

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (FSMA) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

This document, which comprises: (i) a circular prepared in accordance with the Listing Rules of the Financial Conduct Authority (“FCA”) for the purposes of the General Meeting convened pursuant to the Notice of General Meeting set out at the end of this document; and (ii) a prospectus relating to the Ordinary Shares prepared in accordance with the Prospectus Rules of the FCA made under section 73A of FSMA, has been approved by the FCA in accordance with section 87A of FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

Subject to the restrictions set out below, if you sell or transfer or have sold or otherwise transferred all of your Existing Ordinary Shares (other than ex-rights) held in certificated form before 8.00 a.m. on 17 April 2014 (the “**ex-rights date**”), please send this document together with the accompanying Form of Proxy and any Provisional Allotment Letter (duly renounced), if and when received, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. **None of these documents should, however, be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States or any of the Excluded Territories.** If you sell or transfer or have sold or otherwise transferred only part of your holding of Existing Ordinary Shares (other than ex-rights) held in certificated form before the ex-rights date, you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected and refer to the instructions regarding split applications in Part IV (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter. If you sell or transfer or have sold or otherwise transferred all or some of your Existing Ordinary Shares (other than ex-rights) held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by Euroclear, which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.



BABCOCK INTERNATIONAL GROUP PLC

(Incorporated under the Companies Act 1985 and registered in England and Wales with registered number 02342138)

Proposed Acquisition of the Avincis Group and

Proposed 5 for 13 Rights Issue of 139,259,204 New Ordinary Shares at 790 pence per New Ordinary Share to raise approximately £1,100 million

and

Notice of General Meeting

J.P. Morgan Cazenove
Sole Financial Adviser, Sole Sponsor, Joint Global Coordinator
and Joint Bookrunner

Jefferies
Joint Global Coordinator and Joint Bookrunner

Barclays
Joint Bookrunner

HSBC
Joint Bookrunner

Rothschild
Independent Financing Adviser
in connection with the Rights Issue and Acquisition Finance

This document does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction where such offer or solicitation would be unlawful. The distribution of this document and/or the accompanying documents (including the Provisional Allotment Letter) and/or the transfer of Nil Paid Rights or Fully Paid Rights through CREST in jurisdictions outside the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, this document and the accompanying documents (including the Provisional Allotment Letter) should not be distributed, forwarded to or transmitted in or into the United States or any of the Excluded Territories.

The Existing Ordinary Shares have been admitted to the premium listing segment of the Official List of the UKLA, and to trading on the London Stock Exchange’s main market for listed securities. Applications will be made for the New Ordinary Shares to be admitted to the premium listing segment of the Official List of the UKLA and to be admitted to trading on the London Stock Exchange’s main market for listed securities (together, “**Admission**”). It is expected that Admission will become effective, and that dealings on the London Stock Exchange in the New Ordinary Shares (nil paid) will commence at 8.00 a.m. on 17 April 2014.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares are not transferable, except in accordance with, and the distribution of this document is subject to the restrictions set out in, paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document. No action has been taken by the Company, the Sponsor or the Underwriters that would permit an offer of the New Ordinary Shares or rights thereto or possession or distribution of this document or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

This document should be read as a whole, including any document incorporated by reference. Your attention is drawn to the letter from your Chairman which is set out in Part I (*Letter from the Chairman*) of this document and which contains a recommendation from your Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. The section of this document entitled “*Risk Factors*” includes a discussion of certain risk factors which should be taken into account when considering the matters referred to in this document.

A Notice for the General Meeting to be held at 10.30 a.m. on 16 April 2014 at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD is set out at the end of this document. A Form of Proxy for use in connection with the General Meeting is enclosed with this document. Whether or not you intend to attend the General Meeting in person, to be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed on it so as to be received by Babcock’s Registrars, Capita Asset Services, at PXS 1, 34 Beckenham Road, Beckenham BR3 4ZF, as soon as possible, and in any event, no later than 10.30 a.m. on 14 April 2014. If you hold Babcock Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Babcock’s Registrars, Capita Asset Services (CREST participant RA10), so that it is received by no later than 10.30 a.m. on 14 April 2014. The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting, if you wish to do so and are so entitled. Shareholders looking to appoint a proxy online should visit www.babcock-shares.com and follow the instructions.

The latest time and date for acceptance of, and payment in full for, the New Ordinary Shares by holders of Nil Paid Rights is expected to be 11.00 a.m. on 6 May 2014. The procedures for delivery of the Nil Paid Rights, acceptance and payment are set out in Part IV (*Terms and Conditions of the Rights Issue*) of this document and, for Qualifying non-CREST Shareholders only, also in the Provisional Allotment Letter. Qualifying CREST Shareholders should refer to paragraph 2.2 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

Subject, *inter alia*, to the passing of the Resolution, it is expected that Qualifying non-CREST Shareholders (subject to certain exceptions) will be sent a Provisional Allotment Letter on 16 April 2014, and that Qualifying CREST Shareholders (subject to certain exceptions) will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 17 April 2014. The Nil Paid Rights so credited in CREST are expected to be enabled for settlement by Euroclear as soon as practicable after Admission. The Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Ordinary Shares and/or related instruments for their own account for the purpose of hedging their commitments under the Underwriting Agreement or otherwise. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

Qualifying non-CREST Shareholders should retain this document for reference pending receipt of a Provisional Allotment Letter. Qualifying CREST Shareholders should note that they will receive no further written communication from Babcock in respect of the Rights Issue. They should accordingly retain this document for, among other things, details of the action they should take in respect of the Rights Issue. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue. Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

J.P. Morgan Securities plc, which conducts its UK investment banking businesses as J.P. Morgan Cazenove, Jefferies International Limited, Barclays Bank PLC and HSBC Bank plc (together, the “**Underwriters**”), which are authorised in the UK by the Prudential Regulatory Authority and regulated in the UK by the Prudential Regulatory Authority and the FCA, are acting exclusively for Babcock and no one else in connection with the Rights Issue and the Acquisition and will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Rights Issue and/or the Acquisition and will not be responsible to any person other than Babcock for providing the protections afforded to clients of the Underwriters, nor for providing advice in relation to the Acquisition or any other matters referred to herein.

Rothschild, which is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Babcock and for no one else in connection with the Rights Issue or the Acquisition and will not be responsible to anyone other than Babcock for providing the protections afforded to clients of Rothschild nor for providing advice in relation to the Rights Issue or the Acquisition.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters under FSMA or the regulatory regime established thereunder, none of the Underwriters accept any responsibility whatsoever or make any representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by them, or on their behalf, in connection with Babcock, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares, the Acquisition or the Rights Issue and nothing in this document is or shall be read as a promise or representation in this respect, whether as to the past or future. Subject to applicable law, each of the Underwriters accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved.

The investors also acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in this document or their investment decision; and (ii) they have relied only on the information contained in this document, and that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Ordinary Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Underwriters.

Notice to Overseas Shareholders

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares have not been and will not be registered under the Securities Act, or under any securities laws of any state or other jurisdiction of the United States, or any relevant laws of any of the Excluded Territories, and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, within the United States (except pursuant to an applicable exemption from or in a transaction not subject to the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States), or any of the Excluded Territories (except pursuant to applicable exemptions). There will be no public offer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Ordinary Shares in the United States or any of the Excluded Territories.

None of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters, the New Ordinary Shares, this document or any other offering document has been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Rights Issue or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, as amended (the “FIEA”). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEA and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Except as otherwise provided for herein, this document does not constitute an offer of Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters or New Ordinary Shares to any Shareholder with a registered address in, or who is resident in, the United States or any of the Excluded Territories. This document does not constitute an offer to sell or a solicitation of an offer to buy New Ordinary Shares or to take up entitlements to Nil Paid Rights in any jurisdiction in which such offer or solicitation is unlawful.

The Underwriters may arrange for any New Ordinary Shares not taken up in the Rights Issue to be offered and sold only (i) outside the United States in accordance with Regulation S under the Securities Act or (ii) inside the United States to persons reasonably believed to be “qualified institutional buyers” (“QIB”) within the meaning of Rule 144A under the Securities Act in reliance on an exemption from the registration requirements of the Securities Act. Prospective investors are hereby notified that such sellers of the Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters or New Ordinary Shares may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

In addition, until 40 days after Admission, an offer, sale or transfer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Ordinary Shares within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

Subject to certain exceptions, neither this document nor any accompanying documents (including the Provisional Allotment Letter) will be posted to any person with a registered address in the United States or in any of the Excluded Territories. All Overseas Shareholders and any person (including, without limitation, a nominee, custodian or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter, if and when received, or any other document to a jurisdiction outside the United Kingdom should read paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

The Company is not subject to the periodic reporting requirements of the Exchange Act. In order to permit compliance with Rule 144A under the Securities Act in connection with resales of the New Ordinary Shares, the Company agrees to furnish upon the request of a Shareholder or a prospective purchaser from any Shareholder the information required to be delivered under Rule 144A(d)(4) of the Securities Act if at the time of such request it is not a reporting company under section 13 or section 15(d) of the Exchange Act and is not exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421 B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to EEA investors

In relation to the Member States (except for the United Kingdom) that have implemented the Prospectus Directive (each, a “**relevant member state**”), with effect from and including the date on which the Prospectus Directive was implemented in that relevant member state (the “**relevant implementation date**”), no New Ordinary Shares, Nil Paid Rights or Fully Paid Rights have been offered or will be offered pursuant to the Rights Issue to the public in that relevant member state prior to the publication of a prospectus in relation to the New Ordinary Shares, Nil Paid Rights and Fully Paid Rights which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that with effect from and including the relevant implementation date, offers of New Ordinary Shares, Nil Paid Rights or Fully Paid Rights may be made to the public in that relevant member state at any time under the following exemptions under the Prospectus Directive, if they are implemented in that relevant member state:

- (a) to any legal entity which is a qualified investor, as defined in the Prospectus Directive;
- (b) to fewer than 100, or if the relevant member state has implemented the relevant provisions of the PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such relevant member state; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Ordinary Shares, Nil Paid Rights or Fully Paid Rights shall result in a requirement for the publication by the Company, the Sponsor or the Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive.

For this purpose, the expression “an offer of any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights to the public” in relation to any New Ordinary Shares, Nil Paid Rights and Fully Paid Rights in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Rights Issue and any New Ordinary Shares, Nil Paid Rights and Fully Paid Rights to be offered so as to enable an investor to decide to acquire any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

Notice to all investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information for any purpose other than in considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares is prohibited. By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights and/or the New Ordinary Shares agrees to the foregoing.

The distribution of this document and/or the Provisional Allotment Letters and/or any other offering of public materials relating to the Rights Issue and/or the transfer of Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by Babcock or by the Underwriters that would permit an offer of New Ordinary Shares or rights thereto or possession or distribution of this document or any other offering or publicity material or Provisional Allotment Letters, Nil Paid Rights, or Fully Paid Rights, in any jurisdiction where action for that purpose is required, other than in the United Kingdom. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Pursuant to the requirements of applicable United States securities laws, the documents are not for distribution in the United States. The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares are not transferable except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

No person has been authorised to give any information or make any representations other than those contained in this document or incorporated into this document by reference and, if given or made, such information or representations must not be relied upon as having been authorised by Babcock, Avincis or by any of the Underwriters. None of the above take any responsibility for, or can provide assurance as to the reliability of, other information that you may be given. The Company will comply with any obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority but neither the Company nor any of the Underwriters assumes any further obligation to publish additional information. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Babcock and/or Avincis since the date of this document or that the information in this document is correct as at any time subsequent to its date. Without limitation, the contents of Babcock’s website do not constitute part of this document.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult their own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

This document is dated 27 March 2014.

CONTENTS

	Page
WHERE TO FIND HELP	1
RISK FACTORS	20
IMPORTANT INFORMATION	40
EXPECTED TIMETABLE OF PRINCIPAL EVENTS	45
SHARE CAPITAL AND RIGHTS ISSUE STATISTICS	46
DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS	47
PART I LETTER FROM THE CHAIRMAN	49
PART II PRINCIPAL TERMS OF THE ACQUISITION	62
PART III QUESTIONS AND ANSWERS ON THE RIGHTS ISSUE	64
PART IV TERMS AND CONDITIONS OF THE RIGHTS ISSUE	73
PART V INFORMATION ON THE BABCOCK GROUP	103
PART VI INFORMATION ON THE AVINCIS GROUP	115
PART VII OPERATING AND FINANCIAL REVIEW OF THE BABCOCK GROUP	127
PART VIII OPERATING AND FINANCIAL REVIEW OF THE AVINCIS GROUP	136
PART IX HISTORICAL FINANCIAL INFORMATION RELATING TO THE BABCOCK GROUP	149
PART X HISTORICAL FINANCIAL INFORMATION RELATING TO THE AVINCIS GROUP	150
PART XI UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE ENLARGED GROUP	229
PART XII TAXATION	236
PART XIII DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE	245
PART XIV ADDITIONAL INFORMATION	261
PART XV DOCUMENTS INCORPORATED BY REFERENCE	303
PART XVI DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS	306
NOTICE OF GENERAL MEETING	314
ANNEX 1 PROFIT FORECAST OF THE BABCOCK GROUP	317

WHERE TO FIND HELP

If you have any questions relating to this document, and the completion and return of the Form of Proxy or Provisional Allotment Letter, please telephone Capita Asset Services between 9.00 am and 5.30 pm (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal or tax advice.

In addition, see Part III (*Questions and Answers on the Rights Issue*) of this document for further information.

SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A-E (A.1 – E.7).

The summary contains all the Elements required to be included in a summary for this type of issuer and securities. Because some Elements are not required to be addressed there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted into the summary because of the type of issuer and securities, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “not applicable”.

Section A - Introduction and warnings

Element	Disclosure requirement	Disclosure
A.1	Warning	This summary should be read as an introduction to this document. Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.
A.2	Any consents to and conditions regarding use of this document for subsequent resale or final placement of securities by financial intermediaries	Not applicable. No consent has been given by Babcock or any person responsible for drawing up this document to use it for subsequent resale or final placement of securities by financial intermediaries.

Section B - Issuer

Element	Disclosure requirement	Disclosure
B.1	Legal name	Babcock International Group PLC
	Commercial name	Babcock
B.2	Domicile and legal form of the issuer, legislation under which the issuer operates and country of incorporation	<p>Babcock was incorporated and registered in England and Wales on 1 February 1989 under the Companies Act 1985 as a public company limited by shares with registered number 2342138 and with the name Flowplus Public Limited Company. On 23 June 1989, it changed its name to Babcock International Group PLC.</p> <p>The registered and head office of Babcock is at 33 Wigmore Street, London, W1U 1QX.</p> <p>The principal legislation under which Babcock operates is the Companies Act 2006 and the regulations made thereunder.</p>

Element	Disclosure requirement	Disclosure
B.3	Current operations and principal activities	<p>Babcock</p> <p>Babcock is the UK's leading engineering support services company with customers in the UK and overseas in the defence, energy, emergency services, transport, education, communications, mining and construction sectors. Its customers are mainly central and local governments, regulated bodies, and blue chip companies operating in highly regulated sectors, who own or operate strategically important assets requiring long-term maintenance and upgrade. In the 2013 Financial Year, the Babcock Group generated underlying revenue of £3.2 billion and employed approximately 26,000 staff worldwide across its four divisions: Marine and Technology, Defence and Security, Support Services and International.</p> <p>Avincis</p> <p>Avincis is a leading supplier of helicopter and fixed wing services for mission critical operations including emergency services (medical, search and rescue), fire-fighting and civil protection in Europe, and a leading supplier of offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with an established strategy to expand this service into the growing Norwegian and Australian offshore oil and gas sectors. Headquartered in the UK, Avincis operates in 8 countries (excluding the Latin America business which Avincis has decided to discontinue) and employs more than 2,800 employees. As of 31 December 2013, Avincis total fleet comprised 343 aircraft, operating from more than 200 operational bases and the average age of its on balance sheet aircraft, weighted by value, was approximately 9.3 years. Total revenue in the year to 31 December 2013 was €582 million and adjusted EBITDA was €135 million, giving a 23 per cent. adjusted EBITDA margin.</p>
B.4a	Significant recent trends	<p>Babcock</p> <p>Over the past few years, Babcock's customers have faced difficult decisions when trying to manage the delivery of critical services with relatively scarce resources. As a result, new outsourcing opportunities have been created by customers who (i) need to achieve financial savings without reducing outputs or eliminating services; (ii) want a better value-for-money support solution while improving availability of assets or infrastructures; and/or (iii) want to improve or invest in new assets or infrastructures but lack the necessary scale of resource, depth of knowledge or expertise to carry out the complex engineering support required.</p> <p>The general economic climate continues to drive both public and private sector customers to consider new or additional outsourcing of essential support activities as a way of delivering increased financial and operational efficiency. Babcock's business model, scale of operations, the depth and breadth of its experience and its track record of delivering operational and financial efficiencies provide an excellent platform to benefit from the positive markets which continue to offer Babcock medium and long-term opportunities in both the UK and overseas. The size of the order book and bid pipeline</p>

Element	Disclosure requirement	Disclosure
		<p>continue to provide good visibility of future revenue streams. In addition, Babcock has identified new markets and geographies with similar growth characteristics where it believes its business model will be an advantage.</p> <p>On 11 February 2014, Babcock published its interim management statement for the period from 1 October 2013, in which Babcock stated that: <i>“Following the strong performance in the first half of the 2013/14 financial year, the Babcock Group has traded well during the third quarter of the year. Activity levels are high in all divisions and, despite the continued weakness of the South African Rand, financial performance is in line with our expectations as set out at the time of our half year results announcement on 12 November 2013”</i>.</p> <p>Avincis</p> <p>The demand for life and rescue helicopter services and safety and environmental helicopter services has been driven by an outsourcing trend for these services by public administrations in the European Union. By outsourcing the operation and maintenance of helicopters to specialised helicopter operators like the Avincis Group instead of retaining them in-house, public administrations have been able to achieve costs savings and improved service, such as increased coverage and more modern aircraft. Additionally, the Avincis Group benefits from product substitution as certain customers use helicopters to maintain geographic coverage following closures of smaller or regional hospitals or by replacing a number of car ambulance services with one helicopter.</p> <p>The Avincis Group’s demand for energy support services is dependent on levels of activity in offshore oil and gas exploration, development and production. While these activity levels are affected by trends in, and expectations regarding, oil and gas prices, the Avincis Group’s Energy Support Services customers typically base their capital expenditure budgets on their long-term commodity expectations and not necessarily on the spot price. The oil and gas production business is typically less cyclical than the exploration and development business because the oil and gas production platforms remain in place over the long-term and are relatively unaffected by economic cycles.</p>
B.5	Group description	<p>Babcock is the parent company of the Babcock Group, which provides engineering support services in the UK and overseas in the defence, energy, emergency services, transport, education, communications, mining and construction sectors.</p> <p>Following the Acquisition of Avincis, Babcock will be the parent company of the Enlarged Group.</p>

Element	Disclosure requirement	Disclosure																																													
B.6	Major shareholders	<p>As at the Latest Practicable Date, the Company had been notified under the Disclosure and Transparency Rules of the following direct and indirect substantial interests in the issued Ordinary Shares of the Company:</p> <table><thead><tr><th>Shareholders</th><th>Number of Existing Ordinary Shares</th><th>Approximate percentage of existing issued share capital</th><th>Number of Ordinary Shares following the Rights Issue</th><th>Approximate percentage of issued share capital following the Rights Issue</th></tr></thead><tbody><tr><td>The Capital Group Companies Inc</td><td>21,910,915</td><td>6.05</td><td>30,338,190</td><td>6.05</td></tr><tr><td>Blackrock, Inc</td><td>18,147,899</td><td>5.01</td><td>25,127,860</td><td>5.01</td></tr><tr><td>Cantillon Capital LLC</td><td>17,938,977</td><td>4.95</td><td>24,838,583</td><td>4.95</td></tr><tr><td>Standard Life Investments Limited</td><td>17,928,896</td><td>4.95</td><td>24,824,625</td><td>4.95</td></tr><tr><td>FMR LLC</td><td>17,700,915</td><td>4.89</td><td>24,508,959</td><td>4.89</td></tr><tr><td>Legal & General Group Plc</td><td>14,325,920</td><td>3.96</td><td>19,835,889</td><td>3.96</td></tr><tr><td>JP Morgan Chase & Co</td><td>11,376,214</td><td>3.14</td><td>15,751,680</td><td>3.14</td></tr><tr><td>Ameriprise Financial Inc.</td><td>11,330,063</td><td>3.13</td><td>15,687,779</td><td>3.13</td></tr></tbody></table> <p>Note: Assuming each major Shareholder takes up its rights to New Ordinary Shares in full and that there is no exercise of options or awards under the Share Schemes between the Latest Practicable Date and completion of the Rights Issue.</p> <p>As at the Latest Practicable Date, save as disclosed in this Element, the Company is not aware of any interest (within the meaning of the Disclosure and Transparency Rules) which represents 3 per cent. or more of the voting rights in the Company. The Company is not aware of any person or persons who, directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.</p> <p>None of the Company’s major Shareholders has now, or will following the Rights Issue have, different voting rights from other holders of Ordinary Shares.</p> <p>The Company is not aware of any person who immediately following Admission directly or indirectly, jointly or severally, will own or could exercise control over the Company.</p>	Shareholders	Number of Existing Ordinary Shares	Approximate percentage of existing issued share capital	Number of Ordinary Shares following the Rights Issue	Approximate percentage of issued share capital following the Rights Issue	The Capital Group Companies Inc	21,910,915	6.05	30,338,190	6.05	Blackrock, Inc	18,147,899	5.01	25,127,860	5.01	Cantillon Capital LLC	17,938,977	4.95	24,838,583	4.95	Standard Life Investments Limited	17,928,896	4.95	24,824,625	4.95	FMR LLC	17,700,915	4.89	24,508,959	4.89	Legal & General Group Plc	14,325,920	3.96	19,835,889	3.96	JP Morgan Chase & Co	11,376,214	3.14	15,751,680	3.14	Ameriprise Financial Inc.	11,330,063	3.13	15,687,779	3.13
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B.7	Historical key financial information	<p>Babcock</p> <p>Selected historical financial information relating to the Company has been extracted without material adjustment from the audited consolidated financial statements of the Babcock Group for the 2013, 2012 and 2011 Financial Years and the unaudited financial statements of the Babcock Group for the six months ended 30 September 2013 that are referred to in Part IX (<i>Historical Financial Information Relating to the Babcock Group</i>). Prospective investors should review the following selected financial information together with the whole of this document and any documents incorporated into this document by reference and should not rely on the selected financial information below.</p>																																													

