Remuneration report

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

Committee members

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

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

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

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

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

How the Committee operates

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

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

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

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

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

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

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

What is the Company's remuneration policy?

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

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

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

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

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

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

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

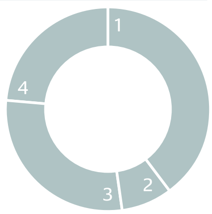
Details of the structure of the annual bonus scheme and share schemes are set out in the following pages.

Balance of remuneration

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

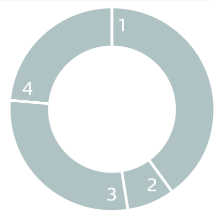
Chief Executive Officer

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



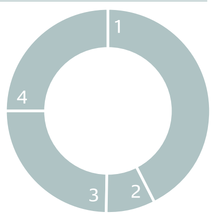
Finance Director

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



Executive Directors

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



Internal relativity

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

Basic pay

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

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

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

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

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

Performance-related rewards

Annual bonus schemes

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

Deferral: 40% of any annual bonus earned by Executive Directors and other senior executives must be deferred into Babcock shares for two years, with the shares being subject to potential forfeiture if the employee leaves in that time (other than by reason of death, disability, redundancy, retirement or the company or business in which they are employed ceasing to be part of the Group). The number of shares into which the bonus is deferred may be reduced by the Committee if the accounts by reference to which the bonus was calculated have to be materially corrected or if in the opinion of the Committee, there is evidence that performance against performance conditions in the bonus year, or the impact of that performance on the Group in respect of future financial years, was or will be materially worse than was believed to be the case at the time of the original assessment. The shares will carry the right to dividends paid in the period of deferral payable only when the shares are released. There is no provision for the Company to match these deferred shares on any basis. The deferral is purely to ensure that a substantial part of the Director's bonus is exposed to the longer term impact of current year decision making and to align them with shareholders.

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

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

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

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

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

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

Long-term incentives

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

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

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

During the financial year to 31 March 2010, PSP awards were made to each of Peter Rogers and Bill Tame over shares having a market value on award of 150% of their qualifying basic salaries. In the same year, PSP awards and CSOP awards were made to Archie Bethel and Kevin Thomas, who were not Directors in the year to 31 March 2010. Their respective PSP and CSOP awards were linked so that in each case the maximum aggregate number of shares that can be acquired on exercise of the two awards is limited to that number of shares that had a market value on the date of the awards (and after deducting any exercise price payable on exercise of the CSOP award) equal to 150% of their then base salaries.

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

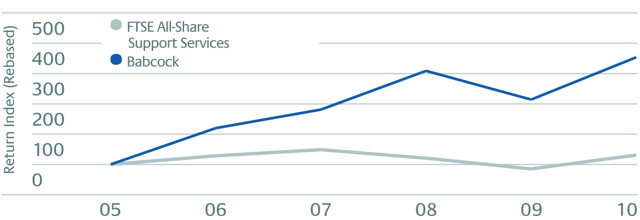
Further details of options, L-TIP awards, PSP awards and CSOP awards held by the Directors who served during the year under review (Peter Rogers and Bill Tame), and the performance criteria attached to them, are set out on pages 76 to 80.

Performance graphs

The graphs below were prepared by Kepler Associates. They show the total shareholder return for a holding in the Company's shares for the period from 1 April 2005 to 31 March 2010 relative to a holding of shares representing respectively the FTSE All-Share Index (excluding investment trusts) and the FTSE 350 Support Services Sector. The calculation of the return assumes dividends are reinvested to purchase additional equity. This FTSE All-Share Index (excluding investment trusts) is the same index as has been used for this purpose in earlier remuneration reports, as it is a broad index that allows comparison of the Company's performance against the performance of the stock market as a whole. Support Services is the sector in which the Company's share price is reported.

