.</p> <p>Exercise periods commence not less than three years from actual or nominal award grant date. Subject to the rules of the plan, an earlier release of shares under unvested awards may be allowed by the Remuneration Committee (for example, in the event of a cessation of employment or a change in control), but of not more than a time-apportioned proportion and then only having regard to the Company's performance, though the Committee has discretion to allow a greater proportion to be released.</p>			

\* 2011 awards will be as per the 2010 awards (with the performance period being 1 April 2011 to 31 March 2014).

### Share awards summaries (continued)

Scheme	Deferred Bonus Plan (nil price options) 2010 awards
Performance period	Not applicable: the scheme is purely a mechanism for mandatory deferral of part of the annual bonus earned. Awards vest and become exercisable two years after the date of grant.
Other information	<p>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).</p> <p>The number of shares into which the bonus is deferred may be reduced by the Committee if the accounts by reference to which the bonus was calculated have to be materially corrected or if, in the opinion of the Committee, there is evidence that performance against performance conditions in the bonus year or the impact of that performance on the Group in respect of future financial years was or will be materially worse than was believed to be the case at the time of the original assessment.</p> <p>The shares carry the right to dividends paid in the period of deferral, but payable only when the shares are released.</p> <p>There is no provision for the Company to match these deferred shares on any basis.</p>

### Directors' emoluments and compensation (audited)

Director	Salary or fee year ending 31 March 2011 £'000	Cash allowances in lieu of pension benefits <sup>2</sup> £'000	Other cash allowances <sup>3</sup> £'000	Annual bonus £'000 <sup>4</sup>	Benefits in kind <sup>5</sup> £'000	Total year ended 31 March 2011 £'000	Total year ended 31 March 2010 <sup>6</sup> £'000
<b>Chairman and Executive Directors</b>							
Mike Turner (Chairman)	255	–	–	–	–	255	255
Peter Rogers (Chief Executive)	500	100	–	735	1	1,336	1,275
Bill Tame (Group Finance Director)	320	26	17	470	18	851	831
Archie Bethel (appointed 1 May 2010) <sup>1</sup>	252	11	–	327	3	593	–
Kevin Thomas (appointed 1 May 2010) <sup>1</sup>	252	11	–	327	1	591	–
<b>Non-Executive Directors</b>							
Alexander Hesketh (resigned 8 November 2010)	36	–	–	–	–	36	60
John Rennocks	73	–	–	–	–	73	73
Nigel Essenhigh	48	–	–	–	–	48	48
Justin Crookenden	55	–	–	–	–	55	55
David Omand	48	–	–	–	–	48	48
Ian Duncan (appointed 10 November 2010)	19	–	–	–	–	19	–
Dipesh Shah (retired 9 July 2009)	–	–	–	–	–	–	13
<b>Total</b>	<b>1,858</b>	<b>148</b>	<b>17</b>	<b>1,859</b>	<b>23</b>	<b>3,905</b>	<b>2,658</b>

Notes:

- Emoluments for Archie Bethel and Kevin Thomas for the period from 1 April to 30 April 2010 are not included in the table as they were not Directors in that period.
- For Peter Rogers, the cash allowance reflects pay in lieu of all pension benefits. For the other Executive Directors the allowance is in lieu of pension benefits on that part of base salary as exceeds the applicable earnings cap for the pension scheme (see detailed explanation under Directors' pensions below).
- Allowance in respect of expenses connected with accommodation.
- 60% of the amount shown is paid in cash. The balance of 40% is to be deferred into Company shares for two years.
- For Bill Tame benefits comprised medical insurance, home to work travel expenses and accommodation benefits. For Peter Rogers and Kevin Thomas they comprised medical insurance and for Archie Bethel they comprised medical insurance and car fuel benefit.
- Archie Bethel and Kevin Thomas were not Directors in the year to 31 March 2010.

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

Details of share-based awards held by the Directors are to be found on page 72.

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

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

## Remuneration report continued

### Directors' pensions (audited)

Peter Rogers does not participate in a Group pension scheme or otherwise receive pension benefits from the Group. Instead, he receives a supplement equal to 20% of his base salary in lieu of pension benefits. It is separately identified in the table page 77 above.

Bill Tame, Archie Bethel and Kevin Thomas participate in the Group's pension scheme (see below). In addition to benefits accruing under that scheme (as described below), they each received, during the year to 31 March 2011, a cash supplement in lieu of base salary in excess of the applicable scheme earnings cap at the rate of 15% of the excess (less employer's national insurance contributions), with the Director paying contributions into the scheme only on salary up to the applicable earnings cap. The value of this supplement in the year to 31 March 2011 is shown separately in the table on page 77. For the year commencing 1 April 2011, each of these Directors is being offered the option of reducing his pensionable salary in return for a new cash supplement which, if accepted, would replace the existing supplement and, overall, represent no increase in cost to the Company compared to the cost of meeting their pension liabilities and the existing supplement should he choose not to take up this option.

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 is a member of the senior executive tier of the Scheme. Archie Bethel and Kevin Thomas are each members of the executive tier of the Scheme.