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This reduced operating profit for the 2013 Financial Year by £31.0 million, increased finance costs by £11.8 million and reduced the taxation charge by £10.3 million.</p> <p>Consolidated balance sheet</p> <table><tr><th></th><th colspan="3">Financial Years ended 31 March</th><th colspan="2">Six months ended 30 September</th></tr><tr><th></th><th>2011</th><th>2012</th><th>2013</th><th>2012 (unaudited)</th><th>2013 (unaudited)</th></tr><tr><th></th><th></th><th></th><th></th><th colspan="2"> (£ million)</th></tr><tr><td>Total assets</td><td>3,189.7</td><td>2,997.6</td><td>3,004.2</td><td>2,953.3</td><td>3,068.8</td></tr><tr><td>Total liabilities</td><td>2,169.1</td><td>2,077.6</td><td>2,035.3</td><td>2,087.7</td><td>2,171.9</td></tr><tr><td>Net debt</td><td>729.0</td><td>641.1</td><td>550.6</td><td>581.1</td><td>572.2</td></tr><tr><td>Total equity attributable to Babcock Shareholders</td><td>1,020.6</td><td>920.0</td><td>968.9</td><td>865.6</td><td>896.9</td></tr></table>		Financial Years ended 31 March		Six months ended 30 September			2011 (restated) (1)	2012	2012 (restated) (2)	2013 (restated) (2)				2012 (unaudited and restated) (2)	2013 (unaudited)				(£ million)		Revenue	2,564.5	2,848.4	3,029.4	1,450.3	Operating profit	153.2	202.0	203.5	93.2	Profit before tax	111.1	173.0	181.8	80.4	Profit for the period	101.0	157.2	163.8	74.7	Basic earnings per share	30.1	42.9	43.9	20.2		Financial Years ended 31 March		Six months ended 30 September			2011 (restated) (1)	2012	2012 (restated) (2)	2013 (restated) (2)				2012 (unaudited and restated) (2)	2013 (unaudited)				(£ million)		Revenue	2,703.2	3,070.4	3,243.5	1,556.7	Operating profit	275.4	329.0	345.6	158.4	Profit before tax	216.7	274.1	275.0	121.2	Profit for the period	173.3	223.7	229.4	102.3	Basic earnings per share	52.5	61.5	62.2	27.9		Financial Years ended 31 March			Six months ended 30 September			2011	2012	2013	2012 (unaudited)	2013 (unaudited)					(£ million)		Total assets	3,189.7	2,997.6	3,004.2	2,953.3	3,068.8	Total liabilities	2,169.1	2,077.6	2,035.3	2,087.7	2,171.9	Net debt	729.0	641.1	550.6	581.1	572.2	Total equity attributable to Babcock Shareholders	1,020.6	920.0	968.9	865.6	896.9
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		<p>There has been no significant change in the trading or financial position of the Babcock Group since 30 September 2013, the date to which Babcock’s last unaudited 2013/14 Half Year Financial Statements were prepared.</p> <p>Avincis</p> <p>Selected historical financial information relating to the Avincis Group has been extracted without material adjustment from the financial information of Avincis for the years ended 31 December 2013, 2012 and 2011 set forth in Part X (<i>Historical Financial Information Relating to the Avincis Group</i>). Prospective investors should review the following selected financial information together with the whole of this document and should not rely on the selected financial information below.</p> <p>Consolidated income statement</p> <p><i>IFRS – historical financial information</i></p> <table><tr><th></th><th colspan="3">Financial Years ended 31 December</th></tr><tr><th></th><th>2011</th><th>2012</th><th>2013</th></tr><tr><th></th><th colspan="3">(€ million)</th></tr><tr><td>Total revenue</td><td>515.5</td><td>573.5</td><td>582.2</td></tr><tr><td>Group revenue</td><td>496.4</td><td>552.6</td><td>566.5</td></tr><tr><td>Group operating profit</td><td>55.1</td><td>48.1</td><td>34.9</td></tr><tr><td>Loss before tax</td><td>(11.4)</td><td>(35.1)</td><td>(68.8)</td></tr><tr><td>Loss for the year</td><td>(9.4)</td><td>(27.5)</td><td>(77.5)</td></tr></table> <p><i>Non-IFRS measures</i></p> <p>Underlying operating profit, underlying operating profit before loss on disposal of non-current assets and adjusted EBITDA are supplemental measures of performance and liquidity. For additional information on the use of non-IFRS financial measures, see paragraph 3 (<i>Presentation of Financial Information</i>) of “Important Information” in this document.</p> <table><tr><th></th><th colspan="3">Financial Years ended 31 December</th></tr><tr><th></th><th>2011</th><th>2012</th><th>2013</th></tr><tr><th></th><th colspan="3">(€ million)</th></tr><tr><td>Underlying operating profit</td><td>79.6</td><td>81.1</td><td>72.0</td></tr><tr><td>Underlying operating profit before loss on disposal of non-current assets</td><td>91.9</td><td>88.5</td><td>84.4</td></tr><tr><td>Adjusted EBITDA</td><td>137.6</td><td>141.3</td><td>135.0</td></tr></table> <p>Consolidated balance sheet</p> <table><tr><th></th><th colspan="3">Financial Years ended 31 December</th></tr><tr><th></th><th>2011</th><th>2012</th><th>2013</th></tr><tr><th></th><th colspan="3">(€ million)</th></tr><tr><td>Total non-current assets</td><td>1,117.5</td><td>1,140.0</td><td>1,104.7</td></tr><tr><td>Total current assets</td><td>179.9</td><td>263.9</td><td>321.1</td></tr><tr><td>Total assets</td><td>1,297.4</td><td>1,403.9</td><td>1,425.8</td></tr><tr><td>Total equity</td><td>173.1</td><td>149.8</td><td>58.9</td></tr><tr><td>Total non-current liabilities</td><td>947.9</td><td>1,076.0</td><td>1,156.9</td></tr><tr><td>Total current liabilities</td><td>176.4</td><td>178.1</td><td>210.0</td></tr><tr><td>Total equity and liabilities</td><td>1,297.4</td><td>1,403.9</td><td>1,425.8</td></tr></table>		Financial Years ended 31 December				2011	2012	2013		(€ million)			Total revenue	515.5	573.5	582.2	Group revenue	496.4	552.6	566.5	Group operating profit	55.1	48.1	34.9	Loss before tax	(11.4)	(35.1)	(68.8)	Loss for the year	(9.4)	(27.5)	(77.5)		Financial Years ended 31 December				2011	2012	2013		(€ million)			Underlying operating profit	79.6	81.1	72.0	Underlying operating profit before loss on disposal of non-current assets	91.9	88.5	84.4	Adjusted EBITDA	137.6	141.3	135.0		Financial Years ended 31 December				2011	2012	2013		(€ million)			Total non-current assets	1,117.5	1,140.0	1,104.7	Total current assets	179.9	263.9	321.1	Total assets	1,297.4	1,403.9	1,425.8	Total equity	173.1	149.8	58.9	Total non-current liabilities	947.9	1,076.0	1,156.9	Total current liabilities	176.4	178.1	210.0	Total equity and liabilities	1,297.4	1,403.9	1,425.8
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		<p>Consolidated cash flow statement</p> <table><tr><td></td><th colspan="3">Financial Years ended 31 December</th></tr><tr><td></td><th>2011</th><th>2012</th><th>2013</th></tr><tr><td></td><td></td><th>(€ million)</th><td></td></tr><tr><td>Net cash flows from operating activities</td><td>38.2</td><td>(20.1)</td><td>66.7</td></tr><tr><td>Net cash flows from investing activities</td><td>(209.5)</td><td>(58.0)</td><td>(36.9)</td></tr><tr><td>Net cash flows from financing activities</td><td>140.6</td><td>116.1</td><td>62.0</td></tr></table> <p>Group revenue</p> <ul style="list-style-type: none">• The Avincis Group’s revenue increased by €13.9 million, or 2.5 per cent., from €552.6 million in 2012 to €566.5 million in 2013. The increase in Group revenue was mainly due to the new contracts awarded during 2013 of approximately €42.5 million. This increase was partially offset by the 2012 EC225 incidents which, in aggregate, decreased Group revenue by €14.1 million. Expired and non-renewed contracts decreased the Avincis Group’s revenue by €11.5 million. Other minor impacts, such as negative exchange rate differences, decreased revenue by €2.8 million.• The Avincis Group’s revenue increased by €56.2 million, or 11.3 per cent., from €496.4 million in 2011 to €552.6 million in 2012. The increase in the Avincis Group’s revenue was attributable primarily to the full period effect of the Bond Acquisition in April 2011. The positive impact of new contracts in 2012 was offset almost entirely by the negative impact of contract expirations. <p>Underlying operating profit</p> <ul style="list-style-type: none">• The Avincis Group’s underlying operating profit decreased by €9.1 million, or 11.2 per cent., from €81.1 million in 2012 to €72.0 million in 2013. This decrease in underlying operating profit was primarily the result of an increase in administration expenses from €157.4 million in 2012 to €176.3 million in 2013, which more than offset the increase in the Avincis Group’s revenue.• The Avincis Group’s underlying operating profit increased by €1.5 million, or 1.9 per cent., from €79.6 million in 2011 to €81.1 million in 2012. This increase in underlying operating profit was primarily the result of an increase in revenue offsetting an increase in administration expenses from €155.9 million in 2011 to €157.4 million in 2012 and an increase in cost of sales from €264.9 million in 2011 to €318.7 million in 2012. <p>There has been no significant change in the trading or financial position of the Avincis Group since 31 December 2013, the date to which the historical financial information of Avincis, as set out in Part X (<i>Historical Financial Information Relating to the Avincis Group</i>) of this document, was prepared.</p>		Financial Years ended 31 December				2011	2012	2013			(€ million)		Net cash flows from operating activities	38.2	(20.1)	66.7	Net cash flows from investing activities	(209.5)	(58.0)	(36.9)	Net cash flows from financing activities	140.6	116.1	62.0
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B.8	Key pro forma financial information	<p>Selected key unaudited pro forma financial information for the Enlarged Group is set out below. The pro forma statement of net assets and pro forma income statement have been prepared on the basis set out in the notes below to illustrate the impact of: (i) the Rights Issue and (ii) the Acquisition of the Avincis Group, on the net assets of the Babcock Group as at 30 September 2013 as if they had taken place at that date, and on the income statement of the Babcock Group for the year ended 31 March 2013 as if they had taken place at the beginning of that financial year.</p> <p>The unaudited pro forma statement of net assets and the unaudited pro forma income statement have been prepared for illustrative purposes only and, by their nature, address a hypothetical situation and do not, therefore, represent the Enlarged Group’s actual financial position or results.</p> <p><i>Summarised Unaudited Pro Forma net assets statement</i></p> <table><tr><th></th><th>Babcock as at 30 September 2013 ⁽¹⁾</th><th>Adjustments Rights Issue ⁽²⁾</th><th>Subtotal</th><th>Avincis as at 31 December 2013 ⁽³⁾</th><th>Acquisition Adjustment ⁽⁴⁾</th><th>Total</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td colspan="7">(£ million)</td></tr><tr><td colspan="7">ASSETS</td></tr><tr><td>Non-current assets</td><td>2,310.0</td><td>-</td><td>2,310.0</td><td>919.1</td><td>773.3</td><td>4,002.4</td></tr><tr><td>Current assets</td><td>758.8</td><td>1,076.1</td><td>1,834.9</td><td>267.2</td><td>(940.7)</td><td>1,161.4</td></tr><tr><td>Total assets</td><td>3,068.8</td><td>1,076.1</td><td>4,144.9</td><td>1,186.3</td><td>(167.4)</td><td>5,163.8</td></tr><tr><td colspan="7">LIABILITIES</td></tr><tr><td>Non-current liabilities</td><td>1,189.6</td><td>-</td><td>1,189.6</td><td>962.6</td><td>(97.8)</td><td>2,054.4</td></tr><tr><td>Current Liabilities</td><td>982.3</td><td>-</td><td>982.3</td><td>174.7</td><td>-</td><td>1,157.0</td></tr><tr><td>Total Liabilities</td><td>2,171.9</td><td>-</td><td>2,171.9</td><td>1,137.3</td><td>(97.8)</td><td>3,211.4</td></tr><tr><td>Net assets</td><td>896.9</td><td>1,076.1</td><td>1,973.0</td><td>49.0</td><td>(69.6)</td><td>1,952.4</td></tr></table> <p>Notes</p> <p>(1) The Babcock financial information has been extracted, without material adjustment, from the unaudited 2013/14 Half Year Financial Statements of the Babcock Group for the six months ended 30 September 2013.</p> <p>(2) The net proceeds of the Rights Issue of £1,076.1 million are calculated on the basis that the Company issues 139,259,204 New Ordinary Shares at a price of 790 pence per share, net of estimated expenses in connection with the Rights Issue of approximately £24.0 million, which have been capitalised.</p> <p>(3) The financial information of the Avincis Group has been extracted, without material adjustment, from the historical financial information of Avincis set out in Part X (<i>Historical Financial Information Relating to the Avincis Group</i>) of this document using the closing exchange rate at 31 December 2013 €1.202: £1.</p> <p>(4) The adjustments arising as a result of the Acquisition are set out below.</p> <p>a. The adjustment to current assets of £940.7 million represents the aggregate of the £920.1 million cash consideration payable for the Acquisition (€1,100 million translated at the exchange rate of €1.1955: £1 being the closing exchange rate as at 25 March 2014) and £20.6 million of estimated transaction costs.</p> <p>b. The adjustment to non-current trade and other payables of £97.8 million represents the removal of the Avincis shareholder loan which will be repaid at Acquisition.</p>		Babcock as at 30 September 2013 ⁽¹⁾	Adjustments Rights Issue ⁽²⁾	Subtotal	Avincis as at 31 December 2013 ⁽³⁾	Acquisition Adjustment ⁽⁴⁾	Total								(£ million)							ASSETS							Non-current assets	2,310.0	-	2,310.0	919.1	773.3	4,002.4	Current assets	758.8	1,076.1	1,834.9	267.2	(940.7)	1,161.4	Total assets	3,068.8	1,076.1	4,144.9	1,186.3	(167.4)	5,163.8	LIABILITIES							Non-current liabilities	1,189.6	-	1,189.6	962.6	(97.8)	2,054.4	Current Liabilities	982.3	-	982.3	174.7	-	1,157.0	Total Liabilities	2,171.9	-	2,171.9	1,137.3	(97.8)	3,211.4	Net assets	896.9	1,076.1	1,973.0	49.0	(69.6)	1,952.4
	Babcock as at 30 September 2013 ⁽¹⁾	Adjustments Rights Issue ⁽²⁾	Subtotal	Avincis as at 31 December 2013 ⁽³⁾	Acquisition Adjustment ⁽⁴⁾	Total																																																																																
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Element	Disclosure requirement	Disclosure																																																											
		<p>c. The adjustment to non-current assets represents goodwill which has been calculated as follows:</p> <table><tr><td></td><td style="text-align: right;">£m</td></tr><tr><td>Consideration</td><td style="text-align: right;">£920.1m</td></tr><tr><td>Net assets acquired</td><td style="text-align: right;">(£49.0m)</td></tr><tr><td>Shareholder loan</td><td style="text-align: right;">(£97.8m)</td></tr><tr><td>Pro forma goodwill adjustment</td><td style="text-align: right;"><u>£773.3m</u></td></tr></table> <p>The Acquisition has been accounted for using the acquisition method of accounting. The excess of consideration over the book value of the assets acquired has been reflected as goodwill. A fair value exercise will be completed post Acquisition. Therefore no account has been taken of any fair value adjustments that may arise on Acquisition.</p> <p>(5) No adjustment has been made to reflect the trading results of the Babcock Group since 30 September 2013 or of the Avincis Group since 31 December 2013.</p> <p><i>Summarised Unaudited Pro Forma Income Statement</i></p> <table><tr><th></th><th>Babcock for the year ended 31 March 2013 (restated) ⁽¹⁾</th><th>Rights Issue ⁽²⁾</th><th>Sub total</th><th>Adjustments Avincis for the year ended 31 December 2013 ⁽³⁾</th><th>Acquisition Adjustments ⁽⁴⁾</th><th>Total</th></tr><tr><td></td><td></td><td></td><td></td><td style="text-align: center;">(£ million)</td><td></td><td></td></tr><tr><td>Group revenue</td><td style="text-align: right;">3,029.4</td><td style="text-align: center;">-</td><td style="text-align: right;">3,029.4</td><td style="text-align: right;">481.2</td><td style="text-align: center;">-</td><td style="text-align: right;">3,510.6</td></tr><tr><td>Operating profit before amortisation of acquired intangibles and exceptional items</td><td style="text-align: right;">284.2</td><td style="text-align: center;">-</td><td style="text-align: right;">284.2</td><td style="text-align: right;">57.0</td><td style="text-align: center;">-</td><td style="text-align: right;">341.2</td></tr><tr><td>Group operating profit plus share of joint ventures and associates</td><td style="text-align: right;">221.5</td><td style="text-align: center;">-</td><td style="text-align: right;">221.5</td><td style="text-align: right;">31.2</td><td style="text-align: right;">(20.6)(a)</td><td style="text-align: right;">232.1</td></tr><tr><td>Profit for the year from continuing obligations</td><td style="text-align: right;">163.8</td><td style="text-align: center;">-</td><td style="text-align: right;">163.8</td><td style="text-align: right;">(53.9)</td><td style="text-align: right;">(9.1)(b)</td><td style="text-align: right;">100.8</td></tr><tr><td>Profit for the year attributable to the owners of the Company</td><td style="text-align: right;">142.7</td><td style="text-align: center;">-</td><td style="text-align: right;">142.7</td><td style="text-align: right;">(64.4)</td><td style="text-align: right;">(9.1)(b)</td><td style="text-align: right;">69.2</td></tr></table> <p>Notes</p> <p>(1) The Babcock financial information has been extracted, without material adjustment, from the 2013 Financial Statements of the Babcock Group as restated in the unaudited 2013/14 Half Year Financial Statements of the Babcock Group for the six months ended 30 September 2013.</p> <p>(2) No adjustment has been made to reduce the finance costs for the year on the basis that the proceeds of the Rights Issue would not have been used to repay debt.</p> <p>(3) The financial information of the Avincis Group has been extracted, without material adjustment, from the historical financial information of the Avincis Group set out in Part X (<i>Historical Financial Information Relating to the Avincis Group</i>) of this document using the average exchange rate for the year to 31 December 2013 €1.177: £1.</p>		£m	Consideration	£920.1m	Net assets acquired	(£49.0m)	Shareholder loan	(£97.8m)	Pro forma goodwill adjustment	<u>£773.3m</u>		Babcock for the year ended 31 March 2013 (restated) ⁽¹⁾	Rights Issue ⁽²⁾	Sub total	Adjustments Avincis for the year ended 31 December 2013 ⁽³⁾	Acquisition Adjustments ⁽⁴⁾	Total					(£ million)			Group revenue	3,029.4	-	3,029.4	481.2	-	3,510.6	Operating profit before amortisation of acquired intangibles and exceptional items	284.2	-	284.2	57.0	-	341.2	Group operating profit plus share of joint ventures and associates	221.5	-	221.5	31.2	(20.6)(a)	232.1	Profit for the year from continuing obligations	163.8	-	163.8	(53.9)	(9.1)(b)	100.8	Profit for the year attributable to the owners of the Company	142.7	-	142.7	(64.4)	(9.1)(b)	69.2
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Element	Disclosure requirement	Disclosure
		<p>(4) The adjustments arising as a result of the Acquisition are set out below:</p> <ol style="list-style-type: none"> The adjustment represents an exceptional item of (£20.6 million) reflecting estimated transaction costs payable in respect of the Acquisition. The adjustment reflects the £20.6 million exceptional item discussed in (a) above offset by: (i) a credit to finance costs of £9.5 million representing the interest payable on the Avincis shareholder loan which will be repaid at Acquisition and (ii) a tax adjustment of £2.0 million representing the combined tax impact of the adjustments to exceptional items and finance costs calculated at 18.12%, Babcock's effective tax rate for the year to 31 March 2013. <p>(5) No adjustment has been made to reflect the trading results of the Babcock Group since 31 March 2013 or of the Avincis Group since 31 December 2013.</p>
B.9	Profit forecast or estimate	<p>The Babcock Directors expect that underlying earnings per share will achieve low double digit growth for the year ending 31 March 2014, which is intended to indicate that underlying earnings per share will be not less than 68.6 pence for that period (the "Profit Forecast").</p> <p>In the above statement, underlying earnings is defined as earnings before amortisation of acquired intangibles and exceptional items and including the Babcock Group's share of equity accounted joint ventures and associates and including investment income arising from IFRIC12 (Accounting for Service Concession Arrangements). Collectively these adjustments are made to derive the underlying operating results of the business. The underlying figures provide a consistent measure of business performance year-to-year thereby facilitating comparison and understanding of the Babcock Group financial performance.</p> <p>The Profit Forecast has been properly compiled on the basis of the assumptions stated below, on a basis consistent with the accounting policies of the Babcock Group, which are in accordance with IFRS and are those which Babcock anticipates will be applicable for the full year ending 31 March 2014.</p> <p>The Babcock Directors have prepared the Profit Forecast based on the unaudited interims for the six months ended 30 September 2013, the unaudited management accounts for the five month period from 1 October 2013 to 28 February 2014 and a forecast of the results for the one month period ending 31 March 2014.</p> <p>The Babcock Directors have prepared the Profit Forecast on the basis of the following assumptions:</p> <p>Factors outside the influence or control of the Babcock Directors</p> <ul style="list-style-type: none"> There will be no material change to macroeconomic, political or legal conditions in the markets or regions in which the Babcock Group operates that materially affect the Babcock Group during the year ending 31 March 2014. There will be no material changes in market conditions within the defence and support services industry over the one month forecast period to 31 March 2014 in relation to either customer demand or competitive environment. The exchange rates and inflation and tax rates in Babcock's principal markets will remain materially unchanged from the prevailing rates.

Element	Disclosure requirement	Disclosure
		<ul style="list-style-type: none"> • There will be no material change in Babcock's labour costs, including medical and pension and other post-retirement benefits driven by external parties or regulations. • There will be no business disruption that will have a significant impact on Babcock's operations, customers or financial performance. • There will be no material change in legislation or regulatory requirements impacting on Babcock's operations or its accounting policies. <p>Factors within the influence or control of the Babcock Directors</p> <ul style="list-style-type: none"> • Current contract negotiations with a number of clients will conclude materially as the Babcock Directors would reasonably expect based on Babcock's past experience. • No material new client contract issues will arise beyond those that are already known to the Babcock Directors at the current time and built into the forecasts. • The Profit Forecast excludes any exceptional transaction and transition costs associated with the proposed acquisition of Avincis by Babcock. • The Profit Forecast does not take into account any impact of the Rights Issue or the Acquisition, which will be completed after 31 March 2014. • There will be no material change in the weighted average number of shares in issue during the financial year ending 31 March 2014.
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. The audit reports on the historical financial information included in, or incorporated by reference into, this document are not qualified.
B.11	Insufficient working capital	Not applicable. The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the bank and other facilities available to the Babcock Group, the working capital available to the Babcock Group is sufficient for its present requirements, that is, for at least the 12 months following the date of publication of this document.

Section C - Securities

Element	Disclosure requirement	Disclosure
C.1	Type and class of securities	<p>Babcock is proposing to offer 139,259,204 New Ordinary Shares of 60 pence each at 790 pence per New Ordinary Share pursuant to the Rights Issue. When admitted to trading, the New Ordinary Shares will be registered with ISIN number GB0009697037 and SEDOL number 0969703.</p> <p>The ISIN number for the Nil Paid Rights is GB00BKS8RN78 and the ISIN number for the Fully Paid Rights is GB00BKS8RR17.</p>
C.2	Currency of the securities issue	Pounds sterling.
C.3	Number of shares issued and value per share	As at the Latest Practicable Date the Company has in issue 362,073,932 fully paid Ordinary Shares of 60 pence each.
C.4	Description of the rights attached to the securities	The New Ordinary Shares will be issued credited as fully paid and will rank <i>pari passu</i> in all respects with the Existing Ordinary Shares in issue at the time they are issued, including in relation to any dividends or other distributions declared, made or paid with a record date falling after the date of allotment and issue of the New Ordinary Shares. Subject to any special rights, restrictions or prohibitions as regards voting for the time being attached to any Ordinary Shares (for example, in the case of joint holders of a share, the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the share), Shareholders shall have the right to attend and vote at general meetings of Babcock. Subject to the provisions of the Companies Act 2006, Babcock may from time to time declare dividends and make other distributions on the Ordinary Shares. Shareholders are entitled to participate in the assets of Babcock attributable to their shares in a winding-up of Babcock or other return of capital, but they have no rights of redemption.
C.5	Description of any restrictions on the free transferability of the securities	There are currently no restrictions on the free transferability of the Ordinary Shares. However Babcock may seek to amend its Articles to enable the Board to impose restrictions (if necessary) on the ownership and transfer of Ordinary Shares in order to ensure that Babcock can comply with the nationality requirements under EC aircraft regulation.
C.6	Admission to trading of the securities	Applications will be made to the UKLA and to the London Stock Exchange for the New Ordinary Shares (nil and fully paid) to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities respectively. It is expected that Admission will become effective on 17 April 2014 and that dealings in New Ordinary Shares will commence, nil paid, at 8.00 a.m. on that date.
C.7	Dividend policy	Babcock paid dividends per share of 26.3 pence, 22.7 pence and 19.4 pence for the 2013 Financial Year, 2012 Financial Year and 2011 Financial Year, respectively and an interim dividend of 6.90 pence per share for the 2014 Financial Year. Babcock's dividend policy is that, over the medium term, the dividend cover should be, on average, 2.5 to 3 times (based on underlying earnings per share), having regard to the availability of distributable reserves and cash, and taking into

Element	Disclosure requirement	Disclosure
		<p>account the Enlarged Group's working capital and investment requirements.</p> <p>Following completion of the Acquisition, Babcock intends to maintain the same dividend policy.</p>

Section D - Risks

Element	Disclosure requirement	Disclosure
D.1	Key information on the risks specific to the issuer or its industry	<ul style="list-style-type: none"> • Reliance on large contracts with a relatively limited number of major customers, including customers affected by political and public spending decisions, means the Babcock Group and the Avincis Group are exposed to political risks, and damage to reputation • The Babcock Group depends and will continue to depend heavily on UK government customers, particularly the Ministry of Defence, and other UK public sector bodies and agencies, for a substantial proportion of its revenue. Damage to Babcock's reputation with any such customers or damage to the reputation of outsourcing business generally, could lead to loss of business across that customer base and significant economic damage • The operations of the Babcock Group and the Avincis Group carry significant health and safety and environmental risks and the Enlarged Group will be exposed to a greater extent to the risk of losses and reputational damage from safety incidents and accidents • Failure to realise the pipeline of opportunities and to secure rebids can involve significant wasted costs, missed opportunities for growth and loss of revenue • The Babcock Group's and the Avincis Group's businesses depend on their ability to attract, train and retain their senior management and highly skilled employees • Failure to deliver secure IT systems and to combat cyber and other security risks to information could adversely affect the ability of the Babcock Group and the Avincis Group to win future contracts and in the event of a breach of security could lead to business disruption and reputational damage • Certain of the Babcock Group's and the Avincis Group's businesses are dependent on national and local governments' policies with regards to maintaining and improving public infrastructure and their attitude to outsourcing of services or activities to the private sector. National and local government policy changes and public spending constraints are potentially material risks for the Babcock Group and the Avincis Group • If Scotland becomes independent, there is likely to be a lengthy period of uncertainty in respect of the new Scottish government's policies and their impact (some of which can be adverse) on the Babcock Group's and, following the Acquisition, the Enlarged Group's Scottish businesses. There may also be a medium term knock-on effect on the nature, timing and scope of the policies and procurement plans of the successor British state, especially in defence terms

Element	Disclosure requirement	Disclosure
		<ul style="list-style-type: none"> There may be a decline in the UK government's defence budget or a change in its defence policy or priorities,) which may adversely affect the Babcock Group's business. The UK government is due to undertake a Strategic Defence and Security Review in 2015 after the general election due in 2015 and such review may have material short or longer-term consequences for the Babcock Group's business with the Ministry of Defence As a contractor with national and local governments, public sector bodies and agencies and government regulated customers, each of the Babcock Group and the Avincis Group is subject to procurement rules and regulations and procurement delays which may increase the Babcock Group's and the Avincis Group's bidding, performance and compliance costs and could have an adverse impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition, results of operations or prospects
D.3	Key information on the risks specific to the securities	<ul style="list-style-type: none"> The market value of listed securities may fluctuate and may not reflect the underlying asset value of the Babcock Group Shareholders who do not take up their rights in full will experience dilution in their ownership Babcock may seek to amend its Articles to enable the Board to impose restrictions (if necessary) on the ownership and transfer of Ordinary Shares in order to ensure that Babcock can comply with the nationality requirements under EC aircraft regulation (Regulation (EC) 1008/2008)

Section E – Offer

Element	Disclosure requirement	Disclosure
E.1	Net proceeds and costs of the issue	The total net proceeds of the Rights Issue are expected by the Company to amount to approximately £1,055 million. The total costs, charges and expenses (including fees and commissions) (exclusive of recoverable VAT) payable by the Company in connection with the Rights Issue amount to approximately £24 million and in connection with the Acquisition are estimated to amount to approximately £21 million. The Company intends to pay for all expenses arising from, or in connection with, the Rights Issue (save in connection with the Share Dealing Service). There are therefore no expenses to be charged by the Company to Shareholders who take up their rights in the Rights Issue.
E.2a	Reasons for offer and use of proceeds	<p>The net proceeds of the Rights Issue will be used to fund the Acquisition.</p> <p>Babcock is the UK's leading engineering support services company. Babcock's objective is to grow from this position in both the UK and overseas as well as to deliver superior and sustainable value for its shareholders. Babcock aims to achieve that strategy by creating and growing a balanced portfolio of businesses that:</p> <ul style="list-style-type: none"> work for governments, public sector organisations, regulated bodies and blue-chip companies; provide technical services that are critical, complex and bespoke;

Element	Disclosure requirement	Disclosure
		<ul style="list-style-type: none"> • have long-term integrated output or availability contracts, balancing risk and reward; • are customer-focused and work collaboratively; • are, or are capable of becoming, top three in their marketplace; and • have a strong health and safety focus. <p>Babcock has grown successfully both organically and through acquisitions, and continues to seek attractive opportunities to expand that fit its business model.</p> <p>Avincis is a leading supplier of helicopter and fixed wing emergency services (medical, search and rescue (SAR), fire-fighting and civil protection) in Europe and Australia and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with a clear ambition to expand this service into the growing Norwegian and Australian offshore oil and gas markets.</p> <p>In the opinion of the Babcock Directors, the acquisition of Avincis offers the following:</p> <ul style="list-style-type: none"> • a clear strategic fit for Babcock; • a business: <ul style="list-style-type: none"> • positioned for growth; • with high revenue visibility; • that is well-placed to retain and build upon its market position; and • which diversifies Babcock's customer base and geographies. <p>In the unlikely event that the Rights Issue proceeds but the Acquisition does not complete, the Directors' current intention is that the proceeds of the Rights Issue will be invested and/or applied to manage the Company's debt and cash position on a short term basis while the Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Directors will consider how best to return surplus capital to Shareholders.</p>
E.3	Terms and conditions of the offer	<p>The Rights Issue is being made to all Qualifying Shareholders on the register of members of the Company at the close of business on the Record Date (other than, subject to certain exceptions, Shareholders with a registered address in, or who are resident in, the United States or any Excluded Territory). Pursuant to the Rights Issue, the Company is proposing to offer 139,259,204 New Ordinary Shares by way of rights to Qualifying Shareholders at the Issue Price of 790 pence per New Ordinary Share payable in full on acceptance by no later than 11.00 a.m. on 6 May 2014. The Issue Price represents a discount of approximately:</p> <p>(a) 42.2 per cent. to the Closing Price of 1,366 pence per Ordinary Share on 26 March 2014, the last Business Day before announcement of the Rights Issue.</p> <p>(b) 34.5 per cent. to the theoretical ex-rights price based on the Closing Price of 1,206 pence per Ordinary Share on 26 March 2014.</p>

Element	Disclosure requirement	Disclosure
		<p>The Rights Issue will be made on the basis of 5 New Ordinary Shares for every 13 Existing Ordinary Shares registered in the name of each Qualifying Shareholder at the close of business on the Record Date and so in proportion to any other number of Existing Ordinary Shares then registered in the name of such Qualifying Shareholder.</p> <p>Qualifying Shareholders with fewer than 3 Existing Ordinary Shares will not be entitled to any New Ordinary Shares. Entitlements to New Ordinary Shares will be rounded down to the nearest whole number and fractions of New Ordinary Shares will not be allotted to Qualifying Shareholders but will be aggregated and, if possible, sold in the market as soon as practicable after the commencement of dealings in the New Ordinary Shares, nil paid. The net proceeds of such sales (after deduction of expenses) will be aggregated and will ultimately accrue for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.</p> <p>The Rights Issue is fully underwritten by the Underwriters pursuant to the Underwriting Agreement.</p> <p>The Rights Issue is conditional upon, amongst other things:</p> <ul style="list-style-type: none"> (a) the Resolution being passed at the General Meeting; (b) the Sale and Purchase Agreement not having been amended in any material respect or terminated or lapsed, in each case prior to Admission; (c) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and (d) Admission becoming effective by not later than 8.00 a.m. on 17 April 2014 (or such later time and/or date, being not later than 48 hours later, as the parties to the Underwriting Agreement may agree). <p>The latest time and date for acceptance and payment in full under the Rights Issue is expected to be 11.00 a.m. on 6 May 2014.</p> <p>The offer of Nil Paid Rights, Fully Paid Rights and New Ordinary Shares to persons resident in, or who are citizens of, or who have a registered address in a country other than the United Kingdom may be affected by the laws of the relevant jurisdiction.</p>
E.4	Material interests	Not applicable. There are no interests (including conflicts of interest) known to the Company which are material to the Rights Issue or the Acquisition.
E.5	Name of person selling securities / lock-up agreements	Not applicable. The Rights Issue comprises of New Ordinary Shares being issued by the Company.
E.6	Dilution	Qualifying Shareholders who take up their <i>pro rata</i> entitlement in full will suffer no dilution to their interests in the Company. Shareholders who do not, or are not permitted to (for example because they are Qualifying Shareholders in the United States or the Excluded

Element	Disclosure requirement	Disclosure
		Territories), take up any of their rights to subscribe for the New Ordinary Shares will suffer an immediate dilution of approximately 27.8 per cent. in their interests in the Company.
E.7	Expenses charged to the investor	Qualifying Shareholders will not be charged expenses by the Company in respect of the Rights Issue, except in the following circumstance. Any Qualifying non-CREST Shareholder who is an individual whose registered address is in the UK or in any other jurisdiction in the EEA may elect to sell all of their Nil Paid Rights, or effect a Cashless Take-up, using the Special Dealing Service. Capita Asset Services will charge a commission of 0.35 per cent. of the gross proceeds of sale of the Nil Paid Rights which are the subject of the sale, subject to a minimum of £20 per holding.

RISK FACTORS

Any investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights is subject to a number of risks. Shareholders and prospective investors should consider carefully the factors and risks associated with any investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights, the Babcock Group's and, following the Acquisition, the Enlarged Group's business and the respective industries in which they operate, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below.

A number of factors affect the operating results, financial condition and prospects of each of the Babcock Group and the Avincis Group and, following completion of the Acquisition, will affect the Enlarged Group. The risks described below are based on information known at the date of this document and are not an exhaustive list or explanation of all risks which investors may face when making an investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights and should be used as guidance only. Additional risks and uncertainties, which are currently unknown to Babcock or that Babcock does not currently consider to be material, may materially affect the business of the Babcock Group, the Avincis Group and/or the Enlarged Group and could have material adverse effects on the business, financial condition, results of operations and prospects of the Babcock Group, and/or the Enlarged Group. If any, or a combination of, the following risks actually materialise, the business, reputation, financial condition, operating results and prospects of the Babcock Group and, following the Acquisition, the Enlarged Group and the share price of the Company could be materially and adversely affected and Shareholders may lose all or part of their investment.

Prospective investors should note that the risks relating to the Babcock Group, the Avincis Group and following the Acquisition, the Enlarged Group, their respective industries and the New Ordinary Shares, the Nil Paid Rights and the Fully Paid Rights summarised in the section of this document headed "Summary" are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to make an investment in the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights. However, as the risks which the Babcock Group, the Avincis Group and following the Acquisition, the Enlarged Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.

Prospective investors should review this document carefully and in its entirety (together with any documents incorporated by reference into it) and consult with their professional advisers before acquiring any New Ordinary Shares, Nil Paid Rights and/or Fully Paid Rights. For the avoidance of doubt, nothing in this section constitutes a qualification of the working capital statement contained in paragraph 11 of Part XIV (Additional Information) of this document.