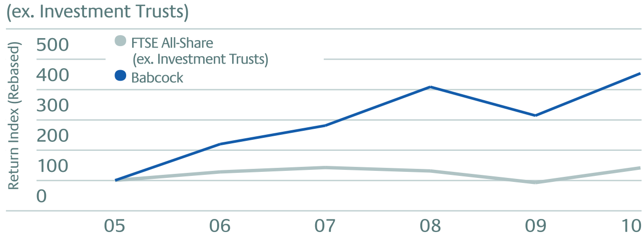
Over the five-year period, the Company has significantly out-performed both indices. An investment of £100 in the Company on 1 April 2005 would have been worth (assuming the dividends were reinvested in further Company shares) £451 at 31 March 2010.

Babcock International vs. FTSE 350 Support Services



Babcock International vs. FTSE 350 All-Share

(ex. Investment Trusts)



Directors' emoluments and compensation (audited)

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

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

Details of share-based awards held by the Directors are to be found on pages 76 to 80.

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

Notes:

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

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

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

Directors' pensions (audited)

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

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

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

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

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

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

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

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

1. Inflation has been taken as 3.4% for the purposes of calculating increases in transfer values and pension earned.
2. The transfer value of the increase in pension accrued is calculated in accordance with Actuarial Guidance Note GN11, and is stated after deducting members' contributions.
3. The figures in the above table make no allowance for the cost of death in service benefits under the Scheme.
4. The figures in the above table make no allowance for any benefits in respect of earnings in excess of the Inland Revenue earnings cap.
5. In calculating the above figures no account has been taken of any retained benefits which he may have from previous employments.
6. No payments have been made to retired Directors in excess of the retirement benefit to which they were entitled on the date the benefits first became payable or, if later, 31 March 1997.

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

Other pension arrangements (audited)

Before 1 April 2006, the Company provided a Funded Unapproved Retirement Benefit Scheme (FURBS) for Bill Tame in respect of his salary in excess of the earnings cap. The Company contributed to the FURBS an amount equal to 20% of the excess (including employer's national insurance contributions), with him making contributions into the Company's pension scheme on his full uncapped salary. As from April 2006, this was replaced with a salary supplement of 15% of the excess (including employer's national insurance contributions), with him contributing into the Company's pension scheme only on capped salary. The value of this supplement in the year to 31 March 2010 was £25,000.

The cost of providing additional life assurance cover was:

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

Non-Executive Directors (audited)

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

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

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

Directors' interests in shares (audited)

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

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

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

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

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

Directors' share-based rewards and options (audited)

Options

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

Babcock 1999 Approved Executive Share Option Scheme

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

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

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

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

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

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

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

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

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

The vesting of the above CSOP awards is subject to performance measures which are identical to those for the PSP awards granted to the above Directors on the same date. Details of those PSP awards and measures are set out on pages 78 and 80. The provisions of these CSOP options and those PSP Awards (i.e. those granted on 11 September 2009 to Archie Bethel and Kevin Thomas) are linked so that the maximum aggregate number of shares that can be acquired on exercise of the two awards is limited to that number of shares that had a market value on the date of the awards (and after deducting any exercise price payable on exercise of the CSOP award) equal to 150% of their then base salaries (the 'Limit'). If there is less than full vesting, it is possible for the Director to choose to exercise the CSOP to its fullest extent within the Limit and then to exercise the PSP Award to the extent of any balance left within the Limit.

Share awards under the L-TIP (audited)

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

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

1. Exercise details in the table below.

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

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

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

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

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

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

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

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

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

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

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

Share awards under the PSP (audited)

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

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

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

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

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

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

Subject to satisfaction of the performance criteria attached to the L-TIP and PSP awards (see below), the Directors may call for the release to them of the award shares during the respective exercise periods. Subject to the rules of the plan, an earlier release of shares under unvested awards may be allowed by the Remuneration Committee (for example, in the event of a cessation of employment or a change in control), but (unless the Committee otherwise decides) of not more than a time-apportioned proportion and then only having regard to the Company's performance, though the Committee has discretion to allow a greater proportion to be released.

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

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

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

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

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

Notes:

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

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

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

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

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

Notes:

Participants will be entitled to a vesting of shares under the TSR element only to the extent the Remuneration Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period.

EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise, includes exceptional items.