The accrual rate for Bill Tame under the Scheme is one-thirtieth, and for Archie Bethel and Kevin Thomas is one-forty-fifth, of pensionable salary (i.e. that part of their base salary within the applicable Scheme earnings cap) for each year of service. The pension age is 60 (for Bill Tame) or 65 (for Archie Bethel and Kevin Thomas). The earnings cap adopted by the Scheme is the same as the former statutory earnings cap, index-linked in the same way.

Pension entitlements under the Scheme (defined benefit) are set out in the following table:

Director	Accrued pension at 31 March 2011 £ p.a.	Increase in accrued benefits excluding inflation during the year ended 31 March 2011 £	Change in accrued benefits after allowing for inflation £	Transfer value at 1 April 2010 £	Transfer value at 31 March 2011 £	Transfer value of increase in accrued benefits less Director's contribution £	Increase in transfer value less Director's contribution £
Bill Tame	38,276	4,120	2,549	664,616	783,172	37,390	112,376
Archie Bethel	29,737	4,120	2,942	345,070	425,049	30,198	70,709
Kevin Thomas	50,260	4,120	1,997	614,086	710,028	19,818	89,792

1. Inflation has been taken as 4.6% for the purposes of calculating increases in transfer values and pension earned.
2. The transfer value of the increase in pension accrued is calculated in accordance with Actuarial Guidance Note GN11, and is stated after deducting members' contributions.
3. The figures in the above table make no allowance for the cost of death in service benefits under the Scheme.
4. The figures in the above table make no allowance for any benefits in respect of earnings in excess of the HM Revenue & Customs earnings cap.
5. In calculating the above figures no account has been taken of any retained benefits which he may have from previous employments.
6. No payments have been made to retired Directors in excess of the retirement benefit to which they were entitled on the date the benefits first became payable or, if later, 31 March 1997.

Membership of the Scheme also entitles the Directors to life assurance cover of four times base salary up to the applicable pensionable earnings cap. The Company takes out additional life assurance cover in respect of four times the salary in excess of that cap. The cost of providing that additional life assurance cover was:

Director	2011 £'000	2010 <sup>1</sup> £'000
Bill Tame	2	2
Archie Bethel	1	–
Kevin Thomas	1	–

1. Archie Bethel and Kevin Thomas were not Directors in the year to 31 March 2010.

**Other pension arrangements (audited)**

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

**Chairman and Non-Executive Directors' remuneration (audited)**

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 for the year to 31 March 2011 were those set in April 2009. Following a review against current market practice, the basic Non-Executive Directors' fee has been increased by £2,500 with effect from 1 April 2011 as described in the table below.

	Year to 31 March 2011	From 1 April 2011
Annual rate of fees		
Chairman	£255,000	£255,000
Deputy Chairman	£60,000	n/a
Senior Independent Director	£60,000	£60,000
Basic Non-Executive Director's fee	£47,500	£50,000
Chairmanship of Audit and Risk Committee	£12,500*	£12,500*
Chairmanship of Remuneration Committee	£7,500*	£7,500*

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

**Service contracts**

The following table summarises the key terms (excluding remuneration, on which see above) 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 division)	21 April 2010	12 months from Company, 6 months from Director
Kevin Thomas (Chief Executive, Support Services division)	20 April 2010	12 months from Company, 6 months from Director

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice.

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

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

The agreements for Peter Rogers and Bill Tame (but not the agreements for Kevin Thomas and Archie Bethel) 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).

## Remuneration report continued

### Chairman and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Expiry of present term of appointment (subject to annual re-election)*
Mike Turner (Chairman)	1 June 2008	14 April 2011	AGM for 2014
John Rennocks	13 June 2002	15 May 2008	Retiring 31 December 2011
Nigel Essenhigh	4 March 2003	15 May 2008	AGM for 2012
Justin Crookenden	1 December 2005	14 April 2011	AGM for 2014
David Omand	1 April 2009	19 March 2009	AGM for 2012
Ian Duncan	10 November 2010	15 October 2010	AGM 2013

\* The Company's policy is for Non-Executive Directors to have written terms of appointment normally for no more than three-year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director.

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

### Outside directorships of Executive Directors

Before taking up any new outside appointment, an Executive Director must first seek the approval of the Chairman. Any fees for outside appointments are retained by the Director. Peter Rogers is a Non-Executive Director of Galliford Try plc. During the year to 31 March 2011, he received £38,000 by way of fees for that role. He is also a Non-Executive Director (and President) of ADS Group Limited, a role for which he receives no fees. Bill Tame is a Non-Executive Director of Carclo PLC. During the year to 31 March 2011, his fees in that role were £27,500.

### Regulatory and statutory

The Board considers that in all its activities the Remuneration Committee has adopted the principles of good governance as set out in the UK Corporate Governance Code and complies with the Listing Rules of the Financial Services Authority, the relevant schedules of the Companies Act and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations'). This report is divided into audited and unaudited information. The Regulations require the Company's auditors to report that the 'Audited information' in this report has been properly prepared in accordance with the Regulations.

This Remuneration report will be submitted for shareholder approval at the Annual General Meeting on 7 July 2011.

This Remuneration report was approved by the Board on 16 May 2011 and signed on its behalf by:

**Justin Crookenden**

Chairman of the Remuneration Committee

16 May 2011