1. RISKS RELATING TO THE BUSINESS AND INDUSTRY IN WHICH BABCOCK AND AVINCIS OPERATE AND, FOLLOWING THE ACQUISITION, THE ENLARGED GROUP WILL OPERATE

1.1 The Babcock Group and the Avincis Group rely on large contracts with a relatively limited number of major customers, including customers affected by political and public spending decisions

Both the Babcock Group and the Avincis Group have customers that are large, complex organisations, and central and local government departments, other public sector bodies or commercially owned entities in sectors subject to specific regulation. Many of them rely to a greater or lesser extent on public funding. These customers may be affected by financial, budgetary, regulatory or political constraints which could have a significant impact on the size, scope, timing and duration of contracts and orders with/placed by them and therefore on the level of business which the Babcock Group and the Avincis Group will derive from such customers. In addition, because of their size, these customers have considerable bargaining power and have the ability to cancel contracts without, or on short, notice, often without cause. In addition, in order to enter into and perform contracts with certain customers, the Babcock Group and the Avincis Group need to obtain and retain the necessary eligible status, approvals, consents and/or licences required by laws or regulations or the relevant invitation to tender or contract. The loss, expiration, suspension, cancellation or termination of any of these contracts for any reason, or failure to obtain or retain the necessary eligible status, approvals, consents and/or licences to contract with such major customers, could have a material adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's future results of operations and financial condition. Furthermore,

a decrease in the amount of business undertaken from these customers, for any reason, could result in an adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition or operating or financial results.

Damage to the reputation of the Babcock Group or, following the Acquisition, the Enlarged Group, whether justified or not, has the potential, given the relatively narrow customer base and the size of the contracts at stake, to impact severely the ability to win or retain business streams and therefore could materially adversely affect the business, financial condition, results of operations and prospects of the Babcock Group and, following the Acquisition, the Enlarged Group.

1.2 The Babcock Group depends and will continue to depend heavily on UK government customers, particularly the Ministry of Defence, and other UK public sector bodies and agencies for a substantial proportion of its revenue. Loss of reputation with any such customer could lead to loss of business across that customer base and significant economic damage

Historically, the Babcock Group has derived a substantial proportion of its revenue from contracts with UK government customers or other UK public sector bodies or agencies, in particular from a relatively small number of contracts with the Ministry of Defence, and Babcock expects that such customers and contracts will continue to account for a significant proportion of the Enlarged Group's total revenue for the foreseeable future. In addition, in order to enter into and perform contracts with such customers, the Babcock Group needs to obtain and retain the necessary eligible status, approvals, consents and/or licences, and meet the standards required by them of their suppliers and contractors. The loss, expiration, suspension, cancellation or termination of any one of these contracts for any reason, failure to obtain or retain the necessary eligible status, approvals, consents and/or licences to contract with any such customer, or loss of reputation with any such customer (including as a result of loss of reputation by other outsourcing service providers or service providers generally), could have a material adverse effect on the business with this customer base and on the Babcock Group's and, following the Acquisition, the Enlarged Group's future results of operations and financial condition. The Ministry of Defence and UK government generally have significant purchasing and bargaining power with suppliers and may use that power to seek to amend or renegotiate existing contracts to include, or be willing only to let contracts on, terms less favourable to contractors, including companies in the Babcock Group, than may historically have been the case. In addition, if the Ministry of Defence or the UK government or other public sector customers were to decrease the amount of business they undertake with any member of the Babcock Group for any reason, or if the Babcock Group's reputation or relationship with them were impaired, the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition or operating or financial results would be materially adversely affected.

1.3 The operations of the Babcock Group and the Avincis Group carry significant health and safety and environmental risks and the Enlarged Group will be exposed to a greater extent to the risk of losses and reputational damage from safety incidents and accidents

Due to the nature of the services provided by the Babcock Group, many of its operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties, members of the public or the environment. Serious accidents in the workplace can have a major impact on the lives of those employees involved as well as their families, friends, colleagues and communities.

With respect to the Avincis Group, the operation of helicopters inherently involves a degree of risk. Due to the nature of the services the Avincis Group provides, this risk is often compounded through low-altitude flying in adverse climatic or operational conditions or terrains. Mechanical failure or pilot error, among other factors, could cause crashes or collisions and may result in personal injury, loss of life, damage to property and equipment and suspension or reduction of operations.

In the event that an incident or accident is caused, perceived to be caused, or contributed to, by failings on the part of Babcock or Avincis or their employees or contractors (for example as a result of negligence, or poor health and safety systems and controls), this could result in significant adverse publicity, interruption of services to customers, payment of substantial damages not all of which may be insured, fines and the potential loss or suspension of required licences or authorisations and disqualification from future tenders. Moreover, safety-related incidents experienced by other service providers (in particular helicopter operators), who operate in the same or similar markets as Babcock or Avincis could impact customer confidence generally and lead to a reduction in customer contracts for the Babcock Group and, following the Acquisition, the Enlarged Group, or lead to groundings of a

particular type of aircraft by the manufacturer or the regulator that could make it difficult for Avincis to perform the contracts for which those aircraft were required or mean it can only do so at extra cost.

Failure to maintain a strong record of safety and reliability that is satisfactory to customers may adversely affect the Babcock Group and, following the Acquisition, the Enlarged Group's reputation, relationship with customers and financial conditions or operating and financial results.

Glasgow incident

A recent air accident incident occurred on 29 November 2013 when a twin-engine Eurocopter EC135 T2 operated by Bond Air Services Limited (a company within the Avincis Group) crashed into a public house in Glasgow. All three people on board and seven others in the public house were killed. More than 30 people were taken to hospitals after the crash. As at the Latest Practicable Date, the cause of the crash had not been established and the investigation is ongoing. It is therefore presently unclear as to the existence, extent or quantum of liability (if any) of the Avincis Group in relation to this incident. To the extent any such liability does arise and is not fully insured, the Avincis Group may be liable to pay damages, and the reputation of the Avincis Group could be adversely affected, which, following the Acquisition, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Enlarged Group.

1.4 Failure to realise the pipeline of opportunities and to secure rebids can involve significant wasted costs, missed opportunities for growth and loss of revenue

The realisation of the pipeline of opportunities for new bids and rebidding for existing contracts can involve a lengthy and costly bidding process. Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained. Bidding for large and complex contracts is time consuming (it can take many months or even run into years) and is expensive, as can be mobilising on new contract wins. Also, by their nature, large, longer-term contracts are irregular and relatively infrequent in coming to market. The Babcock Group and the Avincis Group may also face competition in the bidding process either from existing competitors or new market entrants, and expense, delay or loss of awarded contracts if their competitors protest or challenge awards of contracts to them. Unsuccessful major bids or rebids could involve significant wasted bid costs and may impact on the strategic objectives of the Babcock Group and, following the Acquisition, the Enlarged Group. The inability to secure a major new contract could represent a significant missed opportunity for growth, and losing rebids on existing contracts could lead to loss of significant existing revenue and profit stream. If Babcock and/or Avincis fail to realise pipeline opportunities, particularly having invested time and money in the bidding process, there could be a material adverse effect on the business, financial condition, results of operations and prospects of the Babcock Group, and following the Acquisition, the Enlarged Group.

1.5 The Babcock Group's and the Avincis Group's businesses depend on their ability to attract, train and retain their senior management and highly skilled employees

The Babcock Group's and the Avincis Group's success depends on the continued service and performance of their respective highly qualified and experienced senior management and business development teams. The continuing success of the Babcock Group and, following the Acquisition, the Enlarged Group relies on their ability to plan for management succession and to attract, train and retain qualified and experienced management and business development executives.

A loss of one or more of the members of the Babcock Group's or, if the Acquisition proceeds, the Avincis Group's senior management without adequate replacement could have a material adverse effect on the prospects for or performance of the Babcock Group and/or the Enlarged Group. Insufficient experienced business development or bidding resources can impair the ability of the Babcock Group and, following the Acquisition, the Enlarged Group to achieve strategic aims and financial targets.

The Babcock Group's and the Avincis Group's success also depends on their ability to recruit, train and retain highly skilled and suitably qualified employees, who represent a substantial amount of their intellectual capital, to serve their customers effectively. Competition for skilled personnel in the industries in which the Babcock Group and the Avincis Group operate is intense. Employees who are highly trained are likely to remain a limited resource for the foreseeable future. Identifying, recruiting and training personnel requires substantial resources. If the Babcock Group or the Avincis Group fails to recruit and retain qualified employees, in particular suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups, including by failing to maintain compensation

awards at an appropriate level, this could lead to a failure to fulfil contractual obligations, the inability to pursue business in new areas or a loss of reputation, any of which could have a material adverse effect on the business, financial condition or operating or financial results of the Babcock Group and, following the Acquisition, the Enlarged Group.

1.6 Failure to deliver secure IT systems and to combat cyber and other security risks to information and physical sites could adversely affect the ability of the Babcock Group and the Avincis Group to win future contracts and in the event of a breach of security could lead to business disruption and reputational damage

The ability of the Babcock Group and the Avincis Group to deliver secure IT and other information assurance systems designed to protect personal data or customer or company confidential information is a key factor for customers. Despite controls to ensure the confidentiality of such information, the Babcock Group and/or the Avincis Group may breach restrictions or may be subject to attack from computer programmes or malicious or hostile third parties that attempt to penetrate the network security and misappropriate confidential information. Due to advances in these programmes, IT capabilities and other developments, there is no guarantee that the Babcock Group's or the Avincis Group's security measures will be sufficient to prevent breaches or cyber attacks. In addition, the risk of loss of information or data by other means due to a failure to keep it safe at all times and within their custody or control is a risk that cannot be entirely eliminated. Any such breach or compromise of security or a breach of security at a physical site could lead to loss of reputation, disruptions in business operations and inability to meet contractual obligations and have an adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's ability to win future contracts and as a result their businesses, results of operations and overall financial condition.

1.7 There may be changes in governments' policies and investment levels

Certain of the Babcock Group's and the Avincis Group's businesses are dependent on national and local governments' policies with regards to maintaining and improving public infrastructure and their attitude to outsourcing of services or activities to the private sector. National and local government policy changes and public spending constraints are potentially material risks for the Babcock Group and the Avincis Group as they could result in decisions not to, or no longer to, outsource services or activities or use contractors, delays in placing work, pressure on pricing or margins, withdrawal of projects, the bringing back "in-house" of services, early termination of contracts, lower contract spend than anticipated or adoption of less favourable contracting models. These customers set demanding criteria for eligibility for contracting with them, the cost of compliance with which can be significant.

1.8 If Scotland becomes independent, there is likely to be a lengthy period of uncertainty in respect of the new Scottish government's precise policies and their impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's Scottish businesses. There may also be a medium term knock-on effect on the nature, timing and scope of the policies and procurement plans of the successor British state, especially in defence terms

If the Scottish independence referendum to be held in September 2014 results in a majority vote in favour of independence, the consequences for Babcock's or Avincis businesses cannot be predicted with certainty. Potential adverse consequences on Scottish business of both Avincis and Babcock include (in the case of Babcock) a significant long-term reduction in revenue at HMNB Clyde and the inability to win contracts for the Royal Navy at Rosyth and (in the case of Avincis) a reduction in demand for offshore crew-change helicopter services due to less investment in the North Sea. New Scottish regulatory and ownership regimes for the rail and nuclear industries and the aviation sector (plus health and safety as a whole) may have consequences for the Babcock Group's rail and nuclear businesses in Scotland and the Avincis Group's business in the North Sea. Regardless of the ultimate impact, there is likely to be a lengthy period of uncertainty which may itself have adverse consequences on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition, operating results or prospects. There may also be a medium term knock-on effect on the nature, timing and scope of the policies and procurement plans of the successor British state, especially in defence terms, the impact of which cannot be predicted with certainty.

1.9 There may be a decline in the UK government's defence budget or a change in its defence policy or priorities

Reductions in the Ministry of Defence's budget or changes in its defence policy or spending priorities (such as changes to policy on continuous at sea nuclear deterrence or successors to existing nuclear

deterrence capabilities or submarine or surface ship strength or capabilities) may adversely affect the Babcock Group's business if those reductions or changes result in the delay, cancellation, abandonment or significant reduction in scope of activities that may otherwise have been available for the Babcock Group to participate in. The UK government is due to undertake a Strategic Defence and Security Review in 2015 after the general election due in 2015 and such review may have material short or longer-term consequences for the Babcock Group's business with the Ministry of Defence.

1.10 As a contractor with national and local governments, public sector bodies and agencies and government regulated customers, each of the Babcock Group and the Avincis Group is subject to procurement rules and regulations and procurement delays

As a contractor with governments and government regulated customers, members of the Babcock Group and the Avincis Group must comply with specific procurement regulations and other requirements. These requirements, although customary when entering into contracts with public sector bodies, increase the Babcock Group's and the Avincis Group's bidding, performance and compliance costs. If procurement requirements or eligibility to bid criteria change, eligibility to bid for such contracts may be affected or the costs of bidding for or complying with such contracts could increase and have a negative impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's financial condition and results of operations.

Failure to comply with qualification to bid criteria, procurement rules and regulations (which can change) could result in reductions in the number or values of contracts to be awarded to the Babcock Group and, following the Acquisition, the Enlarged Group, the Babcock Group and, following the Acquisition, the Enlarged Group not being allowed to participate in future tenders, or contract modifications or terminations, any or all of which could have an adverse effect on the financial condition and results of operations of the Babcock Group and, following the Acquisition, the Enlarged Group. Failure to comply with these rules and regulations could lead to members of the Babcock Group and/or the Avincis Group being unable to contract with the public sector body concerned either at all or for a period of time and could negatively impact the Babcock Group's and/or the Enlarged Group's reputation and ability to procure future public sector work in the future.

In addition, public sector projects may require relevant approvals from either national or local government ministers or senior civil servants, national or local government departments or other public sector bodies or agencies. It is possible that, due to difficulties in obtaining such approvals, projects may be delayed before procurement has started, during the tender stage or during the period between being appointed as the preferred bidder and execution of final contracts. Delays in awarding public contracts may also arise from challenges to the award of the contracts by competitors. These matters are beyond the Babcock Group's and the Avincis Group's control and any resulting delays could have an adverse impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition, results of operations or prospects.

Like all businesses contracting with national or local government departments or other public sector bodies or agencies, the Babcock Group and the Avincis Group face additional risks of challenge related to public sector customer compliance with procurement, state aid, *intra vires* and other legal requirements for the validity of such customer's actions, which could have an adverse impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition, results of operations or prospects.

1.11 The Babcock Group's and the Avincis Group's contracts with national and local governments and public sector bodies and agencies or major commercial customers may contain unfavourable provisions

The Babcock Group's and the Avincis Group's contracts with national and local governments and public sector bodies and agencies or major commercial customers with significant bargaining power contain provisions, and are subject to laws and regulations, that give such customers contractual rights and remedies, some of which are not typically found in commercial contracts, such as wide ranging indemnities or uncapped liabilities arising from a variety of sources which may, in some circumstances be guaranteed by Babcock, Avincis or other members of the Babcock Group or the Avincis Group, and which can be onerous for the Babcock Group or the Avincis Group.

In addition, the contracts with national or local governments, public sector bodies or agencies, regulated customers and major commercial customers may in some cases permit such customers to modify or

terminate the contract, in whole or in part, without, or on short, prior notice, without cause or for default based on performance. If any of the Babcock Group's or the Avincis Group's contracts are terminated other than for default, the relevant member(s) of the Babcock Group or the Avincis Group would generally be entitled to payments for allowable costs and may receive some allowance for profit on the work performed but usually not for future profits. If a contract is terminated for default, the Babcock Group or, following the Acquisition, the Enlarged Group could be exposed to significant liability for damages or other compensation and it could have a negative impact on its ability to obtain future contracts and orders. Furthermore, on contracts for which the relevant member of the Babcock Group is a subcontractor or a member of a consortium and not the sole prime contractor, customers could terminate the prime contract or project agreement irrespective of the relevant member of the Babcock Group's performance.

If significant terms (such as pricing) of certain of the Babcock Group's or the Avincis Group's contracts or subcontracts are modified or if certain of the Babcock Group's or the Avincis Group's contracts or subcontracts are terminated by such customers and the Babcock Group or the Avincis Group is unable to win new contracts to offset the lost revenue, the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition or results of operations could be materially adversely affected.

Contracts that the Enlarged Group may enter into with national or local governments, public sector bodies or agencies and commercial customers can involve the transfer of employees, sometimes in large numbers. As well as involving potentially significant costs and complex administration, these transfers may require the Enlarged Group to assume significant employment and, in some cases, pension liabilities.

1.12 Competition within the markets in which the Babcock Group and the Avincis Group operate may reduce the Babcock Group's and the Avincis Group's revenues and market share

The Babcock Group and the Avincis Group operate in competitive markets and the Babcock Group's and the Avincis Group's competitors may have more extensive or more specialised support capabilities than the Babcock Group and the Avincis Group in some areas. If the Babcock Group or the Avincis Group is unable to continue to compete successfully against current or future competitors (including, in respect or outsourcing of services by customers, in-house alternatives), the Babcock Group or the Avincis Group may experience declines in revenues and market share which could have an adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, results of operations, financial condition and prospects.

1.13 The Avincis Group depends on a small number of helicopter manufacturers

A majority of the helicopters of the Avincis Group are provided by a small number of manufacturers of helicopters: Eurocopter, Sikorsky, AgustaWestland and Bell. These manufacturers have limited availability of helicopters, and the Avincis Group has limited alternative sources of new helicopters. If the Avincis Group is unable to acquire new helicopters, continue operating helicopters already in its fleet, or purchase or lease helicopters in the secondary markets, its business would be harmed.

Lead times for delivery of new helicopters are long (currently at least one year and historically as long as two years) and increasing for certain models, and annual production of new helicopters is limited. If any of these helicopter manufacturers faced production delays due to, for example, natural disasters, labour strikes, unavailability of skilled labour, safety issues or other reasons, whether within or beyond the control of the manufacturer, the Avincis Group may experience a significant delay in the delivery of previously ordered helicopters. During these periods, the Avincis Group may not be able to obtain additional helicopters with acceptable pricing, delivery dates or other terms. Delivery delays or the inability to obtain acceptable helicopters through other methods, such as acquiring purchase orders in the secondary market, would adversely affect the Avincis Group's revenue and profitability and could jeopardise its ability to meet the demands of its customers and execute its growth strategy. Additionally, lack of availability of new helicopters could result in an increase in prices for certain types of used helicopters. Following the Acquisition, such circumstances could have a materially adverse effect on the business, financial condition, results of operations or prospects of the Enlarged Group.

1.14 The Babcock Group and the Avincis Group are subject to extensive and increasingly stringent regulations which may increase costs and, in the event of a breach of such regulations, result in reputational damage, sanctions or the inability to continue to conduct certain lines of business

In each of the jurisdictions in which the Babcock Group and the Avincis Group operate, they have to comply with laws, regulations and administrative policies which relate to, among other matters, business and operating licensing regimes, health and safety, employment (including pensions), the environment, anti-bribery, anti-corruption, banking and tax. Each aspect of the regulatory environment in which the Babcock Group and, following the Acquisition, the Enlarged Group will, operate is subject to change, which may be retrospective.

This risk will be increased following the Acquisition, as the Enlarged Group will be subject to further laws, regulations and administrative policies in jurisdictions and industries in which Babcock has not previously carried out business. For example, foreign ownership and control of helicopter operators is restricted in many jurisdictions and obtaining operating and maintenance permits can involve significant time and cost. More recently, a series of measures aimed at improving offshore helicopter safety have been announced by aviation regulators. These measures are likely to lead to increased costs and may have implications for the availability of specialist personnel such as pilots and technicians. In addition, some regulatory authorities have the ability to suspend flights by certain types of aircraft, or in a particular environment or circumstance, for safety reasons. Helicopter manufacturers or aviation authorities may also ground certain types of aircraft for safety or maintenance purposes. Any such suspension or grounding may continue pending investigation of the potential safety risk or inspection or modification of aircraft, and would affect the Avincis Group's ability to perform its obligations under its existing customer contracts and to win new contracts.

Further, members of the Babcock Group are required to obtain environmental and safety permits from various governmental authorities, such as the Office for Nuclear Regulation, the Defence Nuclear Safety Regulator, the UK Environment Agency and the Scottish Environment Protection Agency. Certain permits require periodic renewal or review of their conditions and it is not possible to predict whether the Babcock Group and/or the Avincis Group will be able to renew such permits or whether material changes in permit conditions will be imposed. The relevant members of the Babcock Group and/or the Avincis Group may not have been, or may not at all times in the future be, in complete compliance with required permits.

Avincis is routinely audited to ensure compliance with all flight operation and aircraft maintenance requirements. There can be no assurance that Avincis will pass all audits in the future. Failure to pass such audits or being found to be in breach of applicable regulations could result in fines, adverse publicity, the loss of required permits or licences or grounding of Avincis aircraft, all of which could have a material adverse effect on the business, results of operations and financial condition of the Enlarged Group, following the Acquisition.

Violations of laws, regulations or permits could result in the suspension or closure of the Babcock Group's and/or the Avincis Group's operations, the imposition of fines, the commencement of litigation or other proceedings or the imposition of other sanctions, and/or reputational damage. Other liabilities under environmental laws, including clean-up of hazardous substances, can be costly to discharge.

Whilst the Babcock Group and the Avincis Group incur, and expect to incur, substantial capital and operating costs to comply with these laws and regulations, it is possible that any of these laws and regulations will change or become more stringent in the future, increasing compliance costs and potential liabilities, each of which (or which together) could have a materially adverse effect on the business, financial condition, results of operations or prospects of the Babcock Group and, following the Acquisition, the Enlarged Group.

1.15 The Babcock Group and the Avincis Group enter into contracts which may be multi-year, fixed price and/or carry strict performance conditions, which could subject them to losses in the event that costs increase but cannot be recovered, or performance conditions are not satisfied

Members of the Babcock Group and the Avincis Group enter into contracts which may be multi-year, fixed price and/or carry strict performance conditions.

Multi-year and fixed price contracts expose the Babcock Group and the Avincis Group to the risks of:

- increases in costs attributable to such contracts beyond those anticipated and provided for within such contracts at the time they are entered into;

- being bound to perform an onerous contract as a result of inaccurate pricing and forecasting; and
- increases in costs that are not met through corresponding attributable increases in revenues from such contracts,

unless and to the extent that such increases are taken into account in periodic benchmarking and/or market testing where included in such contracts.

In addition, certain contracts contain strict performance conditions, which must be adhered to throughout the life of the contract. Failure to meet the performance criteria of a contract could result in:

- the cancellation of a contract, claims for loss, or compensation arrangements under the contract being triggered;
- reputational damage; and
- an adverse effect on the ability to win any future rebids for work.

The Babcock Group also enters into contracts with “Target Cost Incentive Fees”. Where these mechanisms are used, failure to deliver a project for the agreed “Target Cost” may result in lower margins being earned by the Babcock Group in respect of that project.

Such increased costs, lower returns and economic, reputational and other impacts could materially adversely affect the business, financial condition, results of operations and prospects of the Babcock Group and following the Acquisition, the Enlarged Group.

1.16 The Babcock Group and the Avincis Group depend on a limited number of third-party suppliers and subcontractor services

The Avincis Group relies on a small number of key suppliers for the supply of parts and services required to maintain its helicopters. At times of high demand, these suppliers could experience backlogs in their manufacturing schedules and some parts may be in limited supply from time to time, which could have an adverse impact upon the Avincis Group’s ability to maintain and repair the helicopters.

In addition, due to the Avincis Group’s dependence on helicopter manufacturers for helicopter parts and components, it may also be subject to adverse impacts from unusually high price increases that are greater than overall inflationary trends. Avincis might not be able to increase its contract rates to pass through the increased costs to its customers. An unusually high increase in the price of parts or components that cannot be fully passed on to its customers could have a material adverse effect on the Enlarged Group’s business, financial condition or results of operations, following the Acquisition.

The Babcock Group relies on specialist suppliers for certain components and, for some products, solely on a single supplier. These products are typically made to order and would not be easily replaced should the supplier fail to deliver the products. In addition, the Babcock Group is generally subject to specific procurement requirements, which may, in effect, limit the suppliers which the Babcock Group may utilise.

Failure or significant delay by these suppliers in providing necessary parts and services could, in the absence of alternative sources of supply, have a material adverse effect on the business of the Babcock Group, and, following the Acquisition, the Enlarged Group. The insolvency of, or dispute with, any of these suppliers could therefore lead to a significant disruption to the businesses of the Babcock Group and, following the Acquisition, the Enlarged Group.

1.17 The Babcock Group’s reputation could be affected by failing to meet contractual performance criteria either directly or through sub-contractors

The Babcock Group’s financial success depends and, following the Acquisition, the Enlarged Group’s financial success will depend, on their ability to meet the contractual requirements they have entered into with their customers. On a substantial number of contracts, the Babcock Group employs sub-contractors or is a member of a consortium. The Babcock Group is, therefore, reliant not only on the performance of its own employees but also relies on the performance of its sub-contractors and consortium partners and, in particular, that they fulfil their obligations in a timely and satisfactory manner and in full compliance with applicable terms and conditions.

In addition, the Babcock Group is generally subject to specific procurement requirements, which may, in effect, limit the sub-contractors which the Babcock Group may utilise. If any of these sub-contractors fails to meet its obligations, the Babcock Group may not have readily available alternatives. Furthermore, some of the Babcock Group's sub-contractors or consortium partners may be impacted by periods of economic slowdown or recession, which could impair their ability to meet their obligations. In the event of the Babcock Group experiencing a sub-contractor or commercial partner problem, the Babcock Group may be unable to complete in a timely or satisfactory manner its contractual obligations to its customers which could result in additional costs in addressing such a problem, termination of contracts and damage to its reputation and its relationship with its customers. Any of these events could have a negative impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's results of operations and financial condition.

1.18 Any prolonged reduction in the level of activity in the oil and gas industry may have an adverse effect on the Avincis Group's business and therefore, following the Acquisition, the Enlarged Group

A significant part of the Avincis Group's business is the provision of helicopter services to companies engaged in offshore oil and gas exploration, development and production activities. As a result, the demand for these services, as well as the impact on turnover and profitability, is dependent on the worldwide levels of activity in offshore oil and gas exploration, development and production. These activity levels are principally affected by trends in, and expectations regarding, oil and gas prices, as well as the capital expenditure budgets of oil and gas companies over which neither the Babcock Group nor the Avincis Group have any control.

Any prolonged reduction in oil and gas prices could depress the level of helicopter activity in support of exploration and, to a lesser extent, production activity. Further, companies may also reduce staffing levels on both old and new installations by using new technology to permit unmanned installations and may increase the lengths of offshore shifts which will reduce the frequency of transportation of employees. The reduction of prices or the implementation of such measures could reduce the demand for helicopter services and, following the Acquisition, have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

1.19 The Babcock Group's businesses depend to a significant degree on its ability to obtain and maintain required security clearances for employees and facilities

Certain of the Babcock Group's government contracts require its employees to maintain various levels of security clearances, and the Babcock Group is required to maintain certain facility security clearances complying with the requirements of the Ministry of Defence and other government or regulatory agencies. Obtaining and maintaining security clearances for employees and facilities can be a difficult and lengthy process, especially in the case of non-UK national employees. If the Babcock Group is unable to obtain or retain security clearances for employees and facilities, customers requiring cleared employees or facility security clearances could terminate or not renew their contracts. A loss of such contracts could materially adversely affect the Babcock Group's business, financial condition or operating or financial results.

In addition, the Babcock Group's employees must maintain certain security standards in order to carry out various business activities undertaken by the Babcock Group. If the Babcock Group fails to meet the security standards required to conduct such business, its business, financial condition or operating or financial results could be materially adversely affected.

1.20 A significant number of the Babcock Group's and the Avincis Group's workforce are represented by trade unions or covered by collective bargaining agreements

A significant number of the Babcock Group's employees in the Marine, Defence, Nuclear and Rail businesses are members of trade unions in the UK and a number of the Babcock Group's employees in the Engineering and Plant Division are members of trade unions in South Africa and some sectors of the business are subject to union recognition agreements. In addition, a significant number of the Avincis Group's employees are covered by mandatory collective bargaining agreements. Neither the Babcock Group nor the Avincis Group are able to predict how stable their relationships with the trade unions or other employee representative bodies will be. The presence of unions and the collective bargaining agreements may limit the Babcock Group's and the Avincis Group's flexibility in dealing with their

workforces and may lead to increased operating costs. In addition, if there is a material disagreement or dispute between the Babcock Group and its trade unions, or the Avincis Group and its employee representative bodies, the Babcock Group's or, following the Acquisition, the Enlarged Group's business could be adversely affected, for example, as a result of work stoppages, unionised employees "working to rule" or increased costs associated with industrial disputes.

1.21 The Babcock Group operates several UK defined benefit pension schemes. Changes to the assumptions for investment returns, mortality or other valuation assumptions could adversely affect the Babcock Group's defined benefit pension schemes as the Enlarged Group may be required to fund an increase in the cost of future benefits and/or meet funding shortfalls in respect of these schemes

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

The largest defined benefit schemes in the Babcock Group are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme. The total of the combined assets of these schemes was approximately £2.8 billion as at 31 March 2013 and represents approximately 87 per cent. of the total assets of the Babcock Group's defined benefit schemes.

The trustees of each of the Babcock Group's defined benefit pension arrangements, in consultation with the Babcock Group, prescribe the investment strategy in relation to the assets of the schemes and therefore the Babcock Group does not determine individual investment alternatives. The three largest defined benefit pension schemes in the Babcock Group have put in place longevity swaps (in order to hedge mortality risk) and the Babcock Group has been working constructively with an investment sub-committee across the three largest schemes to implement further hedging and de-risking strategies.

The Babcock Group's pension liabilities are calculated on various bases for different purposes and a significant increase in scheme deficits on certain of these bases could have a material effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, operating or financial results or financial position.

Accounting: The liabilities of the defined benefit schemes are calculated using the accounting valuation basis for the purposes of determining the provisions to be included in the balance sheet in its financial statements. The Babcock Group and, following the Acquisition, the Enlarged Group must comply with IAS 19 when accounting for its defined benefit schemes. IAS 19 requires AA rated corporate bond related discount rates to be used to value the pension liabilities. This is likely to lead to variations from year-to-year due to a mismatch with the investments held in the pension schemes and because of variations in the yields available on corporate bonds and inflationary expectations. This in turn can materially affect the pensions charge in the Babcock Group's and, following the Acquisition, the Enlarged Group's income statement from year-to-year as well as the value of the difference between the assets and the liabilities shown on its balance sheet, leading to a significant accounting volatility.