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

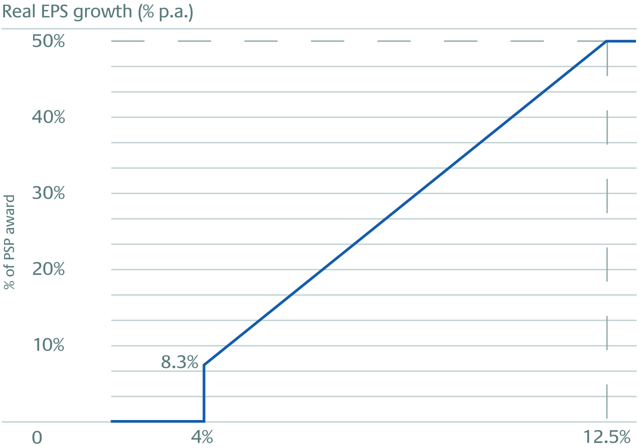
The share awards carry the right to receive on vesting any dividends that would have been paid in the period between grant and vesting (or, if the Committee so decides, a number of shares having a market value equivalent to the amount of the dividends when the dividend would have been paid), but this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

For the TSR element, the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors, not just support services, and the broader group makes the calibration more robust.

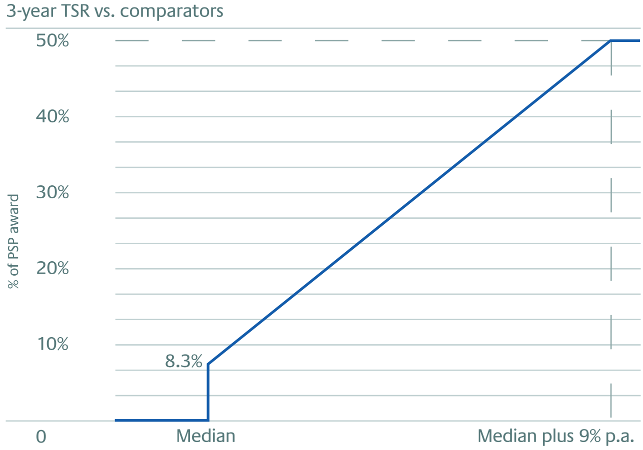
Proposed PSP awards to be made in 2010

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

EPS element



TSR element



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

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

Why TSR and EPS for Executive Directors' share awards?

The Committee considers the use of two measures, in the proportions used for the LTIP and PSP awards described in the tables above, to be appropriate. The TSR performance measure is dependent on the Company's relative long-term share price performance and so provides strong alignment with shareholders' interests. The TSR calculation for both the LTIP and PSP awards would normally use a 12-month average for opening and closing share prices adjusted for dividends paid during the period. The Company feels that this is the most appropriate period because a 12-month average ensures both that the short-term market volatility is excluded and that for each company a 12-month period will capture the impact of the announcement of results and payment of dividends. A shorter period would not capture all these events and would not necessarily put all companies on an equal footing.

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

Service contracts

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

Executive Directors

Name	Date of service contract	Notice period	Contractual retirement age
Peter Rogers (Chief Executive)	31 July 2003 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director	65
Bill Tame (Finance Director)	1 October 2001 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company, 6 months from Director	65
Archie Bethel (Chief Executive, Marine Division)	21 April 2010	12 months from Company, 6 months from Director	65
Kevin Thomas (Chief Executive, Support Services Division)	20 April 2010	12 months from Company, 6 months from Director	65

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

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

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

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The agreements for Peter Rogers and Bill Tame (but not the agreements for Kevin Thomas and Archie Bethel) also provide that if the Company terminates their appointment within12 months of a change of control, they would be entitled to a termination payment equal to 100% of annual salary (plus 40% in lieu of bonus and all other benefits).

Chairman and Non-Executive Directors

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

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

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

Outside directorships

Before taking up any new outside appointment, an Executive Director must first seek the approval of the Chairman. Any fees for outside appointments are retained by the Director. Peter Rogers is a Non-Executive Director of Galliford Try plc. During the year to 31 March 2010 he received £38,000 by way of fees for that role. Bill Tame is a Non-Executive Director of Carclo PLC. During the period year to 31 March 2010 his fees for that role were £26,500.

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

Justin Crookenden
Chairman of the Remuneration Committee

10 May 2010