In respect of the Babcock Group, the aggregate accounting deficit in the UK defined benefit pension schemes, as at 30 September 2013, was £382 million. The market value of assets and present value of pension scheme obligations using the accounting valuation basis as at 30 September 2013 for the three largest Babcock Group UK defined benefit schemes are as follows: (i) Devonport Royal Dockyard Pension Scheme: market value of assets £1,156 million, present value of pension scheme obligations

£1,300 million, (ii) Babcock International Group Pension Scheme: market value of assets £1,023 million, present value of pension scheme obligations £1,078 million, and (iii) Rosyth Royal Dockyard Pension Scheme: market value of assets £553 million, present value of pension scheme obligations £724 million.

An increase in the value of the net liabilities of these schemes may negatively affect the Enlarged Group's balance sheet and distributable reserves, which could have a material adverse effect on the Enlarged Group's business, operating or financial results or financial position.

Ongoing funding: UK pension law requires the trustees of UK pension schemes to carry out an actuarial valuation at least every three years (though the trustees have the ability to call an out of cycle valuation). As part of this process the employer and trustees must agree the pensions contributions required to fund the cost of future service benefits and any deficit contributions required as part of the recovery plan which must be put in place to address any deficit arising over an agreed period of time. The Pensions Regulator has the power to intervene if the employer and trustees fail to reach agreement (although typically if agreement is not reached by the statutory deadline reaching agreement, the Pensions Regulator will encourage the parties to continue their discussions, rather than immediately intervene itself). Increases in the value of the liabilities of the defined benefit pension schemes and/or a reduction in the value of the assets supporting funded schemes can lead to increased deficits at future formal actuarial valuations, typically resulting in increased employer contributions.

The valuation basis used for formal scheme valuations will not typically replicate the valuation basis used for accounting purposes and scheme valuation deficits are typically higher than accounting deficits. The basis for the scheme valuation deficit is agreed between the employer and trustees (subject to the Pensions Regulator's powers to intervene in this process) and will depend in part on the level of prudence built into actuarial assumptions used.

The trustees of each of the Babcock Group's defined benefit pension schemes may consider whether the Acquisition and the entry into the Bridge Facility is likely to cause an adverse impact to the employer support enjoyed by the schemes from the Babcock Group employers which participate in the schemes and/or from Babcock which guarantees certain of the liabilities of some of the pension schemes (including the three largest schemes). In considering whether the employer support is adversely impacted, the trustees will look at the impact on their position as unsecured creditors of the employers or Babcock. If the trustees consider that employer support is adversely impacted, the Trustees may seek to use more conservative assumptions for future valuations (or call seek to call an "out of cycle" valuation before the next triennial valuation is due), unless additional contributions or other protections for the schemes are put in place by way of mitigation for any detriment identified.

Demands for materially increased contributions from the Babcock Group employers to meet past service deficits or future service costs would impact the cash flows of the Enlarged Group.

Buy-out funding: The buy-out deficit of the schemes is calculated by reference to the cost of securing scheme liabilities with an insurer; this is the most expensive basis for valuing scheme liabilities and can be significant. As the deficit on this basis is calculated in part by reference to prevailing annuity rates, it can be highly volatile over time. The buy-out deficit would become payable in relation to a UK defined benefit pension scheme if the scheme is wound up. In addition an employer's share of the buy-out deficit would become payable in circumstances where (i) the relevant employer ceases to participate in an ongoing pension scheme when at least one other employer is continuing to participate and (ii) subject to certain conditions, where the employer is insolvent.

The Pensions Regulator has the power in certain circumstances (for example, where an employer in relation to a pension scheme is considered to be "insufficiently resourced" for the purposes of the relevant legislation or if a particular transaction has a materially detrimental impact on the pension scheme) to require an employer or entities in the employer's wider corporate group (among others) to contribute to or otherwise support the pension scheme (in respect of each entity targeted by these powers, up to the amount of the buy-out deficit of the pension scheme). Following the Acquisition, these powers will extend to the Enlarged Group (including members of the Enlarged Group outside the UK) in respect of the Babcock Group pension schemes. The Pensions Regulator can only exercise these powers in a particular case if it considers it reasonable to do so.

A requirement to pay the buy-out deficit of the scheme or an employer's share of it could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

1.22 Changes in the regulatory and/or accounting regimes for defined benefit pension liabilities could impose increased pension funding requirements and/or negatively impact the Babcock Group's and, following the Acquisition, the Enlarged Group's distributable reserves

Changes to the financial reporting standards regarding the way defined benefit pension liabilities are reflected in company balance sheets could have an adverse impact on the Babcock Group's and, following the Acquisition, the Enlarged Group's distributable reserves, which could have a material adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, operating or financial results or financial position.

Strengthening of the regulatory funding regime for pensions in the United Kingdom (whether imposed by local law or European Union law) could increase requirements for cash funding of pensions. This could require the Babcock Group's and, following the Acquisition, the Enlarged Group to make significant additional payments to meet the Babcock Group pension commitments, which could have a material adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, financial condition and results of operations.

1.23 The potential hazards of nuclear operations could expose the Babcock Group to the risk of, amongst others, material liabilities, lost revenues and increased expenses and damage to reputation

The Babcock Group's operations, which include (i) the fuelling and defueling of nuclear power stations and nuclear powered submarines, (ii) the lifting of nuclear powered submarines into dry docks, (iii) the movement of nuclear weapons, (iv) the handling, use, disposal and transportation of hazardous and radioactive materials, (v) the storage of laid up nuclear powered submarines, and hazardous and radioactive materials and (vi) the decommissioning and decontamination of nuclear power stations, nuclear powered submarines and nuclear weapons, use and generate radioactive and hazardous substances that can seriously impact the health and safety of the public, the Babcock Group's employees and the environment. There are particular risks associated with the servicing, maintenance and decommissioning of nuclear power stations and nuclear powered submarines and the handling of nuclear weapons. These include accidents, the breakdown or failure of equipment or processes or human performance, including the Babcock Group's safety controls, and other catastrophic events, such as fire and flood, that could result in the dispersal of radioactive material over large areas, thereby causing injury or loss of life and extensive property or environmental damage. Certain of these events, including those arising as a result of third party acts, such as acts of terrorism or war, are not within the Babcock Group's control. The liabilities which the Babcock Group may incur, and interruptions in the operation of the nuclear power stations or naval bases caused by these events or associated with any of the radioactive or hazardous materials involved, could significantly reduce the Babcock Group's revenues, increase the Babcock Group's expenses and cause significant reputational damage. Proceeds of insurance or indemnities may not be adequate to cover all liabilities incurred, lost revenue or increased expenses. Analogous incidents occurring at nuclear power stations or in relation to nuclear powered submarines or nuclear weapons caused by third parties unconnected to the Babcock Group may result in similar losses regardless of the Babcock Group having no control or influence over such incidents.

See paragraph 8 of Part V (*Information on the Babcock Group*) for information on the UK's nuclear regulatory regime and limitations on Babcock's nuclear liability.

1.24 The Babcock Group's operating and financial flexibility may be restricted by its level of indebtedness and financial covenants and it may incur costs if it breaches its financial covenants

The Babcock Group's debt facilities (including the Bridge Facility) contain a number of restrictive covenants that could limit its operating and financial flexibility, such as covenants in respect of gearing and interest cover.

A breach of any of these covenants could result in a significant proportion of the Babcock Group's borrowings becoming immediately repayable. In order to remain in compliance with these covenants, and depending on the future performance of its business, the Babcock Group may be required to take actions that it would not otherwise have chosen or may be unable to pursue opportunities it otherwise would have, such as possible acquisition opportunities. In addition, any future debt financing that the Babcock Group obtains may impose additional restrictions on financing and operating activities.

The Babcock Group's existing level of indebtedness and the covenants which apply to it may have important consequences, including:

- causing the Babcock Group to reprioritise the uses to which its capital is put to the potential detriment of the Babcock Group's business needs, which, depending on the level of the Babcock Group's borrowings, prevailing interest rates and exchange rate fluctuations, could result in reduced funds being available for expansion, dividend payments and other general corporate purposes;
- limiting the Babcock Group's flexibility in planning for, or reacting to, changes in technology, customer demand, competitive pressures and the sectors in which it operates;
- placing the Babcock Group at a competitive disadvantage compared to its competitors, who may be less leveraged and restricted by financial covenants than the Babcock Group;
- increasing the Babcock Group's vulnerability to both general and industry-specific adverse economic conditions; and
- increasing the cost of servicing the Babcock Group's borrowings in the event such covenants are renegotiated.

The above factors could limit the Babcock Group's financial and operational flexibility and this could have a material adverse effect on its future prospects, financial condition, results of operations or ability to pay dividends.

The order book and bid pipeline provide good visibility of future revenue streams due to the contract-based nature of the business, which, along with Babcock's focus on managing contract costs, means that this risk is weighted towards the longer term. If any of these covenants were breached in the longer term, the cost of such breach and any refinancing required as a result could be an additional cost to the Babcock Group, which could adversely affect the Babcock Group's future prospects, financial condition or results of operations.

1.25 Upon completion of the Acquisition, Babcock will take on the outstanding debt of the Avincis Group, which will result in a substantial increase of leverage of the Enlarged Group and may limit its commercial and financial flexibility

As at 31 December 2013, the Avincis Group had approximately €842.8 million (c. £705 million) third party net debt outstanding in various forms. As a result, the Acquisition will increase the overall leverage of the Enlarged Group, which may result in increased borrowing costs, reduced profitability and reduced commercial and financial flexibility.

1.26 The terms on which the Enlarged Group will be able to refinance the Bridge Facility at the maturity date are uncertain and may be less favourable than those of the Bridge Facility

Some or all of the Avincis Group's existing debt may become repayable, under its terms, at Completion, and Babcock may decide to refinance some or all of any remaining Avincis Group debt. In order to ensure that the Enlarged Group can refinance that debt if required or desirable, Babcock has entered into a new £383 million multi-currency debt facility and a €620 million debt facility (the "**Bridge Facility**"). The Bridge Facility is repayable on 27 March 2015, which may be extended by two further periods of six months at the option of Babcock. Further details of the Bridge Facility are set out in paragraph 9.1(g) of Part XIV (*Additional Information*) of this document. The terms on which the Enlarged Group will be able to obtain new financing at or before the maturity date of the Bridge Facility, if it can obtain new financing at all, are uncertain and will depend on (amongst other things) the bank lending market, capital markets, and subsisting economic and financial conditions. Any new facilities may be on less favourable terms than the Bridge Facility, and may include in particular, higher interest rates or more stringent covenants.

1.27 The Babcock Group's and the Avincis Group's businesses could be adversely affected by a negative audit by government agencies or regulators

The Babcock Group's contracts with the UK government are subject to audit by the Ministry of Defence Pricing and Forecasting Group in the UK, as well as other government bodies, agencies or regulators. Similarly, the Avincis Group is routinely audited to ensure compliance with all flight operation and aircraft maintenance requirements. Depending on the type of audit, these agencies and regulators may review the Babcock Group's or the Avincis Group's performance under its contracts, cost structure and

compliance with applicable laws, regulations and standards on such contracts. Such agencies and regulators may also review the adequacy of, and the Babcock Group's or the Avincis Group's compliance with, their internal control systems and policies, including the Babcock Group's or the Avincis Group's purchasing, property, estimating, compensation and management information systems. If an audit uncovers inadequate internal control systems and policies, improper allocation of costs to a specific contract, or any improper or illegal activities, the Babcock Group or the Avincis Group (as applicable) may be subject to enhanced scrutiny, improperly allocated costs may not be reimbursed (or if already paid, may have to be refunded), or civil and criminal penalties and administrative sanctions may be imposed, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the relevant government. In addition, the Babcock Group or the Avincis Group could suffer reputational harm if allegations of impropriety were made against it. Accordingly, any such audit could materially affect the Babcock Group's and, following the Acquisition, the Enlarged Group's competitive position and result in a substantial adjustment to its revenue.

1.28 The Babcock Group's and the Avincis Group's insurance may be inadequate to cover all of their risks or the insurers may deny coverage of material losses incurred by either the Babcock Group or the Avincis Group

Each of the Babcock Group and the Avincis Group use, and following the Acquisition, the Enlarged Group will continue to use, insurance to cover certain of its risks and liabilities (including, among others, natural disasters, product liability and business interruption). Not every risk or liability can be protected against by insurance, and, for insurable risks, the limits of coverage reasonably obtainable in the market may not be sufficient to cover all losses or liabilities incurred. In addition, future accidents, risks of war, terrorist activity or other events could increase insurance premiums. In some circumstances the Babcock Group may receive indemnification from the UK government (either directly or indirectly) in respect of the Babcock Group's nuclear or other high risk activities undertaken for the UK government. Due to the limitations on the availability of coverage, the Babcock Group and the Avincis Group may have to bear substantial costs for uninsured losses that could have an adverse effect upon its business, results of operations and overall financial condition. Additionally, disputes with insurers over coverage may affect the timing of cash flows and, in the event of litigation with the insurer, an outcome unfavourable to the Babcock Group or the Avincis Group may have an adverse effect on the Babcock Group's and, following the Acquisition, the Enlarged Group's business, results of operations and overall financial condition.

1.29 The Babcock Group operates in emerging markets and is therefore exposed to emerging markets risks

The Babcock Group operates in a number of southern African and South American countries with emerging markets. Such markets are exposed to a number of risks including:

- greater risk of political and economic instability, expropriation, nationalisation and confiscating taxation;
- the absence of developed legal structures, including those governing private or foreign investment and private property;
- significant regulatory and fiscal restrictions;
- the potential for higher rates of inflation or hyper-inflation;
- challenging ethical environments;
- interest rate, currency and credit risk; and
- lower levels of democratic accountability.

Such risks may adversely affect the Babcock Group's and, following the Acquisition, the Enlarged Group's business, results of operations and overall financial condition.

1.30 Following the Acquisition, the Enlarged Group will have a greater exposure to foreign currency and interest rate risks

Following the Acquisition, the Enlarged Group's business will have a greater exposure to foreign currency and interest rate risks as a result of the countries in which the Avincis Group operates.

The Babcock Group and the Avincis Group are subject to risks associated with fluctuations in currency exchange rates in the ordinary course of their businesses, with a significant portion of revenue, assets and liabilities being denominated in currencies other than pounds sterling, in particular the euro and the Australian dollar, but also the South African rand, the Canadian dollar, the Brazilian real and, assuming the acquisition of Scandinavian AirAmbulance completes, the Swedish krone.

The Babcock Group prepares its consolidated financial statements in pounds sterling. Accordingly, when preparing its consolidated financial statements, the Babcock Group translates, and following the Acquisition, the Enlarged Group will translate, the value of any assets, liabilities, turnover and expenses that are reported or accounted for in other currencies into pounds sterling. Many of the companies in the Avincis Group report their financial conditions and results of operations in other currencies, principally the euro. Accordingly, as a result of the Acquisition, the Enlarged Group's exposure to currency translation risk will increase. Consequently, increases and decreases in the value of the pound sterling against these other currencies (in particular the euro) will affect the amount of these items in the Babcock Group's and, following the Acquisition, the Enlarged Group's consolidated financial statements, even if their value has not changed in their original currency. In addition, to the extent expenses are incurred that are not denominated in the same currency as related turnover, exchange rate fluctuations could cause the Babcock Group's and following the Acquisition, the Enlarged Group's expenses to increase as a percentage of turnover, affecting its profitability.

The Babcock Group and the Avincis Group are also subject to interest rate risk in the ordinary course of business due to debt incurred at variable interest rates. To the extent the Enlarged Group utilises the Bridge Facility to refinance the Avincis Group's existing fixed rate bonds, the Enlarged Group's exposure to variable interest rates will increase.

Although the Babcock Group and the Avincis Group hedge against financial risks through derivative instruments such as forward exchange contracts, currency options, interest rate and currency swaps and combined instruments, there can be no assurance that any hedging strategy will be effective and that foreign currency and interest rate fluctuations will not adversely affect the results of operations of the Babcock Group and following the Acquisition, the Enlarged Group.

1.31 Members of the Babcock Group and the Avincis Group are involved in alliances and joint ventures over which they may have to share control or do not have control

The Babcock Group generates a significant amount of its revenues through participation in alliances and joint ventures. Members of the Avincis Group also participate in various joint ventures, alliances and equity holdings in France, Italy, Spain, Norway and Portugal. The formation of alliances and joint ventures with other market participants is an important part of the Babcock Group's and the Avincis Group's strategy, and the Enlarged Group is likely to continue to generate a significant amount of its revenues from alliances and joint ventures in the future. However, members of the Babcock Group and the Avincis Group exercise varying and evolving degrees of control in the alliances and joint ventures to which they are a party. While members of the Babcock Group and the Avincis Group seek to participate only in arrangements in which their interests are aligned with those of their co-parties, the risk of poor performance by the other parties or disagreement between parties is inherent in any alliance or joint venture and, as regards decision-making, particularly in those arrangements which require unanimity. Any such material disagreements or poor performance on the part of the other parties to the arrangement could materially adversely affect the Babcock Group's and, following the Acquisition, the Enlarged Group's ability to perform their obligations under such alliances and joint ventures which could have a material adverse effect on their results of operations.

2. RISKS RELATING TO THE ACQUISITION

2.1 The implementation of the Acquisition is subject to the satisfaction of certain conditions and the conditions might not be satisfied

The implementation of the Acquisition is subject only to the satisfaction of the following conditions:

- approval of the Acquisition by Babcock Shareholders at the General Meeting;
- approval having been obtained from the Spanish Council of the National Markets and Competition Commission, or alternatively the Council of Ministers, the Acquisition being otherwise deemed cleared under the Spanish Competition Act 15/2007;

- a formal or tacit approval having been obtained from the Portuguese Competition Authority or, alternatively, from the Portuguese Minister of Economy; and
- the Underwriting Agreement not having been terminated prior to Admission and Admission having occurred.

There is no guarantee that these conditions will be satisfied. Failure to satisfy any of these conditions may result in the Acquisition not being completed.

As a condition to their clearance of the Acquisition, the Spanish or Portuguese competition authorities may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of the business of the Babcock Group and/or the Avincis Group. These requirements, limitations, costs, divestitures or restrictions could jeopardise or delay the consummation of the Acquisition or may reduce the anticipated benefits of the Acquisition.

2.2 **The Rights Issue is not conditional upon Completion of the Acquisition; if the Acquisition does not complete but the Rights Issue does, the proceeds of the Rights Issue will be retained by the Babcock Group**

It is possible that, the Acquisition could cease to be capable of Completion, in particular, if any of the conditions precedent to Completion are not satisfied in accordance with the Sale and Purchase Agreement. In the event that this occurs following Admission of the New Ordinary Shares, nil paid, and the Rights Issue becoming wholly unconditional, the Rights Issue would still be completed and funds would be raised by the Babcock Group.

In the unlikely event that the Rights Issue proceeds but the Acquisition does not complete, the Directors' current intention is that the proceeds of the Rights Issue will be invested and/or applied to manage the Company's debt and cash position on a short-term basis while the Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Directors will consider how best to return surplus capital to Shareholders. Such a return could carry financial costs for certain Shareholders, will incur costs on the part of the Company and would be subject to applicable securities laws.

2.3 **Only limited and capped warranties are provided by World Helicopters and certain members of management of Avincis**

Only limited warranties are provided by World Helicopters in the Sale and Purchase Agreement and by certain members of the management of Avincis under the Management Warranty Deed. These are not as extensive as those sometimes given by a corporate vendor and do not cover all potential liabilities associated with the Avincis Group, whether identified or unidentified, and the liability of World Helicopters and the management of Avincis is limited in time and amount. Accordingly, Babcock may not have full recourse against, or otherwise be able to recover in full from, World Helicopters or the management of Avincis in respect of all losses which it may suffer in respect of a breach of those warranties. In addition, Babcock would be dependent on the financial position of World Helicopters and the individual managers of Avincis in the event that it sought to recover amounts in respect of claims brought under such warranties. If such claims arose but losses could not be recovered, this could adversely affect the Enlarged Group's business, results of operations, financial conditions and prospects.

2.4 **There may be unforeseen integration difficulties**

If the Acquisition takes place, the Avincis Group will need to be integrated into the internal management and other reporting requirements of the Babcock Group. Babcock may encounter difficulties when seeking so to integrate the Avincis Group, as a result of differences in organisational structure, IT systems, language, management and local cultures and management and operational issues. The Avincis Group itself has grown by acquisition of a number of companies which carries its own integration risks. If such integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Enlarged Group.

2.5 The Babcock Group may incur higher than expected Acquisition-related costs and integration costs

Babcock will incur legal, accounting, financing and transaction fees and other costs related to the Acquisition. Some of these costs are payable regardless of whether the Acquisition is completed. In particular, in the event that the Resolution is not passed on or before 24 April 2014, the Underwriting Agreement is terminated prior to Admission or Admission does not occur, save in certain limited circumstances, Babcock will be required to pay the Avincis Group €10 million for costs and expenses incurred by the Avincis Group in connection with the Acquisition. In addition, Babcock will also incur costs in relation to post-Acquisition integration. The actual costs of the Acquisition and the integration process may exceed those estimated and there may be further additional and unforeseen expenses incurred in connection with the Acquisition or the integration. In addition, the costs incurred by the Enlarged Group in complying with the ongoing United Kingdom company and listing requirements are likely to exceed the costs currently incurred by Babcock. These factors could materially adversely affect the Enlarged Group's results of operations.

2.6 Risks of executing the Acquisition could cause the market price of Babcock Ordinary Shares to decline

The market price of Ordinary Shares may decline as a result of the Acquisition if, among other reasons, Babcock does not achieve the expected benefits of the Acquisition as rapidly or to the extent anticipated or at all, the effect of the Acquisition on Babcock's financial results is not consistent with the expectations of investors, or Shareholders sell a significant number of Ordinary Shares prior to or after Completion.

3. RISKS RELATING TO THE RIGHTS ISSUE AND AN INVESTMENT IN ORDINARY SHARES

3.1 The market value of listed securities may fluctuate and may not reflect the underlying asset value of the Babcock Group

Prospective investors should be aware that the value of an investment in Babcock may go down as well as up. The market value of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares could be subject to significant fluctuations and may not always reflect the underlying asset value. A number of factors outside the control of the Babcock Group may impact on its performance and the price of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares. Such factors include the operating and share price performance of other companies in the industry and markets in which the Babcock Group operates, speculation about the Babcock Group's business in the press, media or investment community, market perceptions to changes affecting the Babcock Group's or the Enlarged Group's operations or variations in the Babcock Group's profit estimates, the publication of research reports by analysts and general market or economic conditions. The market price of the Ordinary Shares may be adversely affected by any of the preceding or other factors regardless of the Babcock Group's actual results of operations and financial condition. Moreover, the financial results and prospects of Babcock or the Enlarged Group may be below the expectations of market analysts and investors from time to time. Any of these events could result in a decline in the market price of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares.

3.2 Shareholders who do not take up their rights in full will experience dilution in their ownership

If Qualifying Shareholders do not (or are not permitted under the terms of the Rights Issue to) take up the offer of New Ordinary Shares under the Rights Issue their proportionate ownership and voting interests in the Babcock Group will be reduced and the percentage that their Ordinary Shares will represent of the total share capital of the Babcock Group will be reduced accordingly. Even if a Qualifying Shareholder elects to sell its unexercised Nil Paid Rights, or such Nil Paid Rights are sold on its behalf, the consideration it receives may not be sufficient to compensate it fully for the dilution of its percentage ownership of the Babcock Group's share capital that may be caused as a result of the Rights Issue.

3.3 An active trading market in Nil Paid Rights may not develop on the London Stock Exchange

An active trading market in the Nil Paid Rights may not develop on the London Stock Exchange during the trading period. In addition, because the trading price of the Nil Paid Rights depends on the trading

price of the Ordinary Shares, the Nil Paid Rights price may be volatile and subject to the same risks as noted in risk factor 3.1 above. The existing volatility of the Ordinary Shares may also magnify the volatility of the Nil Paid Rights.

3.4 If there is a substantial decline in the price of the Ordinary Shares, the Nil Paid Rights may become worthless

The public trading market price of the Ordinary Shares may decline below the subscription price for the New Ordinary Shares. Should that occur after investors exercise their rights in the Rights Issue, investors will suffer an immediate unrealised loss as a result. Following the exercise of rights, such investors may be unable to sell New Ordinary Shares at a price equal to or greater than the subscription price for these shares.

Shareholders who decide not to exercise their rights may also sell or transfer their Nil Paid Rights. If the public trading market price of the Ordinary Shares declines below the subscription price for the New Ordinary Shares, investors who have acquired any such Nil Paid Rights in the secondary market will suffer a loss as a result.

3.5 Possible amendment to Babcock's Articles could have the effect of restricting the percentage of holdings in Babcock by non-European Shareholders or the exercise of voting and other shareholder rights by non-European Shareholders

Shareholders should be aware that Babcock may propose, at the next AGM following the Acquisition, certain amendments to its Articles aimed at ensuring continuing compliance with Regulation (EC) no. 1008/2008 (the "**Regulation**"), which sets nationality requirements for undertakings holding Aircraft Operating Licences.

If such amendments are proposed and adopted, the Articles would contain provisions which grant the Babcock Board various powers aimed at satisfying the nationality requirement of the Regulation and preserving the Aircraft Operating Licences of the Enlarged Group. These powers could include a right to determine a maximum number of Ordinary Shares that may be held by any non-European Shareholders and the ability to suspend voting and other shareholder rights and/or request that the holder(s) dispose of Ordinary Shares, such that no non-European Shareholder may directly or indirectly own the Ordinary Shares or otherwise have an interest in them. The Articles may also provide that, if such disposal is not performed on the terms provided for in the Articles, Babcock may itself acquire the relevant Ordinary Shares.

The enforcement by the Babcock Board of the measures described above would require the Company to track the nationality of Shareholders. As a result, Shareholders may be required to deliver a duly completed nationality declaration to the Receiving Agent, together with such other information (if any) as is specified in such nationality declaration.

Prior to the adoption of Articles containing such protective measures, the Directors would not have any constitutional powers to control the level of non-European Shareholdings in the Company and therefore to ensure continuing compliance with the Regulation and any proposal to amend the Articles to include the protective measures described above may not be approved by Shareholders. In the event that the Company ceases to be owned by European nationals in compliance with the Regulation, this could lead to a regulator refusing, withholding, suspending or revoking the Enlarged Group's Aircraft Operating Licences, which in turn is likely to have a material adverse effect on the business, financial conditions and operations of the Enlarged Group.

3.6 Any future Ordinary Share issues and sales of Ordinary Shares by major Shareholders may further dilute the holdings of current Shareholders and may also have an adverse effect on the market price of the Ordinary Shares

Other than pursuant to the Rights Issue, the Babcock Group has no current plans for a subsequent offering of Ordinary Shares. However, it is possible that the Babcock Group may decide to offer additional Ordinary Shares in the future. If Shareholders did not take up any such offer of Ordinary Shares or were not eligible to participate in such offering, their proportionate ownership and voting interests in Babcock would be reduced. An additional offering or a significant sale of Ordinary Shares by any of the Babcock Group's major Shareholders could have an adverse effect on the market price of the outstanding Ordinary Shares.

3.7 The ability to take up Nil Paid Rights under the Rights Issue will not be readily available to any Shareholders with a registered address in the United States or any Excluded Territories (subject to certain exceptions)

The ability to take up Nil Paid Rights under the Rights Issue will not be readily available to any Shareholder with a registered address in the United States or Excluded Territory (subject to certain exceptions) in the absence of certain other actions. If a Qualifying Shareholder is not able to take up Rights granted in respect of Existing Ordinary Shares under the Rights Issue, then it will suffer dilution, as described above, and it may not receive the economic benefit of such Rights because there is no assurance that the procedure in respect of Rights not taken up, described in Part IV (*Terms and Conditions of the Rights Issue*) of this document, will be successful either in selling the Nil Paid Rights or in respect of the prices obtained.

3.8 Investors may not receive compensation for expired and unexercised Rights

The subscription period for the New Ordinary Shares being offered in the Rights Issue is expected to commence on 17 April 2014 and is expected to expire on 6 May 2014. If an investor fails to exercise its Rights prior to the end of the subscription period, then it may not receive the economic benefit of such Rights because there is no assurance that the procedure in respect of Rights not taken up, described in Part IV (*Terms and Conditions of the Rights Issue*) of this document will be successful in either selling the Nil Paid Rights, or in respect of the prices obtained.

3.9 The Babcock Group's ability to continue to pay dividends on the Ordinary Shares will depend on the availability of distributable reserves

The level of any dividend paid in respect of the Ordinary Shares is within the discretion of the Board and is subject to a number of factors, including the business and financial condition of, earnings and cash flow of, and other factors affecting, the Babcock Group (and, following the Acquisition, the Enlarged Group), as well as the availability of funds from which dividends can be legally paid. The level of any dividend in respect of the Ordinary Shares is also subject to the extent to which Babcock receives funds, directly or indirectly, from its operating subsidiaries and divisions (which, following the Acquisition, will include members of the Avincis Group) in a manner which creates funds from which dividends can be legally paid. The ability of its subsidiaries to pay dividends to Babcock and its ability to receive distributions from its investments in other entities are subject to applicable local laws and regulatory requirements and other restrictions. These laws and restrictions could limit the payment of dividends and distributions to Babcock by its subsidiaries, which could in the future restrict Babcock's ability to fund its operations or to pay a dividend to its Shareholders. Any reduction in dividends paid on Ordinary Shares from those historically paid, or the failure to pay dividends in any financial year, could adversely affect the market price of Ordinary Shares.

3.10 Exchange rate fluctuations may impact the price of Ordinary Shares or the value of any dividends paid

The Ordinary Shares, and any dividends to be announced in respect of such shares, will be quoted in pounds sterling. An investment in Ordinary Shares by an investor in a jurisdiction whose principal currency is not pounds sterling exposes the investor to foreign currency rate risk. Any depreciation of the pound sterling in relation to such foreign currency will reduce the value of the investment in the Ordinary Shares in foreign currency terms and may adversely impact the value of any dividends.

3.11 Admission of the New Ordinary Shares may not occur when expected

Application for Admission of the New Ordinary Shares is subject to the approval (subject to satisfaction of any conditions to which such approval is expressed to be subject) of the UK Listing Authority and Admission will become effective as soon as a dealing notice has been issued by the UK Listing Authority and the London Stock Exchange has acknowledged that the New Ordinary Shares (nil and fully paid) will be admitted to trading. There can be no guarantee that any conditions to which Admission is subject will be met or that the UK Listing Authority will issue a dealing notice. See the "Expected Timetable of Principal Events" on page 45 of this document for further information on the expected dates of these events.

3.12 US withholding tax could apply to a portion of certain payments on the New Ordinary Shares

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain US source payments (including dividends and

interest), gross proceeds from the disposition of property that can produce US source interest and dividends and certain payments made by entities that are classified as financial institutions under FATCA. Babcock does not expect that withholding under FATCA, as currently drafted, will apply to payments on the New Ordinary Shares. However, significant aspects of whether or how FATCA will apply to non-US issuers like Babcock remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments on the New Ordinary Shares in the future. Even if FATCA were to become relevant to payments on the New Ordinary Shares, it would not be applicable earlier than 1 January 2017. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA to an investment in the New Ordinary Shares.

3.13 Holders of Ordinary Shares outside the United Kingdom may not be able to participate in future equity offerings

English law provides for pre-emptive rights generally to be granted to the Shareholders, unless such rights are disapplied by shareholder resolution. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by certain Overseas Shareholders in any future issue of Ordinary Shares. In particular, and subject to certain exceptions, Shareholders who are located in the United States may not be able to exercise their rights in the Rights Issue or on a future issue of Ordinary Shares, unless a registration statement under the Securities Act is effective with respect to the Ordinary Shares or an exemption from the registration requirements is available thereunder. The Babcock Group has no current intention to file any such registration statement, and cannot assure prospective investors that any exemption from the registration requirements would be available to enable US or other Overseas Shareholders to exercise such pre-emption rights or, if available, that it will utilise any such exemption.

Qualifying Shareholders who have a registered address in or who are resident in countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents, or need to observe any other formalities to enable them to acquire New Ordinary Shares. Any Shareholder who is not entitled to participate in any future issue of Ordinary Shares carried out by the Company will suffer dilution, as described above.

3.14 The ability of Overseas Shareholders to bring actions or enforce judgments against the Enlarged Group or its directors or officers may be limited

The ability of an Overseas Shareholder to bring an action against the Enlarged Group may be limited under law. Babcock is a public limited company incorporated in England and Wales. The rights of Shareholders are governed by English law and the Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. In particular, English law significantly limits the circumstances under which shareholders of English companies may bring derivative actions. Under English law, in most cases, only the Company can be the proper claimant for purposes of maintaining proceedings in respect of wrongful acts committed against it. Neither an individual shareholder nor any group of shareholders has any right of action in such circumstances. In addition, English law does not afford appraisal rights to dissenting shareholders in the form typically available to shareholders in a US corporation. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Babcock Directors and/or senior managers. The majority of the Babcock Directors and senior managers are and will continue to be residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Babcock Directors and/or the senior managers within the Overseas Shareholder's country of residence or to enforce against the Babcock Directors and/or the senior managers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. Overseas Shareholders may not be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Babcock Directors and/or the senior managers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Babcock Directors and/or the senior managers in any original action based solely on foreign securities laws brought against the Babcock Group, the Enlarged Group or the Babcock Directors and/or the senior managers in a court of competent jurisdiction in England or other countries.

IMPORTANT INFORMATION

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this document that are not historical facts are “forward-looking” statements within the meaning of section 27A of the Securities Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control and all of which are based on the Directors’ current beliefs and expectations about future events. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “targets”, “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company concerning, among other things:

- (a) the Company’s objectives, acquisition and financing strategies, target return, results of operations, financial condition, prospects, capital appreciation of the Ordinary Shares and dividends;
- (b) trends in the sectors in which the Company intends to invest; and
- (c) anticipated financial and other benefits resulting from the Acquisition, and the Company’s plans and objectives following the Acquisition.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company’s actual performance, results of operations, internal rate of return, financial condition, distributions to Shareholders and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the Company’s actual performance, results of operations, internal rate of return, financial condition, distributions to Shareholders and the development of its financing strategies are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Prospective investors should carefully review the section entitled “*Risk Factors*” of this document for a discussion of factors that could cause the Company’s actual results to differ materially from those expected before making an investment decision. For the avoidance of doubt, nothing in this paragraph constitutes a qualification of the working capital statement contained in paragraph 11 of Part XIV (*Additional Information*) of this document.

Forward-looking statements contained in this document apply only as at the date of this document. To the extent required by the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules and other applicable regulations, the Company will update or revise the information in this document. Otherwise, the Company undertakes no obligation publicly to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Forward-looking statements contained in this document do not in any way seek to qualify the working capital statement contained in paragraph 11 of Part XIV (*Additional Information*) of this document.

2. INDUSTRY AND MARKET DATA

Where information contained in this document has been sourced from a third party, the Company and the Directors confirm that such information has been accurately reproduced and, so far as they are aware and have been able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

3. PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise stated:

- (a) financial information relating to the Babcock Group has been extracted without material adjustment from the financial information set out in Part IX (*Historical Financial Information Relating to the Babcock Group*) of this document (the “**Babcock Group’s Historical Financial Information**”), which includes the following:
 - (i) the audited consolidated financial statements for the Company prepared in accordance with IFRS for the 2011 Financial Year (the “**2011 Financial Statements**”);
 - (ii) the audited consolidated financial statements for the Company prepared in accordance with IFRS for the 2012 Financial Year (the “**2012 Financial Statements**”);
 - (iii) the audited consolidated financial statements for the Company prepared in accordance with IFRS for the 2013 Financial Year (the “**2013 Financial Statements**” and, together with the 2011 Financial Statements and the 2012 Financial Statements, the “**Audited Financial Statements**”); and
 - (iv) the unaudited condensed consolidated financial statements for the Company prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34) as at and for the six months ended 30 September 2013 (the “**2013/14 Half Year Financial Statements**”); the 2013/14 Half Year Financial Statements were prepared using IAS 19 (amendment) “employee benefits” and the results for the period ending 30 September 2012 and comparative periods have been restated accordingly;

all of which are incorporated by reference into this document; and
- (b) financial information relating to the Avincis Group has been extracted without material adjustment from the financial information set out in Part X (*Historical Financial Information Relating to the Avincis Group*) of this document (the “**Avincis Group’s Historical Financial Information**”).

Unless otherwise indicated, financial information in this document relating to Babcock and Avincis has been prepared in accordance with IFRS.

All prices quoted for Ordinary Shares are closing prices as provided by the London Stock Exchange. All London Stock Exchange quoted share prices are expressed in pounds sterling.

Other sources are included in footnotes, where relevant.

Non-IFRS financial measures

In this document, certain financial measures of the Babcock Group, the Avincis Group and the Enlarged Group that are presented are not measures of financial performance defined under IFRS, or any other internationally accepted accounting principles. These financial measures are referred to as “**non-IFRS**”. The principal non-IFRS financial measures used in this document are discussed below.

Non-IFRS earnings measures and earnings adjustments

- ***Underlying measures*** – the Babcock Group’s and the Avincis Group’s underlying revenue, operating profit, operating margin, profit before tax and earnings per share, as applicable, refer to results before amortisation of acquired intangibles and exceptional items. Underlying revenue, operating profit, operating margins and net finance costs (being the net of finance income, finance costs and other gains and losses) also include the Babcock Group’s and the Avincis Group’s shares of the operating profit of equity accounted joint ventures and associates. Underlying operating profit and operating margin include investment income arising under IFRIC12 (Accounting for

Service Concession Arrangements) which is presented as financial income in the income statement. Collectively these adjustments are made to derive the underlying operating results of the Babcock Group's and the Avincis Group's respective businesses. All underlying numbers are stated before the effect of tax rate changes.

The Directors believe that the underlying figures provide a consistent measure of business performance year-to-year thereby facilitating comparison and understanding of the Babcock Group's and the Avincis Group's financial performance.

- **Exceptional items** – Exceptional items are items which are exceptional in nature or size. The Directors believe that separate reporting of exceptional items helps provide a better indication of the Babcock Group's and the Avincis Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties and businesses, material acquisition costs, along with the restructuring of businesses, reorganisations, onerous contracts, new country set-up costs and asset impairments.
- **Adjusted return on invested capital (“adjusted ROIC”)** – Adjusted ROIC means underlying operating profit divided by total invested capital (which is equal to equity, excluding retirement benefit deficits or surpluses, plus net debt).
- **Free cash flow** – Free cash flow is cash flows from operating activities minus capital expenditure (net), interest paid, net of interest received and income tax paid. Capital expenditure (net) is the sum of proceeds on disposal of property, plant and equipment, purchases of property, plant and equipment, purchases of intangible assets and new finance leases.
- **Operating cash flow conversion rate** – Operating cash flow conversion rate is cash flows from operating activities after adding back exceptional items and retirement benefit payments in excess of income statement as a percentage of operating profit before exceptional items and amortisation of acquired intangibles.
- **Operating return on revenue** – Operating return on revenue is underlying operating profit expressed as a percentage of underlying revenue.
- **Adjusted EBITDA of the Avincis Group** – Adjusted EBITDA is the Avincis Group's loss for the year adjusted to exclude the effects of (loss)/profit for the year from discontinued operations attributable to owners of the parent, income tax credit, other gains and losses, finance income, finance costs, share of results of joint ventures and associates, exceptional items and amortisation of acquired intangibles, plus share of operating profit of joint ventures and associates, and after excluding loss on disposal of non-current assets, depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets, impairments on non-current assets, and share of depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets of joint ventures and associates.

These non-IFRS earnings measures are presented herein as (1) they are used by management to measure operating performance, in presentations to the Directors, and as a basis for strategic planning and forecasting, and (2) they represent similar measures that are widely used by certain investors, securities analysts and other parties as supplemental measures of performance. These measures enhance management's and investors' understanding of the financial performance of the Babcock Group and the Avincis Group, as applicable, by excluding items that are outside of ongoing operations such as income taxes, costs of capital, and non-cash expenses. However, these non-IFRS earnings measures are not measures or adjustments defined under IFRS or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial results or other indicators of the Babcock Group's or the Avincis Group's performance defined under IFRS. The non-IFRS earnings measures, as defined herein, may not be comparable to similarly titled measures as presented by other companies due to differences in the way non-IFRS earnings measures are calculated for purposes of this document. Even though the non-IFRS earnings measures are used by management to assess ongoing operating performance and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of the results of the Babcock Group and the Avincis Group as reported under IFRS. For example, some of the limitations for the non-IFRS earnings measures include the following:

- they exclude certain tax payments that may represent a reduction in available cash;

- they do not reflect any cash capital expenditure requirements for the assets being depreciated and amortised that may have to be replaced in the future;
- they do not reflect changes in, or cash requirements for, working capital needs; and
- they do not reflect the significant interest expense, or the cash requirements necessary to service interest payments on debts.

Non-IFRS debt and liquidity measures

In addition to the non-IFRS earnings measures the Babcock Group and the Avincis Group use the following non-IFRS debt and liquidity measures:

- **Net debt** – consists of the total of loans, bank overdrafts, cash and cash equivalents and finance leases plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency swaps of the interest rate basis of the company carrying the debt and fair value hedges.
- **Third party net debt of the Avincis Group** – consists of the total of the Avincis Group’s senior secured notes and senior secured floating rate notes, the Avincis Revolving Facility, other debts with credit institutions, obligations under finance leases, derivative financial instruments and other financial liabilities, less cash and cash equivalents.

Net debt and the Avincis Group’s third party net debt are presented herein as (1) each is used to monitor matters pertaining to outstanding debt and available operating liquidity, and/or (2) represents similar measures that are widely used by certain investors, securities analysts and other interested parties as supplemental measures of financial position. It also considered to enhance an investors’ understanding of the indebtedness and liquidity position of the Babcock Group and the Avincis Group, as applicable.

Net debt and third party net debt of the Avincis Group are not measures that are determined based on IFRS, or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial position or results or other indicators of the financial position or performance of the Babcock Group and the Avincis Group based on IFRS measures. This measure, as defined herein, may not be comparable to similarly titled measures as presented by other companies due to differences in the way the measures are calculated for purposes of this document. Even though this type of measure is commonly used by investors, it has important limitations as analytical tools, and you should not consider it in isolation or as substitutes for analysis of the financial position or results of the Babcock Group and the Avincis Group reported under IFRS.

4. **ROUNDING**

Some numbers in this document have been rounded and, as a result, the numbers shown as totals in this document may vary slightly from the exact arithmetic aggregation of the numbers that precede them.

5. **CURRENCY PRESENTATION**

The Babcock Group and the Avincis Group operate in a number of countries and earn money and makes payments in different currencies. All references in this document to “£”, “pounds”, “pounds sterling”, “sterling”, “pence” or “p” are to the lawful currency of the United Kingdom. All references to “€” or “euro” are to the single currency of the member states of the European Communities that adopt or have adopted the euro as their lawful currency under the legislation of the EU or European Monetary Union. All references to “US\$” or “US dollar” are to the lawful currency of the United States. All references to “SEK” are to the lawful currency of Sweden.

6. HISTORICAL EXCHANGE RATE INFORMATION

The tables below show the high, low, average and period-end exchange rates of the euro against the pound sterling for each of the five years ended 31 December 2009, 2010, 2011, 2012 and 2013, and for each full month in 2014 up to the Latest Practicable Date, expressed as the number of euros per £1.00 and as published by FactSet. These rates may differ from the actual rates used in the preparation of the Company's financial statements and other financial information appearing in this document. The average is computed using the exchange rates set on each business day during the period.

<u>Year ended 31 December</u>	<u>Euro/Pound Sterling</u>			
	<u>Period end</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
2009	1.126	1.123	1.183	1.034
2010	1.167	1.166	1.236	1.096
2011	1.197	1.153	1.204	1.107
2012	1.233	1.233	1.285	1.178
2013	1.202	1.178	1.234	1.142
<u>Month in 2014</u>				
January	1.219	1.209	1.223	1.200
February	1.213	1.212	1.222	1.201

7. REFERENCES TO TIME

Unless otherwise stated, all references to time in this document are to the time in London, United Kingdom.

8. DEFINED TERMS

Certain terms used in this document, including capitalised terms and certain technical and other items, are defined in Part XVI (*Definitions and Glossary of Technical Terms*) of this document.

9. NO INCORPORATION BY REFERENCE OF WEBSITE INFORMATION

Unless otherwise specified in this document, neither the content of Babcock's website, nor the content of any website accessible from hyperlinks on Babcock's website, is incorporated into, or forms part of, this document and investors should not rely on them, without prejudice to the documents incorporated by reference into this document, which will be made available on Babcock's website.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.⁽¹⁾

Announcement of the Acquisition and Rights Issue	27 March 2014
Publication and posting of this document, the Notice of General Meeting and the Form of Proxy	27 March 2014
Latest time and date for receipt of Forms of Proxy	10.30 a.m. on 14 April 2014
Rights Issue Record Date	close of business on 14 April 2014
General Meeting	10.30 a.m. on 16 April 2014
Despatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only) ⁽²⁾	16 April 2014
Existing Ordinary Shares marked “ex” by the London Stock Exchange	8.00 a.m. on 17 April 2014
Dealings in New Ordinary Shares, nil paid, commence on the London Stock Exchange	8.00 a.m. on 17 April 2014
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only) ⁽²⁾	as soon as practicable after 8.00 a.m. on 17 April 2014
Nil Paid Rights and Fully Paid Rights enabled in CREST	as soon as practicable after 8.00 a.m. on 17 April 2014
Latest time and date for Cashless Take-Up or disposal of Nil Paid Rights using the Special Dealing Service	3.00 p.m. on 29 April 2014
Recommended latest time for requesting withdrawal of Nil Paid Rights and Fully Paid Rights from CREST (i.e. if your Nil Paid Rights and Fully Paid Rights are in CREST and you wish to convert them to certificated form)	4.30 p.m. on 29 April 2014
Latest time for depositing renounced Provisional Allotment Letters, nil or fully paid, into CREST or for dematerialising Nil Paid Rights or Fully Paid Rights into a CREST stock account (i.e. if your Nil Paid Rights and Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them to uncertificated form).	3.00 p.m. on 30 April 2014
Latest time and date for splitting Provisional Allotment Letters, nil or fully paid	3.00 p.m. on 1 May 2014
Latest time and date for acceptance, payment in full and registration of renunciation of Provisional Allotment Letters	11.00 a.m. on 6 May 2014
Results of Rights Issue to be announced through a Regulatory Information Service	by 8.00 a.m. on 7 May 2014
Dealings in New Ordinary Shares, fully paid, commence on the London Stock Exchange	8.00 a.m. on 7 May 2014
New Ordinary Shares credited to CREST accounts	as soon as practicable after 8.00 a.m. on 7 May 2014
Despatch of definitive share certificates for the New Ordinary Shares in certificated form	by no later than 20 May 2014
Expected date of Completion of Acquisition	May 2014

Notes:

- (1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Babcock with the agreement of J.P. Morgan Cazenove in which event details of the new times and dates will be notified to the UKLA, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
- (2) Subject to certain restrictions relating to Qualifying Shareholders with registered addresses outside the United Kingdom, details of which are set out in paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

SHARE CAPITAL AND RIGHTS ISSUE STATISTICS

Issue Price per New Ordinary Share	790 pence
Basis of Rights Issue	5 New Ordinary Shares for every 13 Existing Ordinary Shares
Number of Ordinary Shares in issue at the Latest Practicable Date	362,073,932
Number of New Ordinary Shares to be provisionally allotted pursuant to the Rights Issue ⁽¹⁾	139,259,204
Number of Ordinary Shares in issue immediately following the completion of Rights Issue ⁽¹⁾	501,333,136
New Ordinary Shares as a percentage of the enlarged issued share capital of Babcock immediately following completion of the Rights Issue	27.8 per cent.
Estimated gross proceeds of the Rights Issue	£1,100 million
Estimated expenses of the Rights Issue and the Acquisition ⁽²⁾	£45 million
Estimated net proceeds of the Rights Issue receivable by Babcock, after deduction of estimated expenses of the Rights Issue ⁽¹⁾	£1,055 million

Notes:

- (1) On the assumption that no further Ordinary Shares are issued from the Latest Practicable Date until completion of the Rights Issue other than the New Ordinary Shares. The actual number of New Ordinary Shares to be issued under the Rights Issue will be subject to rounding to eliminate fractions.
- (2) Total estimated expenses split as follows: Rights Issue £24 million; Acquisition £21 million.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Michael Turner, CBE Peter Rogers, CBE William Tame Kevin Thomas Archibald Bethel, CBE John Davies Sir David Omand, GCB Justin Crookenden Ian Duncan Kate Swann Anna Stewart	Director, Chairman Director, Chief Executive Director, Group Finance Director Director, Chief Executive - Support Services Director, Chief Executive - Marine & Technology Director, Chief Executive - Defence & Security Senior Independent Director Non-Executive Director (Independent) Non-Executive Director (Independent) Non-Executive Director (Independent) Non-Executive Director (Independent)
Proposed Director	Jeff Randall	Proposed Non-Executive Independent Director (joining on 1 April 2014)
Company Secretary	Albert Dungate	
Registered Office	33 Wigmore Street London W1U 1QX United Kingdom	
Sole Financial Adviser	J.P. Morgan Limited (which conducts its UK investment banking business as J.P. Morgan Cazenove) 25 Bank Street London E14 5JP United Kingdom	
Sole Sponsor, Joint Global Coordinator and Joint Bookrunner	J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove) 25 Bank Street London E14 5JP United Kingdom	
Joint Global Coordinator and Joint Bookrunner	Jefferies International Limited Vintners Place 68 Upper Thames Street London EC4V 3BJ United Kingdom	
Joint Bookrunner	Barclays Bank PLC 5 The North Colonnade London E14 4BB United Kingdom	
Joint Bookrunner	HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom	

Independent Financing Adviser in connection with the Rights Issue and Acquisition Finance	Rothschild New Court St Swithin's Lane London EC4N 8AL United Kingdom
Legal Adviser to Babcock as to English and US Law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ United Kingdom
Legal Advisers to the Sole Sponsor, Joint Global Coordinators and Joint Bookrunners as to English and US Law	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA United Kingdom
Auditors and Reporting Accountants to Babcock in respect of Babcock financial information	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH United Kingdom
Reporting Accountants to Babcock in respect of Avincis financial information	Deloitte LLP Abbots House Abbey Street Reading RG1 3BD United Kingdom
Registrar	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom
Receiving Agent	Capita Asset Services Corporate Actions The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom

PART I
LETTER FROM THE CHAIRMAN

BABCOCK INTERNATIONAL GROUP PLC

(Incorporated and registered in England and Wales under the Companies Act of 1985 with registered number 02342138)

Directors:

Michael Turner, CBE
Peter Rogers, CBE
William Tame
Kevin Thomas
Archibald Bethel, CBE
John Davies
Sir David Omand, GCB
Justin Crookenden
Ian Duncan
Kate Swann
Anna Stewart
Jeff Randall (joining the Board on 1 April 2014)

Registered Office:

33 Wigmore Street
London
W1U 1QX

27 March 2014

To the holders of Ordinary Shares and, for information only, to holders of options over Babcock Ordinary Shares

Dear Shareholder,

Proposed acquisition of the Avincis Group, 5 for 13 Rights Issue of 139,259,204 New Ordinary Shares at 790 pence per New Ordinary Share and Notice of General Meeting

1. INTRODUCTION

On 27 March 2014, Babcock announced that it had reached agreement on the terms of the proposed acquisition of the Avincis Group for €1,100 million.

Avincis is a leading supplier of helicopter and fixed wing emergency services (medical, search and rescue (SAR), fire-fighting and civil protection) in Europe and Australia and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with a clear ambition to expand this service into the growing Norwegian and Australian offshore oil and gas markets.

In the opinion of the Directors, the acquisition of Avincis offers the following:

- a clear strategic fit for Babcock; and
- a business:
 - positioned for growth;
 - with high revenue visibility;
 - that is well-placed to retain and build upon its market position; and
 - which diversifies Babcock's customer base and geographies.

Babcock proposes to finance the Acquisition using the proceeds of a Rights Issue to raise a total of approximately £1,055 million, net of estimated expenses.

The principal terms of the Acquisition are described in more detail in paragraph 5 of this letter and Part II (*Principal Terms of the Acquisition*) of this document.

The Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules and therefore requires the approval of Babcock Shareholders. Accordingly, the General Meeting has been convened for 10.30 a.m. on 16 April 2014 at the offices of FTI Consulting at 200 Aldersgate, Aldersgate Street, London EC1A 4HD. The notice convening the General Meeting is set out at the end of this document and an explanation of the Resolution to be proposed at the meeting is set out in paragraph 17 below. The Acquisition is also subject to regulatory clearance.

The purpose of this document is to explain the background to and reasons for the Acquisition and the Rights Issue, set out the terms and conditions of the Rights Issue and provide you with a Notice of General Meeting to be held to consider and, if thought fit, to pass the Resolution required to authorise Babcock to carry out the Acquisition.

This document also explains why the Board considers that the Resolution to be proposed at the General Meeting is in the best interests of Shareholders and why the Board unanimously recommends that Shareholders vote in favour of the Resolution.

2. BACKGROUND TO AND REASONS FOR THE ACQUISITION

2.1 Babcock's strategy

Babcock is the UK's leading engineering support services company. Its objective is to grow from this position in both the UK and overseas as well as to deliver superior and sustainable value for its shareholders. Babcock aims to achieve this strategy by creating and growing a balanced portfolio of businesses that:

- work for governments, public sector organisations, regulated bodies and blue-chip companies;
- provide technical services that are critical, complex and bespoke;
- have long-term integrated output or availability contracts, balancing risk and reward;
- are customer-focused and work collaboratively;
- are, or are capable of becoming, top three in their marketplace; and
- have a strong health and safety focus.

Babcock has grown successfully both organically and through acquisitions and continues to seek attractive opportunities to expand that fit its business model. As set out below, the Babcock Directors believe that the proposed Acquisition fulfils Babcock's criteria.

Avincis is a leading supplier of helicopter and fixed wing emergency services (medical, search and rescue (SAR), fire-fighting and civil protection) in Europe and Australia and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with a clear ambition to expand this service into the growing Norwegian and Australian offshore oil and gas markets.

2.2 Avincis is a clear fit with Babcock's strategic objectives

The Directors believe that Avincis is aligned to Babcock's strategic objectives. Avincis customers are typically public sector bodies and oil and gas companies working in highly-regulated environments. Its services have a high engineering and technical content and are generally critical, complex and bespoke in nature. Contracts are typically four to seven years in length with options for the customer to extend by a further one or two years. Risk and reward are balanced through a high fixed revenue component (approximately 75 per cent. across the Life and Rescue and Safety and Environment business divisions, and approximately 60 per cent. in the Energy Support Services business division), variable revenue dependent on hours flown and often with a pass through of fuel costs. Avincis is highly customer-focused, working closely and collaboratively with customers to achieve their objectives. Avincis is a market leader in European helicopter and fixed wing emergency services and number three in the UK sector of the North Sea oil and gas crew-change business. Safety is a top priority and the key focus of management and staff attention: safety processes and systems are continually improved and updated. Avincis has been awarded the inaugural Moral Courage Safety Award by the US Department of Transportation for its safety culture.

2.3 Avincis is positioned for growth

The Babcock Directors believe that Avincis has strong growth prospects which will be enhanced by Babcock's solid financial position and proven commercial capabilities.

Helicopter emergency services

The Directors believe that Avincis is well-positioned to grow further in its existing geographies through:

- growth in helicopter emergency services;
- the potential for further outsourcing of search and rescue services, civil protection operations and maintenance, repair and overhaul ("MRO") activities for civil protection clients;
- market share growth; and
- selective acquisitions.

Growth in new geographies is possible through acquisitions and setting up new operations. Avincis Mission Critical Services Scandinavia AB has already entered into a conditional agreement to acquire an indirect interest of approximately 85 per cent. of Scandinavian AirAmbulance for an initial cash consideration of SEK206.5 million with a further SEK84.2 million (subject to a completion adjustment) payable in two years' time. Scandinavian AirAmbulance provides emergency medical services in Sweden and Finland from 12 permanent bases. For the financial year ended 30 April 2013 Scandinavian AirAmbulance reported net revenue of SEK429 million and EBITDA of SEK103 million. The Directors believe that other opportunities exist in Scandinavia, Eastern Europe and elsewhere in the world.

Offshore crew-change helicopter services

The Directors believe that there will be significant opportunities for growth in Avincis existing operations in the UK, Australia and Norway and that Avincis is well-positioned to exploit these based on a number of factors including:

- their belief that oil and gas customers in these countries are keen for the development of a strong third player to complement the two existing main players;
- their belief that Avincis is growing its customer relationships and reputation;
- that Avincis has outstanding orders for new Sikorsky S-92 aircraft (an in-demand large helicopter); and
- the evidence of Avincis recent contract awards in the UK and Australia.

The Directors believe that growth opportunities in new geographies exist in South East Asia through leveraging Avincis Australian presence, as well as partnering with, or acquiring, local entities, and in East Africa, through customer-led situations and leveraging Babcock's existing position in Southern and Eastern Africa.

Revenue synergies through combining Babcock's and Avincis capabilities

In the medium term, Babcock sees opportunities in defence outsourcing in Europe and critical services outsourcing in the UK, Europe and Australia. Ongoing public sector austerity and continued demand for services are expected by the Directors over time to drive customers to outsource more defence and other activities to save money and increase efficiency. Avincis provides rotary-wing capability in the UK and Europe as well as an existing local presence. These complement Babcock's commercial and technical skills in general defence outsourcing to address this growing need and the Directors believe that the Enlarged Group would be well positioned for outsourced military helicopter MRO in the UK and Europe. Revenue synergies are also expected by the Directors to arise over time through selling Babcock's asset management, training and infrastructure offerings using Avincis as a platform to address any such potential opportunities in Europe and Australia.

2.4 Avincis has high revenue visibility

With a strong order book of approximately €2.3 billion as at 31 December 2013 and a total pipeline of opportunities of around €7 billion, the Directors believe Avincis has a high level of revenue visibility. Avincis has significantly shorter bidding timetables than the traditional Babcock model. Since 1 July 2013 Avincis has won 16 contracts totalling approximately €330 million, including for emergency medical services in France in Burgundy, Provence, Alpes and Cote d'Azur, offshore services to the Enagas Gaviota platform in Spain on a two year basis and offshore services to Nexen Petroleum in the North Sea on a five year basis. Furthermore, examples of forthcoming opportunities include a seven year contract for emergency medical services in Australia, an oil and gas contract for Eni in Cyprus for an initial term of two years, a one year contract for a potential new customer in Australia for offshore services and a three year and five year MRO contract in the UK and France, respectively. The Directors expect Avincis to achieve double digit revenue growth in 2014 and 2015, in part due to the full year effect of contracts started part way through 2013 and the in-year effect of new contracts won but not yet started. In addition, approximately 85 per cent. of budgeted 2014 revenue is in the order book or at preferred bidder stage with a corresponding level of visibility for 2015 of 56 per cent.

2.5 Avincis is well placed to retain and build upon its market position

The Directors believe that Avincis businesses are well placed to retain and build upon their market positions, having regard to market features such as regulations, scale, relationships and skills and experience. All helicopter and fixed wing operations require an Aircraft Operator's Certificate (AOC)

and maintenance permits that are valid in each country of operation. Safety management systems and processes are mandated by regulators and are often reviewed and enhanced. Avincis businesses are capital intensive, with capital required to fund growth as well as regular maintenance and replenishment of the fleet of aircraft. Economies of scale are derived through the procurement of aircraft and spares, financing of aircraft and operating efficiencies in the areas of maintenance centres, training and back-up aircraft. Strong established customer relationships around quality of service, reliability and long-term contracts are beneficial to Avincis. Avincis also benefits from pilots who are skilled and experienced on specific aircraft types, and in specialised missions, as well as its highly trained aircraft technicians.

2.6 Avincis diversifies Babcock's customer base and geographies

The Directors believe that the acquisition of Avincis will diversify Babcock's client base and reduce its customer concentration and that Avincis will also expand significantly Babcock's geographical footprint with businesses in Australia, France, Italy, Portugal, Spain, the UK and, subject to completion of the acquisition of Scandinavian AirAmbulance, in Sweden and Finland, as well as having newly established operations in Norway.

2.7 Attractions to Babcock of the Avincis business

The Directors believe that the principal business sectors in which Avincis operates and the potential financial impact of the Acquisition are attractive, as described below:

Principal business sectors

Avincis operates in two principal sub-sectors of the aviation services industry: helicopter and fixed wing emergency services and offshore oil and gas crew-change services. In addition, Avincis carries out MRO on both its own and third party aircraft.

Helicopter and fixed wing emergency services

Helicopter and fixed wing emergency services include emergency medical services, search and rescue (SAR) services, fire-fighting services and civil protection services. Customers are generally public sector bodies (central, regional and local government) and charities. These activities tend to be non-cyclical in nature as a result of increasing public demand and higher expectations regarding services to be delivered by the relevant public authorities. Many of the contracts are structured on an availability basis over the medium to long term with a high fixed-revenue component. Avincis has significant market positions in Australia, France, Italy, Portugal, Spain and the UK. Avincis operates helicopter and fixed wing emergency services under the Inaer brand in continental Europe, Bond in the UK and Australian Helicopters in Australia.

Offshore oil and gas crew-change services

Avincis operates regular offshore oil and gas crew-change services in the UK sector of the North Sea, one of the most advanced, complex and challenging offshore environments in the world. In November 2013 it started offshore operations in Australia and has recently set-up a Norwegian offshore operation. Customers are generally blue-chip national and international oil and gas companies. These activities tend to be structured around providing regular crew-changes to fit the crew-change rota of the particular offshore operation. Contracts are generally medium to long term in duration with a high fixed-revenue component, although Avincis also has some spot and short term work. Avincis has significant oil and gas crew-change operations in the UK, small operations in Australia, Italy and Spain and a new operation in Norway. Avincis operates offshore oil and gas crew-change services under the Bond brand in the UK and Australia, Inaer in continental Europe and Norsk Helikopterservice (NHS) in Norway.

Financial impact

The Babcock Board, in making its recommendation, expects that the Acquisition will be earnings accretive to Babcock Shareholders in the first full financial year of Babcock following the Acquisition and will achieve a return on invested capital in excess of the current Babcock cost of capital from the second full financial year of Babcock following the Acquisition. Babcock expects the net debt/EBITDA ratio of the Enlarged Group at 31 March 2014 to be approximately 2.5x, with a target net debt/EBITDA ratio at 31 March 2015 of approximately 2.3x.* This level of gearing is below the previous acquisition spike of approximately 2.9x net debt/EBITDA in July 2010 for the purchase of VT Group plc.

* This paragraph is not a profit forecast and shall not be interpreted to mean that the future earnings per share of Babcock will necessarily match or exceed the historical earnings per share of Babcock.

3. SUMMARY INFORMATION ON BABCOCK

Babcock is the UK's leading engineering support services company with customers in the UK and overseas in the defence, energy, emergency services, transport, education, communications, mining and construction sectors. Its customers are mainly central and local governments, regulated bodies, and blue chip companies operating in highly regulated sectors, who own or operate strategically important assets requiring long-term maintenance and upgrade. In the 2013 Financial Year, the Babcock Group generated underlying revenue of £3.2 billion and employed approximately 26,000 staff worldwide across its four divisions: Marine and Technology, Defence and Security, Support Services and International.

Further information on the Babcock Group is set out in Part V (*Information on the Babcock Group*) of this document.

4. SUMMARY INFORMATION ON AVINCIS

Avincis is a leading supplier of helicopter and fixed wing services for mission critical operations including emergency services (medical, search & rescue), fire-fighting and civil protection in Europe and a leading supplier of offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with a clear ambition to expand this service into the growing Norwegian and Australian offshore oil and gas sectors. Headquartered in the UK, Avincis operates in 8 countries (excluding the Latin America business which Avincis has decided to discontinue) and employs more than 2,800 employees, including over 1,000 technicians and engineering staff.

As of 31 December 2013, Avincis total fleet comprised 343 aircraft, operating from more than 200 operational bases and the average age of its on balance sheet aircraft, weighted by value, was approximately 9.3 years. Total revenue in the year to 31 December 2013 was €582 million and adjusted EBITDA was €135 million, giving a 23 per cent. adjusted EBITDA margin.

Further information on the Avincis Group is set out in Part VI (*Information on the Avincis Group*) of this document.

5. SUMMARY OF THE KEY TERMS OF THE ACQUISITION

In order to implement the Acquisition, Babcock has entered into the agreements set out below. A more detailed summary of the key terms of these agreements is set out in Part II (*Principal Terms of the Acquisition*) of this document.

5.1 Sale and Purchase Agreement

Under the terms of the Sale and Purchase Agreement, and subject to the conditions being satisfied, Babcock has agreed to acquire Avincis for €1,100 million, representing an implied acquisition multiple of 14x 2013 Avincis adjusted EBITDA, pro forma for the acquisition of Scandinavian AirAmbulance.

Completion of the Acquisition is conditional on the following: (a) the Resolution being passed at the General Meeting; (b) approval having been obtained from the Spanish Council of the National Markets and Competition Commission, or alternatively the Council of Ministers, or the Acquisition being otherwise deemed cleared under the Spanish Competition Act 15/2007; (c) a formal or tacit approval having been obtained from the Portuguese Competition Authority or, alternatively, from the Portuguese Minister of Economy; and (d) the Underwriting Agreement not having been terminated prior to Admission and Admission having occurred. Completion is expected to take place in May 2014.

In the event that the Resolution is not passed on or before 24 April 2014, or the Underwriting Agreement is terminated prior to Admission or Admission does not occur, save in certain limited circumstances, Babcock will be required to pay the Avincis Group €10 million for costs and expenses incurred by the Avincis Group in connection with the Acquisition.

5.2 Management Warranty Deed

Certain members of Avincis senior management (the “Warrantors”) have given warranties to Babcock in relation to the business and affairs of the Avincis Group and certain information contained in this document which relates to the Avincis Group. The liability of each Warrantor is several and is limited to 20 per cent. of the after tax proceeds received by that Warrantor in connection with the winding up of the existing Avincis management equity plans at or around completion of the Acquisition. A claim for a breach of warranty can be brought at any time on or before 30 June 2015.

6. FINANCING THE ACQUISITION

The Acquisition will be financed by way of a fully underwritten Rights Issue of New Ordinary Shares at a price of 790 pence per New Ordinary Share on the basis of 5 New Ordinary Shares for every 13 Existing Ordinary Shares. 139,259,204 New Ordinary Shares will be issued, raising gross proceeds of approximately £1,100 million and net proceeds of approximately £1,055 million after deduction of estimated expenses of the Rights Issue.

The Rights Issue is conditional upon, amongst other things, the passing of the Resolution at the General Meeting, Admission, and the Underwriting Agreement having become unconditional in all respects (save for conditions relating to Admission) and not having been terminated in accordance with its terms prior to Admission. The Rights Issue is not conditional on completion of the Acquisition. However if, prior to Admission, the Sale and Purchase Agreement is amended in any material respect or is terminated or lapses, the Rights Issue will not proceed.

The Rights Issue will be made under the existing shareholder authorities that were granted at the AGM held in July 2013 under resolutions 18 (*authority to allot shares*) and 19 (*dis-application of pre-emptive rights*).

7. REFINANCING

The Babcock Group has entered into a new £383 million multi-currency debt facility and a €620 million debt facility (the “**Bridge Facility**”) to enable it to refinance the existing debt of the Avincis Group following completion of the Acquisition, should the Babcock Board consider it necessary or desirable to do so. A refinancing of the existing third party net debt of the Avincis Group, which is approximately £705 million, brings with it a potential interest cost reduction of up to £35 million per year. When combined with the Babcock Group’s existing debt facilities, the Bridge Facility increases the overall leverage of the Babcock Group. The Bridge Facility is repayable on 27 March 2015 (being the date falling 12 months from the date of the Bridge Facility), which may be extended by two further periods of six months at the option of Babcock.

In addition, the Babcock Group has entered into a backstop revolving credit facility (the “**Backstop Facility**”), which will only be drawn down if the consent to the Acquisition from the existing lenders under Babcock’s existing revolving credit facility is not obtained. Such consent is required as the current terms of the existing revolving credit facility do not permit Class 1 acquisitions.

A more detailed summary of the key terms of the Bridge Facility and the Backstop Facility is set out in Part XIV (*Additional Information*) of this document.

8. MANAGEMENT AND EMPLOYEES

No changes will be made to the Babcock Board as a result of the Acquisition, so the Board will continue to comprise the Chairman, five Executive Directors and, with the accession of Jeff Randall to the Board on 1 April 2014, six independent Non-Executive Directors.

Peter Rogers, the Chief Executive of Babcock, has committed to continue as the Chief Executive until at least the summer of 2016.

Justin Crookenden, an Independent Non-Executive Director of Babcock, has confirmed his intention to retire from the Board on 30 November 2014 after nine years on the Board and in accordance with corporate governance best practice for independent non-executive directors.

Babcock attaches great importance to the skills and experience of the existing management and employees of Avincis, who are expected to contribute to the success of the Enlarged Group. Upon completion of the Acquisition, the Board intends to fully respect the existing rights of all Avincis employees.

The Avincis senior management team are expected to remain in place following the Acquisition.

9. PRINCIPAL TERMS OF THE RIGHTS ISSUE

The Company is proposing to raise approximately £1,055 million (net of estimated expenses), by way of the Rights Issue of 139,259,204 New Ordinary Shares. The Issue Price of 790 pence per New Ordinary Share, which is payable in full on acceptance by not later than 11.00 a.m. on 6 May 2014, represents a 42.2 per cent. discount to the Closing Price of 1,366 pence per Existing Ordinary Share on 26 March

2014 (being the last Business Day prior to the announcement of the Rights Issue) and a 34.5 per cent. discount to the theoretical ex-rights price of 1,206 pence per New Ordinary Share calculated by reference to the Closing Price on the same day. If a Qualifying Shareholder does not take up any of its entitlement to New Ordinary Shares, its proportionate shareholding will be diluted by 27.8 per cent. However, if a Qualifying Shareholder takes up its Rights in full, it will, after the Rights Issue has completed and excluding any fraction of an Ordinary Share, as nearly as practicable have the same proportionate voting rights and entitlements to dividends as it had on the Record Date.

If a Qualifying Shareholder does not wish to subscribe for the New Ordinary Shares to which it is entitled, such Shareholder can instead sell its rights to those New Ordinary Shares and receive the net proceeds in cash. This is referred to as dealing in the rights “nil paid”.

The Company proposes to offer New Ordinary Shares by way of the Rights Issue to Qualifying Shareholders on the following basis and otherwise on the terms and conditions set out in Part IV (*Terms and Conditions of the Rights Issue*) of this document:

5 New Ordinary Shares at 790 pence each for every 13 Existing Ordinary Shares

held by Qualifying Shareholders on the Record Date. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Fractional entitlements to New Ordinary Shares will not be allotted and, where necessary, entitlements will be rounded down to the nearest whole number of New Ordinary Shares.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive in full all dividends and other distributions declared, made or paid by reference to a record date after the date of their issue.

The Rights Issue is conditional upon, amongst other things:

- (a) the Resolution being passed at the General Meeting;
- (b) the Sale and Purchase Agreement not having been amended in any material respect or terminated or lapsed, in each case prior to Admission;
- (c) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (d) Admission becoming effective by not later than 8.00 a.m. on 17 April 2014 (or such later time and/or date, being not later than 48 hours later, as the parties to the Underwriting Agreement may agree).

The Rights Issue has been fully underwritten on the basis set out in the Underwriting Agreement. The Underwriters, as agents for the Company, have agreed under the terms of the Underwriting Agreement to exercise reasonable endeavours to procure subscribers or, failing which, to subscribe for the New Ordinary Shares not taken up in the Rights Issue at a price of 790 pence per New Ordinary Share.

The Rights Issue will be made under the existing shareholder authorities that were granted at the AGM held in July 2013 under resolutions 18 (*authority to allot shares*) and 19 (*dis-application of pre-emption rights*).

Applications will be made for the New Ordinary Shares to be admitted to the premium listing segment of the Official List of the UKLA and to be admitted to trading on the London Stock Exchange’s main market for listed securities. It is expected that Admission will become effective and dealings (for normal settlement) in the New Ordinary Shares will commence, nil paid, at 8.00 a.m. on 17 April 2014.

The results of the Rights Issue, including the aggregate number of New Ordinary Shares issued and the aggregate amount raised, net of expenses, is expected to be announced by Babcock to a Regulatory Information Service by 8.00 a.m. on 7 May 2014.

Assuming Completion takes place, the Rights Issue proceeds of approximately £1,055 million (net of estimated expenses) will be applied to satisfy the consideration to be paid to World Helicopters under the Sale and Purchase Agreement and the balance of the proceeds will be available to the Babcock Group for working capital purposes.

However, Shareholders should note that the Rights Issue is not conditional upon completion of the Acquisition. In the event that Admission is effected but Completion does not take place, the Directors' current intention is that the proceeds of the Rights Issue will be invested and/or applied to manage the Company's debt and cash position on a short-term basis while the Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Directors will consider how best to return surplus capital to Shareholders. Such a return could carry financial costs for certain Shareholders, will incur costs on the part of the Company and would be subject to applicable securities laws.

Some questions and answers, together with further terms and conditions of the Rights Issue, are set out in Part III (*Questions and Answers on the Rights Issue*) and Part IV (*Terms and Conditions of the Rights Issue*) of this document and, where relevant, in the Provisional Allotment Letter.

Qualifying Shareholders resident in any jurisdiction other than the United Kingdom, and persons who hold Ordinary Shares for the benefit of such persons or who have a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom, should refer to paragraph 15 of this Part I (*Letter from the Chairman*), question 4.8 of Part III (*Questions and Answers on the Rights Issue*) and paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

10. **STRUCTURE OF THE RIGHTS ISSUE**

The Rights Issue has been structured in a way that is expected to have the effect of providing the Company with the ability to realise distributable reserves approximately equal to the proceeds of the Rights Issue less the nominal value of the New Ordinary Shares issued by the Company.

The Company and J.P. Morgan Cazenove have agreed to subscribe for ordinary shares in JerseyCo. J.P. Morgan Cazenove will apply the proceeds of issue received from Qualifying Shareholders and renounees and from acquirers of New Ordinary Shares not taken up by Qualifying Shareholders and renounees under the Rights Issue (less any premium above the Issue Price) to subscribe for redeemable preference shares in JerseyCo.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for J.P. Morgan Cazenove transferring its holdings of ordinary shares and redeemable preference shares in JerseyCo to the Company. Accordingly, instead of receiving cash consideration for the issue of the New Ordinary Shares, the Company will (following completion of the Rights Issue) own the entire issued share capital of JerseyCo, whose only asset will be the cash reserves representing an amount equal to the net proceeds of the Rights Issue. The Company should be able to access those funds by redeeming the redeemable preference shares it holds in JerseyCo or, alternatively, during any interim period prior to redemption, by procuring that JerseyCo lends the amount to the Company. The ability to realise distributable reserves in the Company will facilitate servicing distributions to Shareholders made by the Company in future.

Accordingly, by taking up New Ordinary Shares under the Rights Issue and submitting a valid payment in respect thereof, a Qualifying Shareholder or the person taking up the Rights under the Rights Issue instructs the Receiving Agent (i) to the extent of a successful application under the Rights Issue, to apply such payment on behalf of J.P. Morgan Cazenove solely to subscribe for redeemable preference shares in JerseyCo and (ii) to the extent of an unsuccessful application under the Rights Issue, to return the relevant payment without interest to the applicant. Further details of the documents relating to this structure are set out in paragraph 9.1(d) of Part XIV (*Additional Information*) of this document.

Shareholders resident in any jurisdiction other than the United Kingdom should refer to paragraph 15 of this Part I (*Letter from the Chairman*), question 4.8 of Part III (*Questions and Answers on the Rights Issue*) and paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

11. **DIVIDEND POLICY OF THE ENLARGED GROUP**

Babcock paid dividends per share of 26.3 pence, 22.7 pence and 19.4 pence for the 2013 Financial Year, 2012 Financial Year and 2011 Financial Year, respectively, and an interim dividend of 6.90 pence per share for the 2014 Financial Year. Babcock's dividend policy is that, over the medium term, the dividend cover should be, on average, 2.5 to 3 times (based on underlying earnings per share), having regard to the availability of distributable reserves and cash, and taking into account the Enlarged Group's working capital and investment requirements.

Following Completion, Babcock intends to maintain the same dividend policy.

12. CURRENT TRADING, TRENDS AND PROSPECTS

12.1 Babcock

Over the past few years, Babcock's customers have faced difficult decisions when trying to manage the delivery of critical services with relatively scarce resources. As a result, new outsourcing opportunities have been created by customers who (i) need to achieve financial savings without reducing outputs or eliminating services; (ii) want a better value-for-money support solution while improving availability of assets or infrastructures; and/or (iii) want to improve or invest in new assets or infrastructures but lack the necessary scale of resource, depth of knowledge or expertise to carry out the complex engineering support required.

The general economic climate continues to drive both public and private sector customers to consider new or additional outsourcing of essential support activities as a way of delivering increased financial and operational efficiency. Babcock's business model, scale of operations, the depth and breadth of its experience and its track record of delivering operational and financial efficiencies provide a platform to benefit from the positive markets which continue to offer Babcock medium and long-term opportunities in both the UK and overseas. The size of the order book and bid pipeline continue to provide good visibility of future revenue streams. In addition, Babcock has identified new markets and geographies with similar growth characteristics where it believes its business model will be an advantage.

On 11 February 2014, Babcock published its Interim Management Statement for the period from 1 October 2013, an extract from which is copied below:

“Overview

Following the strong performance in the first half of the 2013/14 financial year, the Group has traded well during the third quarter of the year. Activity levels are high in all divisions and, despite the continued weakness of the South African Rand, financial performance is in line with our expectations as set out at the time of our half year results announcement on 12 November 2013.

Financial position

The Group's financial position remains robust and operating cash flow is once again expected to be above 100% of operating profit at the year end. For the full year, net acquisition spend, after disposals, will total over £60 million. We therefore expect the net debt to ebitda ratio at the year-end to be around 1.5 times.

Order book and bid pipeline

The order book currently stands at c £11.5 billion. During the period Babcock has won, had extended, or has been announced as preferred bidder on contracts totalling c £700 million, which include:

- *Rail overhead line electrification frameworks awarded by Network Rail to ABC Electrification, a partnership between Alstom, Babcock and Costain for the Central (London North Western, South) region and the Wales and Western region. The two frameworks are estimated to generate revenue for Babcock of c £300 million over the next 7 years.*
- *A range of submarine support packages in the UK and Canada totalling c £100 million.*
- *The procurement and installation of conversion kits to Phalanx gun systems for the Ministry of Defence worth an additional c £14 million to the current Phalanx equipment support contract.*
- *A number of commercial oil and gas contracts totalling over £60 million including the provision and management of 'Walk to Work' vessel and associated services for Total worth c £17 million. This contract will enable Total to complete construction activity on two North Sea oil platforms. Following the successful integration of LGE into the Marine and Technology division, during the first year of ownership, total new order intake for commercial activities for overseas customers has been £130 million.*
- *High voltage overhead power line 5 year framework for SSE and project works for SP Energy Networks totalling c £40 million.*

- *Successful retender of the Volkswagen Group United Kingdom technical and apprentice training contract, which has been extended to include commercial training, administration and recruitment services. This contract is expected to be worth c £25 million over 5 years.*

Since the end of the first half, the bid pipeline has increased to £18.5 billion and, together with the significant opportunities still being tracked, will be the key driver of organic growth over the next few years.

Along with a number of new opportunities for the Marine and Technology and Support Services divisions totalling around £500 million, the main contributor to the increase in the bid pipeline is the Defence Support Group (“DSG”), following commencement of the tender process. The value may be subject to adjustment during the process. DSG is a significant opportunity for the Defence and Security division to build on its capability to support complex assets and deliver improved service and optimised outputs for the Ministry of Defence.”

There has been no change in the Babcock Board’s assessment of the matters described above since 11 February 2014.

The Babcock Directors expect that underlying earnings per share will achieve low double digit growth for the year ending 31 March 2014, which is intended to indicate that underlying earnings per share will be not less than 68.6 pence for that period. This statement represents a profit forecast and supersedes all previous profit forecasts issued by Babcock for the same period. Further information in relation to this profit forecast is provided in Annex 1 (*Profit Forecast of the Babcock Group*) to this document.

12.2 Avincis

The demand for life and rescue helicopter services and safety and environmental helicopter services has been driven by an outsourcing trend for these services by public administrations in the European Union. By outsourcing the operation and maintenance of helicopters to specialised helicopter operators like the Avincis Group instead of retaining them in-house, public administrations have been able to achieve costs savings and improved service, such as increased coverage and more modern aircraft. Additionally, the Avincis Group benefits from product substitution as certain customers use helicopters to maintain geographic coverage following closures of smaller or regional hospitals or by replacing a number of car ambulance services with one helicopter.

The Avincis Group’s demand for energy support services is dependent on levels of activity in offshore oil and gas exploration, development and production. While these activity levels are affected by trends in, and expectations regarding, oil and gas prices, the Avincis Group’s Energy Support Services customers typically base their capital expenditure budgets on their long-term commodity expectations and not necessarily on the spot price. The oil and gas production business is typically less cyclical than the exploration and development business because the oil and gas production platforms remain in place over the long-term and are relatively unaffected by economic cycles.

As at 10 March 2014, the Avincis Group identified total pipeline of opportunities of approximately €7 billion.

13. FINANCIAL EFFECTS OF THE ACQUISITION

On a *pro forma* basis and assuming that the Acquisition and the Rights Issue had taken place on 30 September 2013, the Enlarged Group would have had net assets of approximately £1,970.3 million (based on the net assets of the Babcock Group as at 30 September 2013 and the Avincis Group as at 31 December 2013) as more fully described in Part XI (*Unaudited Pro-forma Combined Financial Information for the Enlarged Group*). Part XI also contains an unaudited *pro forma* income statement, prepared to illustrate the impact of: (i) the Rights Issue and (ii) the Acquisition, on the income statement of the Babcock Group for the year ended 31 March 2013 as if they had taken place at the beginning of that financial year.

As set out in paragraph 2 of this Part I (*Letter from the Chairman*), the Babcock Board, in making its recommendation, expects that the Acquisition will be earnings accretive to Babcock shareholders in the first full financial year of Babcock following the Acquisition.

14. **POSSIBLE AMENDMENT TO BABCOCK'S ARTICLES**

Following the Acquisition, the Enlarged Group will own undertakings that hold Aircraft Operating Licences necessary for the operation of the Avincis business. European regulation sets nationality requirements for undertakings holding Aircraft Operating Licences and where such undertakings form part of a listed company, such as Babcock, this test is applied to the nationality of the listed company's shareholders.

The Directors are of the opinion that Babcock satisfies this nationality test in terms of its current shareholder base. However, in order to address this requirement in the medium and long term, the Board may consider it prudent to seek certain amendments to its Articles at the next AGM (to be held in July 2014) in order to provide it with certain powers aimed at preserving the Aircraft Operating Licences. These powers could include a right to determine a maximum number of Ordinary Shares that may be held by non-European Shareholders and the ability to suspend voting and other shareholder rights and/or request that the Shareholders dispose of relevant Ordinary Shares such that they are not held by non-European Shareholders. The Articles may also provide that, if such disposal is not performed, the Company may itself acquire the relevant Ordinary Shares. As part of the monitoring process, Shareholders may be required to deliver a nationality declaration to the Receiving Agent and other relevant information to evidence nationality. Further details of any proposed amendments to the Articles would be contained in the notice of AGM when despatched.

15. **OVERSEAS SHAREHOLDERS**

Qualifying Shareholders resident in any jurisdiction other than the United Kingdom, and persons who hold Ordinary Shares for the benefit of such persons or who have a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom, should refer to question 4.8 of Part III (*Questions and Answers on the Rights Issue*) and paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

New Ordinary Shares will be provisionally allotted to all Qualifying Shareholders, including Overseas Shareholders. However, subject to certain exceptions, Provisional Allotment Letters will not be sent to Qualifying non-CREST Shareholder with registered addresses in the United States or the Excluded Territories, nor will the CREST stock account of Qualifying CREST Shareholders with registered addresses in the United States or the Excluded Territories be credited.

The Company has made arrangements under which the Underwriters will try to find subscribers for the New Ordinary Shares provisionally allotted to such Shareholders by 3.00 p.m. on the second dealing day after the last date for acceptance of the Rights Issue. If the Underwriters find subscribers and are able to achieve a premium over the Issue Price and the related expenses of procuring those subscribers (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), such Shareholders will be sent a cheque for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), so long as the amount in question is at least £5. If any person in the United States or an Excluded Territory receives a Provisional Allotment Letter, that person should not seek to, and will not be able to, take up his rights thereunder, except as described in paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

16. **SHARE SCHEMES**

The options and awards granted under the Share Schemes (other than the AESOP) may be adjusted in such a way as the Remuneration Committee considers appropriate to compensate option and award holders for any effect the Rights Issue will have on those option and awards (as permitted by the rules of the relevant Share Schemes). Any adjustments will not be made until after the ex-rights date and will be subject to the approval of HMRC and the Company's auditors where required. Participants in the Share Schemes will be contacted separately with further information on how their options and awards may be affected by the Rights Issue.

17. **GENERAL MEETING**

A notice convening a General Meeting to be held at the offices of FTI Consulting at 200 Aldersgate, Aldersgate Street, London EC1A 4HD at 10.30 a.m. on 16 April 2014 at which the Resolution will be proposed is set out at the end of this document. The purpose of the General Meeting is to consider and, if thought fit, pass the Resolution as set out in full in the Notice of General Meeting.

Because of the size of Avincis when compared with Babcock, the Acquisition is classified under the Listing Rules as a Class 1 transaction and therefore requires the approval of Shareholders. The Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour. The Resolution proposes that the Acquisition be approved and the Babcock Directors be authorised to take all steps and enter into all agreements and arrangements necessary or desirable to implement the Acquisition.

Your attention is again drawn to the fact that the Rights Issue and the Acquisition are each conditional and dependent upon the Resolution being passed (there are also additional conditions which must be satisfied before the Acquisition and the Rights Issue can be completed). As noted above, in the event that the Resolution is not passed, save in certain limited circumstances, Babcock will be required to pay the Avincis Group €10 million for costs and expenses incurred by the Avincis Group in connection with the Acquisition.

Shareholders should be aware that it is possible that, subsequent to the Admission becoming effective, the Acquisition could fail to complete. This possibility is discussed further in paragraph 9 above and paragraph 1 of Part II (*Principal Terms of the Acquisition*) of this document.

For further information in relation to the Resolution to be proposed at the General Meeting, see the Notice of General Meeting at the end of this document.

18. ACTION TO BE TAKEN

18.1 General Meeting

If you are a Shareholder, you will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are asked to complete the Form of Proxy in accordance with the instructions printed on it and to return it to the Registrar, Capita Asset Services at PXS 1, 34 Beckenham Road, Beckenham BR3 4ZF, as soon as possible and, in any event, so as to arrive not later than 10.30 a.m. on 14 April 2014. The completion and return of the Form of Proxy will not preclude you from attending the General Meeting and voting in person if you wish to do so. You may also submit your proxies electronically at www.babcock-shares.com and logging into your share portal account or registering for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the form of proxy. Once registered, you will be able to vote immediately. If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the issuer's agent, ID RA10, so that it is received no later than 10.30 a.m. on 14 April 2014.

18.2 Rights Issue

The latest time for acceptance by Shareholders under the Rights Issue is 11.00 a.m. (London time) on 6 May 2014. The procedure for acceptance and payment is set out in Part IV (*Terms and Conditions of the Rights Issue*) of this document. Further details also appear in the Provisional Allotment Letter which will be sent to all Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, those Qualifying Non-CREST Shareholders with a registered address in the US or Excluded Territories).

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under FSMA if you are in the United Kingdom or, if you are not, from another appropriately authorised independent financial adviser.

18.3 Special Dealing Service

Babcock has engaged Capita Asset Services to make available a Special Dealing Service in order for Qualifying non-CREST Shareholders (who are individuals and whose registered address is in the UK or any other jurisdiction in the EEA) to sell all of the Nil Paid Rights to which they are entitled or to effect a Cashless Take-up should they wish. Further information on the Special Dealing Service is set out in paragraph 2.1.5 of Part IV (*Terms and Conditions of the Rights Issue*) and the terms and conditions of the Special Dealing Service will be posted to Qualifying non-CREST Shareholders together with the Provisional Allotment Letter.

19. **FURTHER INFORMATION**

Your attention is drawn to the section entitled “*Risk Factors*” of this document and to Part XIV (*Additional Information*) of this document. You should read all of the information contained in, or incorporated by reference into, this document before deciding the action to take in respect of the General Meeting. If you are a Qualifying Shareholder, and, subject to certain exceptions, unless you have a registered address in, or are resident in, the United States or any of the Excluded Territories, your attention is drawn in connection with the Rights Issue to the further information contained in Part III (*Questions and Answers on the Rights Issue*) and Part IV (*Terms and Conditions of the Rights Issue*) of this document.

The results of the votes cast at the General Meeting will be announced as soon as possible once known through a Regulatory Information Service and on the Babcock website (www.babcockinternational.com). It is expected that this will be on 16 April 2014.

20. **FINANCIAL ADVICE**

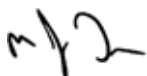
The Babcock Directors have received financial advice from J.P. Morgan Cazenove, in relation to the Acquisition. In providing advice to the Babcock Directors, J.P. Morgan Cazenove has relied upon the Babcock Directors’ commercial assessments of the Acquisition.

21. **RECOMMENDATION**

The Babcock Board believes the Acquisition, the Rights Issue and the Resolution to be in the best interests of Babcock and Babcock Shareholders as a whole. Accordingly, the Babcock Board unanimously recommends that Babcock Shareholders vote in favour of the Resolution to be put to the General Meeting as they intend to do (or seek to procure to be done) in respect of their own beneficial holdings of 1,120,581 Babcock Ordinary Shares in aggregate, representing approximately 0.31 per cent. of the existing issued ordinary share capital of Babcock.

The Directors are fully supportive of the Rights Issue. Each of the Directors who hold Ordinary Shares either intends, to the extent that he or she is able, to take up in full his or her rights to subscribe for New Ordinary Shares under the Rights Issue or to sell a sufficient number of their Nil Paid Rights during the nil paid dealing period to meet the costs of taking up the balance of their entitlements to New Ordinary Shares.

Yours faithfully,



.....
Michael Turner, CBE
Chairman

PART II
PRINCIPAL TERMS OF THE ACQUISITION

1. PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

On 27 March 2014, Babcock and World Helicopters entered into the Sale and Purchase Agreement pursuant to which Babcock has conditionally agreed to acquire from World Helicopters the entire issued share capital of Avincis, the holding company of the Avincis Group. Babcock has the right to nominate another member of the Babcock Group to be the transferee of such share capital.

1.1 Consideration

The base purchase price payable by Babcock for the Avincis Shares is €1,100 million.

A locked box mechanism has been and will be in place from 31 December 2013 to the date of Completion, designed to prevent cash and cash equivalents from “leaking out” of the Avincis Group to World Helicopters or its affiliates. Under the terms of the Acquisition, Babcock will assume approximately £705 million of the Avincis Group’s third party net debt (being the third party net debt of Avincis as at 31 December 2013). World Helicopters has agreed to withhold from distribution to its shareholders an amount of €5 million, to be kept available for Babcock in the event that any unpermitted leakage claims were to arise after Completion. Any leakage claim must be brought within three months of Completion.

1.2 Conditions precedent to Completion

Completion is conditional on the following:

- (a) the Resolution being passed at the General Meeting;
- (b) approval having been obtained from the Spanish Council of the National Markets and Competition Commission, or alternatively the Council of Ministers, or the Acquisition being otherwise deemed cleared under the Spanish Competition Act 15/2007;
- (c) a formal or tacit approval having been obtained from the Portuguese Competition Authority or, alternatively, from the Portuguese Minister of Economy; and
- (d) the Underwriting Agreement not having been terminated prior to Admission and Admission having occurred.

Babcock has given certain undertakings relating to the timing and process for achieving the satisfaction of conditions (a) to (d) above. World Helicopters has agreed to provide information and assistance reasonably requested by Babcock in connection with the satisfaction of conditions (a) to (c) above.

1.3 Action pending Completion

World Helicopters has agreed to procure that the business of the Avincis Group is operated in the ordinary course until Completion and to procure that no member of the Avincis Group undertakes certain actions without Babcock’s consent, including, for example, acquisitions and disposals of businesses or assets (including helicopters), issuing new shares, incurring indebtedness, commencing or settling material litigation, entering into joint ventures and amending or terminating material contracts, amongst others. In addition, Babcock’s consent is required prior to World Helicopters or any member of the Avincis Group declaring as satisfied or waiving any condition to the sale and purchase agreement relating to the acquisition of Scandinavian AirAmbulance. The requirement to seek Babcock’s consent to such actions is subject to certain exceptions, including for example, that Babcock has pre-approved certain actions already in contemplation by the Avincis Group.

World Helicopters has agreed to, and to procure that the Avincis Group, cooperate with Babcock in respect of any aircraft regulatory notifications.

World Helicopters has also agreed to wind up the two existing management equity plans of the Avincis Group and to bear the cost of the amounts payable to management under those plans.

Until Completion, Babcock is entitled to appoint a representative to attend as an observer all meetings of the board of directors of the principal operating company of the Avincis Group.

1.4 Warranties and indemnities

Babcock and World Helicopters have given limited warranties to each other in respect of (amongst other things) power and capacity to enter into the Sale and Purchase Agreement. World Helicopters has warranted to Babcock that it has title to the Avincis Shares held by it. Babcock has given certain warranties to World Helicopters in respect of its financing of the Acquisition.

World Helicopters has given an indemnity to Babcock in respect of any loss suffered by Babcock, the Babcock Group or the Avincis Group arising out of (i) the accident on 29 November 2013 involving a Eurocopter operated by Bond Air Services; and (ii) the accident on 1 April 2009 involving a Eurocopter owned by International Aviation Leasing Limited and operated by Bond Offshore Helicopters Limited. The liability of World Helicopters is subject to certain exceptions and customary limitations, including a cap of approximately €29 million and a limitation period which expires on 1 April 2016. World Helicopters' obligations under this indemnity are supported in part by an escrow and in part by commitments from the funds managed by KKR and Investindustrial.

1.5 Termination of the Sale and Purchase Agreement

In the event that the conditions precedent to Completion are not satisfied by 30 June 2014 (or such later date as may be agreed between the parties), either World Helicopters or Babcock may elect to terminate the Sale and Purchase Agreement with immediate effect.

1.6 Break fee arrangements

If the Babcock Shareholders do not approve the Acquisition at the General Meeting on or before 24 April 2014, or if the Underwriting Agreement is terminated or Admission does not occur, Babcock will be required to pay the Avincis Group €10 million for costs and expenses incurred by the Avincis Group in connection with the proposed Acquisition, unless (i) World Helicopters has failed to comply with its obligation to provide information and assistance reasonably required by Babcock in connection with the satisfaction of the condition set out in paragraph 1.2(c) above, or (ii) World Helicopters has materially breached its obligations in respect of the pre-completion undertakings, and such breach causes the Board to withdraw or change its recommendation of the Acquisition.

2. PRINCIPAL TERMS OF THE MANAGEMENT WARRANTY DEED

On 27 March 2014, Babcock and Warrantors entered into the Management Warranty Deed, pursuant to which the Warrantors have given warranties to Babcock in relation to the business and affairs of the Avincis Group and certain information contained in this document which relates to the Avincis Group. The liability of each Warrantor is several and is limited to 20 per cent. of the net proceeds received by that Warrantor in connection with the winding up of the existing management equity plans at or around completion of the Acquisition. A claim for a breach of warranty can be brought at any time on or before 30 June 2015.

PART III

QUESTIONS AND ANSWERS ON THE RIGHTS ISSUE

The questions and answers set out in this Part III (*Questions and Answers on the Rights Issue*) are intended to be generic guidance only and, as such, you should also read Part IV (*Terms and Conditions of the Rights Issue*) of this document for full details of what action you should take. If you are in any doubt about the action to be taken, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser duly authorised under FSMA if you are in the United Kingdom, or if you are not, from another appropriately authorised financial adviser. If you are an Overseas Shareholder, you should read question 4.8 of this Part III and you should take professional advice as to whether you are eligible and/or need to observe any formalities to enable you to take up your Rights.

Ordinary Shares can be held in certificated form (that is, represented by a share certificate) or in uncertificated form (that is, through CREST). Accordingly, these questions and answers are split into four sections:

- Section 1 (*General*);
- Section 2 (*Ordinary Shares in certificated form*) answers questions you may have in respect of the procedures for Qualifying Shareholders who hold their Existing Ordinary Shares in certificated form;
- Section 3 (*Ordinary Shares in CREST*) answers questions you may have in respect of the equivalent procedures for Qualifying Shareholders who hold their Existing Ordinary Shares in CREST; and
- Section 4 (*Further procedures for Ordinary Shares whether in certificated form or in CREST*) answers some detailed questions about your rights and the actions you may need to take and is applicable to Ordinary Shares whether held in certificated form or in CREST.

If you do not know whether your Ordinary Shares are in certificated or uncertificated form, please telephone Capita Asset Services between 9.00 am and 5.30 pm (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

1. GENERAL

1.1 What is a rights issue?

A rights issue is one way for companies to raise money. Companies do this by issuing shares for cash and giving their existing shareholders a right to buy these shares in proportion to their existing shareholdings. For example, a 1 for 4 rights issue generally means that a shareholder is entitled to buy one new ordinary share for every four currently held. This Rights Issue is a 5 for 13 rights issue; that is, an offer of 5 New Ordinary Shares for every 13 Existing Ordinary Shares held by Qualifying Shareholders at the close of business on 14 April 2014 (the "**Record Date**").

New ordinary shares are typically offered in a rights issue at a discount to the current share price. Because of this discount, the right to buy the new ordinary shares is potentially valuable. In this Rights Issue, the Issue Price of 790 pence per New Ordinary Share represents a 42.2 per cent. discount to the Closing Price of 1,366 pence per Existing Ordinary Share on 26 March 2014 (being the last Business Day prior to the announcement of the Rights Issue) and a 34.5 per cent. discount to the theoretical ex-rights price of 1,206 pence per New Ordinary Share calculated by reference to the Closing Price on the same day.

If you do not want to buy the New Ordinary Shares to which you are entitled (if any), you can instead sell your rights to those shares and receive the net proceeds, if any, of the sale or transfer in cash. This is referred to as dealing "nil paid".

1.2 What happens next?

The Company has called a General Meeting to be held at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD at 10.30 a.m. on 16 April 2014. Please see the Notice of General Meeting at the end of this document. As you will see from the contents of the Notice of General Meeting, the Directors are seeking Shareholder's approval for the Acquisition.

You will find enclosed with this document a Form of Proxy for use in relation to the General Meeting. Whether or not you intend to be present in person at the meeting, you are requested to complete, sign and return the Form of Proxy to Capita Asset Services so that it arrives no later than 10.30 a.m. on 14 April 2014. You may also deliver the Form of Proxy by hand to Capita Asset Services during usual business hours.

If the Acquisition is approved at the General Meeting, the Rights Issue will proceed (subject to certain conditions). The Provisional Allotment Letters are due to be despatched on 16 April 2014 to Qualifying non-CREST Shareholders and the Nil Paid Rights are due to be credited to the CREST stock accounts of Qualifying CREST Shareholders as soon as practicable after 8.00 a.m. on 17 April 2014.

If the Acquisition is not approved at the General Meeting, the Rights Issue will not proceed and no Provisional Allotment Letters will be despatched and no CREST stock accounts will be credited.

2. **ORDINARY SHARES IN CERTIFICATED FORM**

2.1 **How do I know if I am eligible to participate in the Rights Issue?**

If you receive a Provisional Allotment Letter then you should be eligible to participate in the Rights Issue (as long as you have not sold all of your Existing Ordinary Shares before 8.00 a.m. on 17 April 2014 (the time when the Existing Ordinary Shares are expected to be marked “ex-rights” by the London Stock Exchange), in which case you will need to follow the instructions on the front page of this document).

However, if you receive a Provisional Allotment Letter and you have a registered address in, or are a resident, citizen or national of, a country other than the United Kingdom you must satisfy yourself as to the full observance of the applicable laws of such territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. Receipt of this document or a Provisional Allotment Letter does not constitute an offer in those jurisdictions in which it would be illegal to make an offer. Overseas Shareholders should refer to paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document for further details.

If you do not receive a Provisional Allotment Letter, and you do not hold your shares in CREST, this probably means you are not eligible to acquire any New Ordinary Shares. However, see question 2.4 below.

2.2 **What are my options and what should I do with the Provisional Allotment Letter?**

If you hold your Existing Ordinary Shares in certificated form and do not have a registered address in the United States or any of the Excluded Territories, you will be sent a Provisional Allotment Letter. The Provisional Allotment Letter will show:

- (a) ***In Box 1:*** how many Ordinary Shares you held at the close of business on the Record Date;
- (b) ***In Box 2:*** how many New Ordinary Shares you are entitled to buy pursuant to the Rights Issue; and
- (c) ***In Box 3:*** how much you need to pay if you want to take up your rights in full.
 - (i) ***If you want to take up your rights in full***

If you want to take up in full your rights to subscribe for the New Ordinary Shares to which you are entitled, all you need to do is send the Provisional Allotment Letter, together with your cheque or banker’s draft for the full amount shown in Box 3, payable to “Capita Registrars Limited re Babcock Rights Issue A/C” and crossed “A/C payee only”, by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive before 11.00 a.m. on 6 May 2014. You can use the reply-paid envelope which will be provided with the Provisional Allotment Letter within the United Kingdom. Please allow sufficient time for delivery. Paragraph 2.1.2 of Part IV (*Terms and Conditions of the Rights Issue*) of this document has full instructions on

how to accept and pay for your New Ordinary Shares. These instructions are also set out in the Provisional Allotment Letter. You will be required to pay in full for all the rights you take up. A definitive share certificate will be sent to you for the New Ordinary Shares you acquire and it is expected that such certificate(s) will be despatched to you by 20 May 2014.

Your Provisional Allotment Letter will not be returned to you unless you specifically request so by completing Box 4 on the Provisional Allotment Letter. You will only need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights.

(ii) *If you do not want to take up your rights at all, or sell them*

If you do not want to take up or sell any of your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter together with payment for the New Ordinary Shares to which you are entitled by 11.00 a.m. on 6 May 2014, the Company has made arrangements under which the Underwriters will try to find investors to take up your rights by 3.00 p.m. on the second dealing day after 6 May 2014. If the Underwriters find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), you will be sent a cheque for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), so long as the amount in question is at least £5. Cheques are expected to be despatched by 20 May 2014 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold Existing Ordinary Shares jointly).

(iii) *If you want to take up some but not all of your rights*

If you want to take up some but not all of your rights and wish to sell some or all of those you do not want to take up, you should split your Provisional Allotment Letter by completing Form X on page 4 of the Provisional Allotment Letter (unless you wish to use the Special Dealing Service) and then return it by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to be received by 3.00 p.m. on 1 May 2014, the last time and date for splitting Provisional Allotment Letters, together with your cheque or banker's draft for the amount relating to the Nil Paid Rights you wish to take up, payable to "Capita Registrars Limited re Babcock Rights Issue A/C" and crossed "A/C payee only", and a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights or Fully Paid Rights to be comprised in each split Provisional Allotment Letter. You can use the reply-paid envelope which will be provided with the Provisional Allotment Letter within the United Kingdom. Please allow sufficient time for delivery.

Alternatively, if you want only to take up some of your rights (and do not wish to sell some or all of those you do not want to take up), you should complete Form X on page 4 of the Provisional Allotment Letter and return it by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, together with a covering letter confirming the number of New Ordinary Shares you wish to take up and a cheque or banker's draft for the appropriate amount. In this case the Provisional Allotment Letter and cheque must be received by Capita Asset Services by 11.00 a.m. on 6 May 2014, the last time and date for payment. You can use the reply-paid envelope which will be provided with the Provisional Allotment Letter within the United Kingdom. Please allow sufficient time for delivery. Further details relating to payment and acceptance are set out in paragraph 2.1.2 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

(iv) *If you want to sell all of your rights*

If you want to sell all of your rights (other than through the Special Dealing Service) you should complete and sign Form X on page 4 of the Provisional Allotment Letter (if it is not already marked “Original Duly Renounced”) and pass the entire letter to your stockbroker, bank manager or other appropriate financial adviser or to the transferee (provided they are not in the United States or any of the Excluded Territories).

Please note that your ability to sell your rights is dependent on the demand for such rights and that the price for the Nil Paid Rights may fluctuate.

Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 6 May 2014.

(v) *If you want to utilise the Special Dealing Service*

If you are an individual certificated shareholder whose registered address is in the UK or any other EEA country, you can use the Special Dealing Service to either (i) sell all of your Nil Paid Rights, or (ii) sell a sufficient number of Nil Paid Rights to raise money to take up the remainder (that is, effect a Cashless Take-up).

If you want to use the Special Dealing Service to sell all of your Nil Paid Rights, you should tick Box C on the front page of your Provisional Allotment Letter, sign and date it and return the Provisional Allotment Letter by 3.00 p.m. on 29 April 2014.

If you want to effect a Cashless Take-up, you should tick Box D on the front page of your Provisional Allotment Letter, sign and date it and return the Provisional Allotment Letter by 3.00 p.m. on 29 April 2014 in the envelope provided.

Capita Asset Services will charge a commission of 0.35 per cent. of the gross proceeds of any sale of Nil Paid Rights effected using the Special Dealing Service, subject to a minimum of £20 per holding.

You should be aware that by returning your Provisional Allotment Letter and electing to use the Special Dealing Service, you will be deemed to be agreeing to the terms and conditions of the Special Dealing Service and making a legally binding agreement with Capita Asset Services on those terms. The terms and conditions of the Special Dealing Service will be posted to you together with the Provisional Allotment Letter if you hold your Ordinary Shares in certificated form.

If you have any questions relating to the Special Dealing Service, please telephone Capita Asset Services between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider’s network extras. Calls to the helpline from outside the UK will be charged as applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

Further details about the Special Dealing Service are set out in paragraph 2.1.5 of Part IV (*Terms and Conditions of the Rights Issue*).

2.3 How do I transfer my rights into the CREST system?

If you are a Qualifying non-CREST Shareholder, but are also a CREST member and want your New Ordinary Shares to be in uncertificated form, you should complete Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter), and ensure they are delivered to the CREST courier and sorting service to be received by 3.00 p.m. on 30 April 2014 at the latest. CREST sponsored members should arrange for their CREST sponsors to do this.

If you have transferred your rights into CREST, you should refer to paragraph 2.2.2 of Part IV (*Terms and Conditions of the Rights Issue*) of this document for details on how to pay for the New Ordinary Shares.

2.4 What if I do not receive a Provisional Allotment Letter?

If you do not receive a Provisional Allotment Letter and you do not hold your Ordinary Shares in CREST, this probably means that you are not eligible to participate in the Rights Issue. Some Qualifying Shareholders, however, will not receive a Provisional Allotment Letter but may still be able to participate in the Rights Issue, namely:

- (a) Qualifying CREST Shareholders who held their Existing Ordinary Shares in uncertificated form on 14 April 2014 and who have converted them to certificated form;
- (b) Qualifying non-CREST Shareholders who bought Ordinary Shares before 8.00 a.m. on 17 April 2014 but were not registered as the holders of those Ordinary Shares at the close of business on 14 April 2014 (please see question 2.5 below); and
- (c) certain Overseas Shareholders who can demonstrate to the satisfaction of the Company that the offer under the Rights Issue can lawfully be made to them without contravention of any relevant legal or regulatory requirements (please see question 4.8 below).

If you do not receive a Provisional Allotment Letter on or about 17 April 2014 but think you should have received one, please telephone Capita Asset Services between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number from within the UK cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.5 If I buy Ordinary Shares before 8.00 a.m. on 17 April 2014 (the date the Ordinary Shares start trading ex-rights) will I be eligible to participate in the Rights Issue?

If you buy Ordinary Shares before 8.00 a.m. on 17 April 2014 (the date the Ordinary Shares start trading ex-rights (that is, without the right to participate in the Rights Issue, referred to as the ex-rights date)) but are not registered as the holder of those Ordinary Shares on the Record Date you may still be eligible to participate in the Rights Issue. If you are in any doubt, please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, to ensure you claim your entitlement.

You will not be entitled to Nil Paid Rights in respect of any Ordinary Shares acquired on or after the ex-rights date.

2.6 What should I do if I sell or have sold or transferred all or some of the Ordinary Shares shown in Box 1 of the Provisional Allotment Letter before the ex-rights date?

If you sell or have sold or transferred all of your Ordinary Shares before the ex-rights date, you should complete Form X on page 4 of the Provisional Allotment Letter and send the entire Provisional Allotment Letter together with this document to the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer (provided they are not in the United States or any of the Excluded Territories).

If you sell or have sold or transferred only some of your holding of Ordinary Shares before the ex-rights date, you will need to complete Form X on page 4 of the Provisional Allotment Letter and consult the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer before taking any action with regard to the balance of rights due to you.

2.7 How many New Ordinary Shares will I be entitled to acquire?

You will be entitled to 5 New Ordinary Shares for every 13 Existing Ordinary Shares held on the Record Date. Box 2 on page 1 of the Provisional Allotment Letter will show the number of New Ordinary Shares you will be entitled to acquire. All Qualifying non-CREST Shareholders (other than certain Overseas Shareholders) will be sent a Provisional Allotment Letter after the General Meeting has approved the Resolution.

2.8 What should I do if I think my holding of Ordinary Shares (as shown in Box 1 on page 1 of the Provisional Allotment Letter) is incorrect?

If you are concerned about the figure in Box 1, please telephone Capita Asset Services between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.9 If I take up my rights, when will I receive my New Ordinary Share certificate?

If you take up your rights under the Rights Issue, share certificates for the New Ordinary Shares are expected to be posted by 20 May 2014.

3. ORDINARY SHARES IN CREST

3.1 How do I know if I am eligible to participate in the Rights Issue?

If you are a Qualifying CREST Shareholder (save as mentioned below), and on the assumption that the Rights Issue proceeds as planned, your CREST stock account will be credited with your entitlement to Nil Paid Rights on 17 April 2014. The stock account to be credited will be the account under the participant ID and member account ID that apply to your Ordinary Shares on the Record Date. The Nil Paid Rights are expected to be enabled as soon as practicable after 8.00 a.m. on 17 April 2014. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Overseas Shareholders with a registered address in the United States or any of the Excluded Territories will not be credited with Nil Paid Rights. Overseas Shareholders should refer to paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

3.2 How do I take up my rights using CREST?

If you are a Qualifying CREST Shareholder, you should refer to paragraph 2.2 of Part IV (*Terms and Conditions of the Rights Issue*) of this document for details on how to take up and pay for your rights.

If you are a CREST member you should ensure that a Many-to-Many ("MTM") instruction has been inputted and has settled by 11.00 a.m. on 6 May 2014 in order to make a valid acceptance. If your Ordinary Shares are held by a nominee or you are a CREST sponsored member you should speak directly to the agent who looks after your stock or your CREST sponsor (as appropriate) who will be able to help you. If you have further questions, particularly of a technical nature regarding acceptance through CREST, you should call the CREST Service Desk on 0845 964 5648 (+44 845 964 5648 if you are calling from outside the United Kingdom).

3.3 If I buy or have bought Ordinary Shares before 8.00 a.m. on 17 April 2014 (the date that the Ordinary Shares start trading ex-rights) will I be eligible to participate in the Rights Issue?

If you buy Ordinary Shares before 8.00 a.m. on 17 April 2014, but are not registered as the holder of those Ordinary Shares on the Record Date, you may still be eligible to participate in the Rights Issue. Euroclear will raise claims in the normal manner in respect of your purchase and your Nil Paid Rights will be credited to your stock account(s) on settlement of those claims.

You will not be entitled to Nil Paid Rights in respect of any further Ordinary Shares acquired on or after the ex-rights date.

3.4 What should I do if I sell or transfer all or some of my Ordinary Shares before 8.00 a.m. on 17 April 2014 (the ex-rights date)?

You do not have to take any action except, where you sell or transfer all of your Ordinary Shares before the ex-rights date, to send this document to the purchaser or transferee or to the stockbroker, bank or other financial adviser through whom you made the sale or transfer (provided they are not in the United

States or any of the Excluded Territories). A claim transaction in respect of that sale or transfer will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

3.5 How many New Ordinary Shares am I entitled to acquire?

If you are a Qualifying CREST Shareholder, your stock account will be credited with Nil Paid Rights in respect of the number of New Ordinary Shares which you are entitled to acquire. You will be entitled to acquire 5 New Ordinary Shares for every 13 Existing Ordinary Shares you hold on 14 April 2014, the Record Date. You can also view the claim transactions in respect of purchases/sales effected after this date, but before the ex-rights date. If you are a CREST sponsored member, you should consult your CREST sponsor.

3.6 What should I do if I think my holding of Ordinary Shares is incorrect?

If you buy or sell Ordinary Shares between the date of this document and 14 April 2014, your transaction may not be entered on the register of members before the Record Date and you should consult the stockbroker, bank or other appropriate financial adviser through whom you made the sale, purchase or transfer before taking any other action. If you are concerned about the number of Nil Paid Rights with which your stock account has been credited, please telephone Capita Asset Services between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

3.7 If I take up my rights, when will New Ordinary Shares be credited to my CREST stock account(s)?

If you take up your rights under the Rights Issue, it is expected that New Ordinary Shares will be credited to the CREST stock account in which you hold your Fully Paid Rights on 7 May 2014.

4. FURTHER PROCEDURES FOR ORDINARY SHARES WHETHER IN CERTIFICATED FORM OR IN CREST

4.1 What happens if the number of Ordinary Shares I hold is not exactly divisible by 13? Am I entitled to fractions of New Ordinary Shares?

Your entitlement to New Ordinary Shares will be calculated by multiplying your holding of Existing Ordinary Shares (held on the Record Date) by 5 and dividing the result by 13. If the result is not a whole number, your entitlement will be rounded down to the nearest whole number of New Ordinary Shares, meaning that you will not receive a New Ordinary Share in respect of the fractional entitlement. Arrangements have been made for the Underwriters to sell the aggregated fractional entitlements of Shareholders for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

4.2 Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?

If you are resident in the United Kingdom for tax purposes, you should not have to pay UK tax when you take up your rights to subscribe for New Ordinary Shares, although the Rights Issue will affect the amount of UK tax you may pay when you sell your Ordinary Shares. However, you may be subject to capital gains tax on any proceeds you receive from the sale of your rights.

Further information for certain Qualifying Shareholders is contained in Part XII (*Taxation*) of this document. **Qualifying Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult their professional advisers as soon as possible. Please note that Capita Asset Services are unable to advise on any taxation issues.**

4.3 I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?

If you do not want to subscribe for the New Ordinary Shares being offered to you under the Rights Issue and you are a Qualifying Shareholder, you can (provided that, subject to certain exceptions, you are not located or resident in the United States or any of the Excluded Territories) instead sell or transfer your

Nil Paid Rights and receive the net proceeds of the sale or transfer in cash. This is referred to as dealing “nil paid”. During the nil paid trading period (between 8.00 a.m. on 17 April 2014 and 11.00 a.m. on 6 May 2014), subject to demand and market conditions, persons can buy and sell the Nil Paid Rights. Please note that your ability to sell your rights is dependent on demand for such rights and that the price of the Nil Paid Rights may fluctuate.

If you wish to sell or transfer all or some of your Nil Paid Rights and you hold your Ordinary Shares in certificated form, you will need to complete Form X, the form of renunciation, on page 4 of the Provisional Allotment Letter and send it to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, to be forwarded to the purchaser or transferee.

If you buy Nil Paid Rights, you are buying an entitlement to take up the New Ordinary Shares, subject to your paying for them in accordance with the terms of the Rights Issue. Any seller of Nil Paid Rights who holds his Ordinary Shares in certificated form will need to forward to you his Provisional Allotment Letter (with Form X completed) for you to complete and return, with your cheque, by 11.00 a.m. on 6 May 2014, in accordance with the instructions in the Provisional Allotment Letter.

If you are a CREST member or CREST sponsored member and have received a Provisional Allotment Letter and you wish to hold your Nil Paid Rights in uncertificated form in CREST, then you should send the Provisional Allotment Letter with Form X and the CREST Deposit Form on page 4 of the Provisional Allotment Letter completed (in the case of a CREST member) to the CREST courier and sorting service or (in the case of a CREST sponsored member) to your CREST sponsor by 3.00 p.m. on 30 April 2014 at the latest.

Qualifying CREST Shareholders and, subject to dematerialisation of their Nil Paid Rights as set out in the Provisional Allotment Letter, Qualifying non-CREST Shareholder who are CREST members or CREST sponsored members can transfer Nil Paid Rights, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST. Please consult your CREST sponsor or stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

4.4 What if I want to sell the New Ordinary Shares for which I have paid?

If you are a Qualifying non-CREST Shareholder, provided the New Ordinary Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing Form X, the form of renunciation, on page 4 of the receipted Provisional Allotment Letter in accordance with the instructions set out on pages 2 and 3 of the Provisional Allotment Letter until 11.00 a.m. on 6 May 2014.

After that time, you will be able to sell your New Ordinary Shares in the normal way. However, the share certificate relating to your New Ordinary Shares is expected to be despatched to you only by 20 May 2014. Pending despatch of such share certificate, valid instruments of transfer will be certified by Capita Asset Services against the register.

If you hold your New Ordinary Shares and/or rights in CREST, you may transfer them in the same manner as any other security that is admitted to CREST. Please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

4.5 What if I do nothing?

If you do not want to take up any of your rights, you do not need to do anything. If you do not take up your rights, the number of Ordinary Shares you hold in the Company will stay the same, but the proportion of the total number of Ordinary Shares that you will hold will be lower than that held currently. If you are a Qualifying Non-CREST Shareholder and do not return your Provisional Allotment Letter and payment for the New Ordinary Shares to which you are entitled, by 11.00 a.m. on 6 May 2014, the Company has made arrangements under which the Underwriters will try to find investors to take up your rights by 3.00 p.m. on the second dealing day after 6 May 2014. If the Underwriters find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), you will be sent a cheque for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable), so long as the amount in question is at least £5. Cheques

are expected to be despatched by 20 May 2014 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold Existing Ordinary Shares jointly).

4.6 Do I need to comply with the Money Laundering Regulations (as set out in paragraphs 2.1.3 and 2.2.3 of Part IV (*Terms and Conditions of the Rights Issue*) of this document)?

If you are a Qualifying non-CREST Shareholder, you may not need to follow these procedures if the value of the New Ordinary Shares you are subscribing for is less than €15,000 (approximately £12,500) or if you pay for them by a cheque drawn on an account in your own name and that account is one which is held with an EU or UK regulated bank or building society. If you are a Qualifying CREST Shareholder, you will not generally need to comply with the Money Laundering Regulations unless you apply to take up all or some of your entitlement to Nil Paid Rights as agent for one or more persons and you are not an EU or UK regulated financial institution.

Qualifying non-CREST Shareholders and Qualifying CREST Shareholders should refer to paragraphs 2.1.3 and 2.2.3 respectively of Part IV (*Terms and Conditions of the Rights Issue*) of this document for a fuller description of the requirements of the Money Laundering Regulations.

4.7 What if I hold options and awards under the Share Schemes?

The options and awards granted under the Share Schemes (other than the AESOP) may be adjusted in such way as the Directors consider appropriate to compensate option and award holders for any effect the Rights Issue will have on those options and awards (as permitted by the rules of the relevant Share Schemes). Any adjustments will not be made until after the ex-rights date and will be subject to approval of HMRC and the Company's auditors, where required. Participants in the Share Schemes will be contacted separately with further information on how their options and awards may be affected by the Rights Issue.

4.8 What should I do if I live outside the United Kingdom?

Your ability to take up or sell rights to New Ordinary Shares may be affected by the laws of the country in which you live and you should take professional advice about any formalities you need to observe. Shareholders resident outside the United Kingdom, particularly those resident in the United States, Australia, Canada, China, Hong Kong, Japan or South Africa should refer to paragraph 2.6 of Part IV (*Terms and Conditions of the Rights Issue*) of this document.

4.9 Will the Rights Issue affect the dividends Babcock pays?

The dividend policy of the Company will be unchanged following completion of the Rights Issue and the Acquisition, with the intention that, over the medium term, dividend cover should be, on average, 2.5 to 3 times (based on underlying earnings per share). All issued New Ordinary Shares will be eligible for the next dividend due, being the final dividend in respect of the full financial year ending 31 March 2014, which is expected to be announced in May 2014.

4.10 What do I do if I have any further queries about the Rights Issue or the action I should take?

If you have any other questions, please telephone Capita Asset Services between 9.00 am and 5.30 pm (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice. However, the staff can explain the options available to you, which forms you need to fill in and how to fill them in correctly.

Your attention is drawn to the terms and conditions of the Rights Issue in Part IV (*Terms and Conditions of the Rights Issue*) of this document and (in the case of Qualifying non-CREST Shareholders) in the Provisional Allotment Letter.

PART IV

TERMS AND CONDITIONS OF THE RIGHTS ISSUE

1. Introduction

Subject to the fulfilment of the terms and conditions referred to below, the Company is proposing to raise proceeds of approximately £1,055 million (net of estimated expenses) by way of a rights issue of 139,259,204 New Ordinary Shares. The New Ordinary Shares will be offered by way of nil-paid rights at 790 pence per New Ordinary Share, payable in full on acceptance by Qualifying Shareholders, on the basis of:

5 New Ordinary Shares for every 13 Existing Ordinary Shares

held on the Record Date (and so in proportion to any other number of Existing Ordinary Shares then held) subject to the terms and conditions as set out in this document and, in the case of Qualifying non-CREST Shareholders, the Provisional Allotment Letter.

Qualifying Shareholders are holders of Ordinary Shares on the register of members of the Company at the close of business on the Record Date.

The Issue Price of 790 pence per New Ordinary Share represents a discount of approximately:

- 42.2 per cent. to the Closing Price of 1,366 pence on 26 March 2014 (being the last Business Day prior to the announcement of the Rights Issue); and
- 34.5 per cent. to the theoretical ex-rights price of 1,206 pence based on the Closing Price on 26 March 2014.

If Completion takes place, the Rights Issue proceeds (net of expenses) will be used to finance the Acquisition.

However, while the Rights Issue will not proceed if the Sale and Purchase Agreement has been terminated before Admission, the Rights Issue is not itself conditional upon Completion of the Acquisition. In the event that the Rights Issue settles but Completion does not take place, the Directors' current intention is that the proceeds of the Rights Issue will be invested and/or applied to manage the Company's debt and cash position on a short term basis while the Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Directors will consider how best to return surplus capital to Shareholders. Such a return could carry financial costs for certain Shareholders, will have costs for the Company and would be subject to applicable securities laws.

Times and dates referred to in this Part IV have been included on the basis of the expected timetable for the Rights Issue set out on page 45.

Qualifying Shareholders who do not take up any rights to New Ordinary Shares will have their proportionate shareholdings in Babcock diluted by approximately 27.8 per cent. Those Qualifying Shareholders who take up their rights in full will, subject to the rounding down and sale of any fractions, have the same proportionate voting and distribution rights as held by them at the close of business on the Record Date.

The Nil Paid Rights (also described as New Ordinary Shares, nil paid) are entitlements to subscribe for the New Ordinary Shares subject to payment of the Issue Price. The Fully Paid Rights are entitlements to receive the New Ordinary Shares, for which a subscription and payment has already been made.

Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Entitlements to New Ordinary Shares will be rounded down to the next lowest whole number (or to zero in the case of Shareholders holding fewer than 3 Existing Ordinary Shares at the close of business on the Record Date) and fractions of New Ordinary Shares will not be allotted to Shareholders on the register at the Record Date. Such fractions will be aggregated and, if a price over the expenses of sale can be obtained, sold after the commencement of dealings in the Nil Paid Rights. The net proceeds of such sales (after deduction of expenses) will be aggregated and will ultimately accrue for the benefit of the Company.

The attention of Overseas Shareholders or any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document or any Provisional Allotment Letter (duly renounced), if and when received, or other document relating to the Rights Issue into a jurisdiction other than the UK is drawn to paragraph 2.6 below. Subject to the provisions of paragraph 2.6 below, the offer to subscribe for New Ordinary Shares and the Rights Issue will not be made into the United States or any of the Excluded Territories. Subject to the provisions of paragraph 2.6 below, Shareholders with a registered address in, or who are resident in, the United States or any Excluded Territory are not being sent the Provisional Allotment Letter and will not have their CREST accounts credited with Nil Paid Rights.

Applications will be made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares (nil paid and fully paid) to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. It is expected that Admission will become effective on 17 April 2014 and that dealings in the New Ordinary Shares, nil paid, will commence on the London Stock Exchange at 8.00 a.m. on that date. The New Ordinary Shares and the Existing Ordinary Shares are in registered form and can be held in certificated form or uncertificated form via CREST.

The Existing Ordinary Shares are already admitted to CREST. No further application for admission to CREST is required for the New Ordinary Shares and all of the New Ordinary Shares when issued and fully paid may be held and transferred by means of CREST.

Applications have been made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. Euroclear requires the Company to confirm to it that certain conditions (imposed by the CREST Manual) are satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on Admission.

The ISIN for the New Ordinary Shares will be the same as that of the Existing Ordinary Shares, being GB0009697037. The ISIN code for the Nil Paid Rights is GB00BKS8RN78 and for the Fully Paid Rights is GB00BKS8RR17.

None of the New Ordinary Shares are being made available to the public other than pursuant to the Rights Issue.

The Rights Issue has been fully underwritten by the Underwriters and is conditional upon, amongst other things:

- (a) the Resolution being passed at the General Meeting;
- (b) the Sale and Purchase Agreement not having been amended in any material respect or terminated or lapsed, in each case prior to Admission;
- (c) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (d) Admission becoming effective by not later than 8.00 a.m. on 17 April 2014 (or such later time and/or date, being not later than 48 hours later, as the Company and the Underwriters may agree).

The Underwriting Agreement is conditional upon certain matters being satisfied or not breached prior to Admission and may be terminated by the Underwriters prior to Admission upon the occurrence of certain specified events, in which case the Rights Issue will not proceed. The Underwriters may arrange sub-underwriting for some, or none, of the New Ordinary Shares. The Underwriting Agreement is not capable of termination following Admission (including in respect of any statutory withdrawal rights). A summary of certain terms and conditions of the Underwriting Agreement is contained in paragraph 9.1(c) of Part XIV (*Additional Information*) of this document.

The Underwriters and their respective affiliates may, in accordance with applicable legal and regulatory provisions and subject to the provisions of the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Accordingly, references in this document to Nil Paid Rights, Fully Paid Rights or New Ordinary Shares

being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Underwriters and any of their affiliates. Except as required by applicable law or regulation, none of the Underwriters propose to make any public disclosure in relation to such transactions. In addition certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Ordinary Shares.

The Company will not proceed with the Rights Issue if the Underwriting Agreement is terminated at any time prior to Admission and commencement of dealings in the New Ordinary Shares (nil paid).

Subject, *inter alia*, to the conditions referred to in paragraphs (a) to (d) above being satisfied and save as provided in paragraph 2.6 of this Part IV below, it is expected that:

- (A) Provisional Allotment Letters will be despatched to Qualifying non-CREST Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with a registered address in the United States or any of the Excluded Territories or who are otherwise located in the United States, or any agent or intermediary of those Qualifying Shareholders) on 16 April 2014;
- (B) Admission of the New Ordinary Shares, nil paid, will become effective at 8.00 a.m. on 17 April 2014;
- (C) the Registrar will instruct Euroclear to credit the appropriate stock accounts of Qualifying CREST Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with a registered address in the United States or any of the Excluded Territories or who are otherwise located in the United States, or any agent or intermediary of those Qualifying Shareholders) with such Shareholders' entitlements to Nil Paid Rights with effect as soon as practicable after 8.00 a.m. on 17 April 2014;
- (D) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement in CREST by Euroclear as soon as practicable after 8.00 a.m. on 17 April 2014;
- (E) New Ordinary Shares will be credited to the appropriate stock accounts of the relevant Qualifying CREST Shareholders (or their renounees) who validly take up their rights as soon as practicable after 8.00 a.m. on 7 May 2014; and
- (F) share certificates for the New Ordinary Shares will be despatched to Qualifying non-CREST Shareholders (or their renounees) who validly take up their rights by no later than 20 May 2014.

Save as provided for in paragraph 2.6 of this Part IV (*Terms and Conditions of the Rights Issue*), the offer to subscribe for New Ordinary Shares will be made to Qualifying non-CREST Shareholders by way of the Provisional Allotment Letter (as described in step (A) above) and to Qualifying CREST Shareholders by way of the enablement of the Nil Paid Rights and the Fully Paid Rights (as described in step (D) above, such Shareholders' stock accounts having been credited as described in step (C) above).

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions declared, made or paid by reference to a record date after the date of their issue. There will be no restrictions on the free transferability of the New Ordinary Shares save as provided in the Articles of the Company. The rights attaching to the New Ordinary Shares are governed by the Articles, a summary of which is set out in Part XIV (*Additional Information*) of this document.

All documents, including the Provisional Allotment Letters and cheques and certificates posted to, by or from Qualifying Shareholders and/or their transferees or renounees (or their agents, as appropriate) will be posted at their own risk.

Persons taking up their rights by completing the Provisional Allotment Letter or by sending a Many-To-Many ("MTM") instruction to Euroclear will be deemed to have given the representations and warranties set out in paragraph 2.6.6 of this Part IV (*Terms and Conditions of the Rights Issue*), unless the requirement is waived by the Company.

2. Action to be taken

The action to be taken depends on whether you are:

- (a) a Qualifying non-CREST Shareholder; or

- (b) a Qualifying CREST Shareholder.

If you are a Qualifying non-CREST Shareholder and do not have a registered address in the United States or the Excluded Territories (subject to certain limited exceptions), please refer to paragraph 2.1 and paragraphs 2.3 to 2.10 below.

If you are a Qualifying CREST Shareholder and do not have a registered address in the United States or the Excluded Territories (subject to certain limited exceptions), please refer to paragraph 2.2 and paragraphs 2.3 to 2.10 below and to the CREST Manual for further information on the CREST procedures referred to below.

CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.

All enquiries in relation to the Provisional Allotment Letter should be addressed to Capita Asset Services between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.1 Action to be taken by Qualifying non-CREST Shareholders

2.1.1 General

Provisional Allotment Letters are expected to be despatched to Qualifying non-CREST Shareholders (other than, subject to certain limited exceptions, Qualifying Shareholders with registered addresses in the United States or any of the Excluded Territories) on 16 April 2014. Each Provisional Allotment Letter will set out:

- (a) in Box 1, the holding at the close of business on the Record Date of Existing Ordinary Shares on which a Qualifying non-CREST Shareholder's entitlement to New Ordinary Shares has been based;
- (b) in Box 2, the aggregate number of New Ordinary Shares which have been provisionally allotted to that Qualifying non-CREST Shareholder;
- (c) in Box 3, the amount payable by a Qualifying non-CREST Shareholder at the Issue Price to take up his entitlement in full;
- (d) the procedures to be followed if a Qualifying non-CREST Shareholder wishes to dispose of all or part of his entitlement or a Qualifying non-CREST Shareholder wishes to convert all or part of his entitlement into uncertificated form;
- (e) the procedures to be followed if a Qualifying non-CREST Shareholder who is eligible to use the Special Dealing Service wishes to sell all of his Nil Paid Rights or to effect a Cashless Take-up using the Special Dealing Service; and
- (f) instructions regarding acceptance, instruction and payment, consolidation, splitting and registration of renunciation.

Assuming that dealings in Nil Paid Rights commence on 17 April 2014, the latest time and date for:

- (i) **acceptance and payment in full will be 11.00 a.m. on 6 May 2014; and**
- (ii) **receipt of instructions under the Special Dealing Service in respect of the sale of all Nil Paid Rights or a Cashless Take-up will be 3.00 p.m. on 29 April 2014.**

If the Provisional Allotment Letters are not despatched on 16 April 2014 or if the timetable for the Rights Issue is otherwise amended, the expected timetable set out on page 45 of this

document will be adjusted accordingly and the revised dates will be announced through a Regulatory Information Service. All references to times and/or dates in this Part IV should be read as being adjusted accordingly.

2.1.2 *Procedure for acceptance, instruction and payment*

- (a) Qualifying non-CREST Shareholders who wish to take up their entitlement in full

Qualifying non-CREST Shareholders who wish to take up all of their entitlement must complete (as appropriate) and return the Provisional Allotment Letter, together with a cheque or banker's draft in pounds sterling, made payable to "Capita Registrars Limited re Babcock Rights Issue A/C" and crossed "A/C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 a.m. on 6 May 2014. A reply-paid envelope (for use in the UK) will be enclosed with the Provisional Allotment Letter for this purpose. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery. Payments via CHAPS, BACS or electronic transfer will not be accepted.

- (b) Qualifying non-CREST Shareholders who wish to take up some (but not all) of their entitlement

Qualifying non-CREST Shareholders who wish to take up some (but not all) of their entitlement, without selling or transferring the remainder, should complete the Provisional Allotment Letter, including by signing and dating Form X, in accordance with the instructions printed thereon and return it, together with a cheque or banker's draft in pounds sterling in accordance with the instructions set out in paragraph 2.1.2 (a) above for the amount payable for the number of Nil Paid Rights such Qualifying non-CREST Shareholder wishes to take up, by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 a.m. on 6 May 2014.

Alternatively Qualifying non-CREST Shareholders who wish to take up some (but not all) of their entitlement and wish to sell some or all of those Rights which they do not want to take up (other than by effecting Cashless Take-up using the Special Dealing Service described in paragraph 2.1.5 below), should return by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive as soon as possible and in any event so as to be received by not later than 3.00 p.m. on 1 May 2014 (the last date and time for splitting Provisional Allotment Letters), the following:

- (i) the Provisional Allotment Letter duly completed, including by signing and dating Form X, in accordance with the instructions printed thereon;
- (ii) a cheque or banker's draft in pounds sterling, made payable to "Capita Registrars Limited re Babcock Rights Issue A/C" and crossed "A/C payee only", for the amount payable for the number of Nil Paid Rights such Qualifying non-CREST Shareholder wishes to take up; and
- (iii) a covering letter, signed by the Qualifying non-CREST Shareholder(s), stating the number of split Provisional Allotment Letters required for the Nil Paid Rights not being taken up and the number of Nil Paid Rights to be comprised in each such split Provisional Allotment Letter.

In this case, the split Provisional Allotment Letters (representing the Nil Paid Rights the Qualifying non-CREST Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

(c) Company's discretion as to validity of acceptances and instructions

If payment is not received in full by 11.00 a.m. on 6 May 2014, the provisional allotment will (unless the Company has exercised its right to treat as valid an acceptance or instruction as set out below) be deemed to have been declined and will lapse. The Company (in its absolute discretion, after consulting the Joint Global Coordinators) may elect, but shall not be obliged, to treat as valid any Provisional Allotment Letter and accompanying remittance for the full amount due which is not received prior to 11.00 a.m. on 6 May 2014.

The Company (in its absolute discretion, after consulting the Underwriters) may elect, but shall not be obliged to treat as a valid acceptance or instruction, the receipt of appropriate remittance by 11.00 a.m. on 6 May 2014, from an authorised person (as defined in FSMA) specifying the number of New Ordinary Shares to be acquired and containing an undertaking by that person to lodge the Provisional Allotment Letter, duly completed, in due course.

The Company may (in its absolute discretion, after consulting the Underwriters) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

The Company reserves the right to treat as invalid any acceptance or instruction or purported acceptance or instruction in relation to the New Ordinary Shares that appears to the Company to have been executed in, despatched from, or that provided an address in, the United States or any Excluded Territory.

The provisions of this paragraph 2.1.2(c) and any other terms of the Rights Issue relating to Qualifying non-CREST Shareholders may be waived, varied or modified as regards specific Qualifying non-CREST Shareholder(s) or on a general basis by the Company, with the agreement of the Underwriters.

A Qualifying non-CREST Shareholder who makes a valid acceptance or instruction (as applicable) and payment in accordance with this paragraph 2.1 is deemed to request that the New Ordinary Shares to which they will become entitled be issued to them (if they are a Qualifying non-CREST Shareholder) on the terms and conditions set out in this document and subject to the Articles of the Company.

(d) Payments

All payments must be in pounds sterling and made by cheque or banker's draft made payable to "Capita Registrars Limited re Babcock Rights Issue A/C" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Payments via CHAPS, BACS or electronic transfer will not be accepted.

Cheques must be drawn on the personal account to which the Qualifying non-CREST Shareholder (or his nominee) has sole or joint title to the funds. Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted. Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Registrar to seek special clearance of cheques and banker's drafts to allow value to be obtained for remittances at the earliest opportunity. No interest will be paid on payments made before they are due. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured.

Return of a completed Provisional Allotment Letter will constitute a warranty that the cheque will be honoured on first presentation. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender.

If the New Ordinary Shares have already been allotted to a Qualifying non-CREST Shareholder prior to any payment not being so honoured upon first presentation or such acceptance or instruction (as applicable) being treated as invalid, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of such Qualifying non-CREST Shareholder and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by such Qualifying non-CREST Shareholder pursuant to the terms of the Rights Issue in respect of the acquisition of such New Ordinary Shares) on behalf of such Qualifying non-CREST Shareholder. None of the Company, the Underwriters or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying non-CREST Shareholder as a result.

2.1.3 Money Laundering Regulations

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering Regulations, the Registrar may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If an application is made by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Registrar. In such case, the lodging agent's stamp should be inserted on the Provisional Allotment Letter. The person(s) who, by lodging a Provisional Allotment Letter with payment and in accordance with the other terms as described above (the "**acceptor**"), accept(s) directly or indirectly, such number of New Ordinary Shares as referred therein (for the purposes of this paragraph 2.1.3 the "**relevant shares**") (being the provisional allottee or, in the case of renunciation, the person named in such Provisional Allotment Letter) shall thereby be deemed to agree to provide the Registrar and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements and agree for the Registrar to make a search using a credit reference agency for the purpose of confirming such identity where deemed necessary. A record of the search will be retained.

If the Registrar determines that the verification of identity requirements apply to an acceptor, an acceptance or an instruction and the verification of identity requirements have not been satisfied (which the Registrar shall in its absolute discretion determine) by 11.00 a.m. on 6 May 2014, the Company may, in its absolute discretion, and without prejudice to any other rights of the Company, treat the acceptance or instruction as invalid, in which event the application monies will be returned (at the applicant's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn, or may confirm the allotment of the relevant shares but (notwithstanding any other term of the Rights Issue) such shares will not be issued to the relevant acceptor or registered in his name until the verification of identity requirements have been satisfied (which the Registrar shall in its absolute discretion determine). If the acceptance or instruction is treated as valid but the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares. Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. The Registrar is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied. None of the Company, the Underwriters or the Registrar will be liable to any person for any loss suffered or incurred as a result of the exercise of any such discretion or as a result of any sale of relevant shares.

Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the acceptor that the Money Laundering Regulations will not be breached by acceptance of such remittance and an undertaking to provide promptly to the Registrar such information as may be specified by the Registrar as being required for the purpose of the Money Laundering Regulations. If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your acceptance or instruction (as applicable) being treated as invalid or in delays in the despatch of share certificates and other documents relating to the Rights Issue (as applicable).

The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the Money Laundering Directive 2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing; or
- (b) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (c) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (d) if the aggregate subscription price is less than €15,000 (approximately £12,500).

Where the verification of identity requirements apply, please note the following as this will assist in satisfying the requirements. Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (i) if payment is made by cheque or banker's draft in pounds sterling drawn on a branch in the UK of a bank or building society and bears a UK bank sort code number in the top right-hand corner, the following applies. Cheques should be made payable to "Capita Registrars Limited re Babcock Rights Issue A/C" and crossed "A/C payee only". Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the building society cheque/banker's draft to such effect. The account name should be the same as that shown on the application;
- (ii) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-EU members of which are Argentina, Australia, Brazil, Canada, Gibraltar, Hong Kong, Iceland, Japan, Mexico, Luxembourg, New Zealand, Norway, the Russian Federation, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE), the agent should provide written confirmation with the Provisional Allotment Letter that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrar or the relevant authority; or
- (iii) if a Provisional Allotment Letter is lodged by hand by the acceptor in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address (for example, a recent bank statement).

In order to confirm the acceptability of any written assurance referred to in (iii) above or any other case, the acceptor should telephone Capita Asset Services between 9.00 am and 5.30 pm (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute

(including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Rights Issue nor give any financial, legal, tax or investment advice.

2.1.4 *Dealings in Nil Paid Rights*

Dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence at 8.00 a.m. on 17 April 2014.

A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed thereon and delivery of the letter to the transferee or to a stockbroker, bank or other appropriate financial adviser. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil paid, is expected to be 11.00 a.m. on 6 May 2014.

In addition, Qualifying non-CREST Shareholders who are individuals with a registered address in the UK or in any other jurisdiction in the EEA can elect to sell all of their Nil Paid Rights or to effect a Cashless Take-up in each case using the Special Dealing Service, details of which are set out in paragraph 2.1.5 below.

2.1.5 *Special Dealing Service*

Qualifying non-CREST Shareholders who are individuals with a registered address in the UK or in any other jurisdiction in the EEA may elect to: (a) sell all of the Nil Paid Rights to which they are entitled; or (b) effect a Cashless Take-up, using the Special Dealing Service.

(a) Qualifying non-CREST Shareholders who wish to sell all of their entitlement using the Special Dealing Service

Qualifying non-CREST Shareholders who are individuals with a registered address in the UK or in any other jurisdiction in the EEA and who wish to sell all of the Nil Paid Rights to which they are entitled may elect to do so using the Special Dealing Service. Such Qualifying non-CREST Shareholders should complete and return the Provisional Allotment Letter in accordance with the instructions printed thereon, by post or by hand (during normal business hours) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, by not later than 3.00 p.m. on 29 April 2014, the latest time and date for requesting the sale of Nil Paid Rights through the Special Dealing Service.

A reply-paid envelope will be enclosed with the Provisional Allotment Letter for this purpose. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery. Please note that Capita Asset Services will charge a commission of 0.35 per cent. of the gross proceeds of sale of all of the Nil Paid Rights to which the Qualifying non-CREST Shareholder is entitled, subject to a minimum of £20, for effecting such sale through the Special Dealing Service.

Under the Special Dealing Service, Capita Asset Services will normally instruct a broker to sell all of the Nil Paid Rights for a Qualifying non-CREST Shareholder on the Business Day following receipt of an instruction from such Qualifying non-CREST Shareholder for the sale of his Nil Paid Rights. Any instruction received after 3.00 p.m. on any given day will be treated as having been received the following day.

Capita Asset Services will aggregate instructions from all Qualifying non-CREST Shareholders who have elected to sell all of their Nil Paid Rights under the Special Dealing Service that are received (or are treated as having been received) on the same day. In this case, Qualifying non-CREST Shareholders would receive the average price obtained for the sale of all of the Nil Paid Rights aggregated for sale purposes in accordance with the above. This may result in Qualifying non-CREST Shareholders who choose to sell all of their Nil Paid Rights through the Special Dealing Service receiving a higher or lower price than if their Nil Paid Rights were sold separately.

Notwithstanding the above, the Nil Paid Rights in respect of which an instruction is received may be sold in several transactions and on separate days. In this case, Qualifying non-CREST Shareholders would receive the average price obtained for the sale of all of the Nil Paid Rights sold in that period.

This may result in Qualifying non-CREST Shareholders who choose to sell all of their Nil Paid Rights through the Special Dealing Service receiving a higher or lower price for their Nil Paid Rights than if all of their Nil Paid Rights had been sold in a single transaction or on a single day and such Qualifying non-CREST Shareholders may receive the proceeds of sale later than if their Nil Paid Rights had been sold by another broker on an individual basis.

A Qualifying non-CREST Shareholder who is considering giving an instruction to sell all of their Nil Paid Rights under the Special Dealing Service should note that there is no guarantee that the sale of the Nil Paid Rights will be effected under the Special Dealing Service in relation to their Nil Paid Rights.

Whether such Qualifying non-CREST Shareholder's Nil Paid Rights will be sold under the Special Dealing Service will depend on whether it is expected that the proceeds from the sale of the Nil Paid Rights of the majority of the Qualifying non-CREST Shareholders who elect to sell all of their Nil Paid Rights and whose instructions are aggregated for sales purposes will exceed the commissions referred to above. If a Qualifying non-CREST Shareholder's Nil Paid Rights are sold but the proceeds obtained for the sale of such Nil Paid Rights are less than the commissions referred to above, such Qualifying non-CREST Shareholder will not receive any proceeds.

(b) Qualifying non-CREST Shareholders who wish to effect a Cashless Take-up using the Special Dealing Service

Qualifying non-CREST Shareholders who are individuals with a registered address in the UK or in any other jurisdiction in the EEA and who wish to effect a Cashless Take-up may elect to do so using the Special Dealing Service. Such Qualifying non-CREST Shareholders should complete and return the Provisional Allotment Letter in accordance with the instructions printed thereon, by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, by not later than 3.00 p.m. on 29 April 2014, the latest time and date for requesting a Cashless Take-up through the Special Dealing Service.

A reply-paid envelope will be enclosed with the Provisional Allotment Letter for this purpose. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery. Please note that Capita Asset Services will charge a commission of 0.35 per cent. of the gross proceeds of sale of such number of Nil Paid Rights as is required to effect a Cashless Take-up for a Qualifying non-CREST Shareholder, subject to a minimum of £20.

Under the Special Dealing Service, Capita Asset Services will normally instruct a broker to sell such number of Nil Paid Rights as is required to effect a Cashless Take-up for a Qualifying non-CREST Shareholder on the Business Day following receipt from such Qualifying non-CREST Shareholder of an instruction for Cashless Take-up. Any instruction received after 3.00 p.m. on any given day will be treated as having been received the following day.

Capita Asset Services will aggregate instructions from all Qualifying non-CREST Shareholders who elect a Cashless Take-up under the Special Dealing Service that are received (or are treated as having been received) on the same day. In this case, Qualifying non-CREST Shareholders would receive the average price obtained for the sale of all of the Nil Paid Rights aggregated for sale purposes in accordance with above. This may result in Qualifying non-CREST Shareholders who elect a Cashless Take-up under the Special Dealing Service receiving a higher or lower price than if the Nil Paid Rights the subject of the instruction were sold separately.

Notwithstanding the above, such number of Nil Paid Rights which need to be sold to effect a Cashless Take-up for a Qualifying non-CREST Shareholder under the Special Dealing Service

may be sold in several transactions and on separate days. In this case, Qualifying non-CREST Shareholders would receive the average price obtained for the sale of all of the Nil Paid Rights sold in that period.

This may result in Qualifying non-CREST Shareholders who choose to effect a Cashless Take-up under the Special Dealing Service receiving a higher or lower price for their Nil Paid Rights than if such Nil Paid Rights had been sold in a single transaction or on a single day. A Qualifying non-CREST Shareholder who is considering giving an instruction for Cashless Take-up under the Special Dealing Service should note that there is no guarantee that Cashless Take-up will be effected under the Special Dealing Service in relation to his Nil Paid Rights. Whether such Qualifying non-CREST Shareholder's Nil Paid Rights will be sold under the Special Dealing Service will depend on whether it is expected that the proceeds from the sale of the Nil Paid Rights of the majority of the Qualifying non-CREST Shareholders (the "**Majority Shareholders**") who elect for a Cashless Take-up under the Special Dealing Service and whose instructions are aggregated for sales purposes will be sufficient, after deducting the commissions referred to above, to take-up one New Ordinary Share for each of the Majority Shareholders. If a Qualifying non-CREST Shareholder's Nil Paid Rights are sold but the proceeds obtained for the sale of the Nil Paid Rights are not sufficient, after the deduction of the commissions referred to above, to acquire any New Ordinary Shares at the Issue Price, such Qualifying non-CREST Shareholder will not receive any New Ordinary Shares.

(c) General

By giving an instruction under the Special Dealing Service a Qualifying non-CREST Shareholder will be deemed to have represented, warranted and undertaken that he will not thereafter seek to take any action in respect of his Provisional Allotment Letter. By giving your instruction under the Special Dealing Service, you will be deemed to have renounced your Nil Paid Rights, as applicable to your instruction.

The terms and conditions of the Special Dealing Service (the "**Special Dealing Service Terms and Conditions**") will be posted to Qualifying non-CREST Shareholders together with the Provisional Allotment Letter. A Qualifying non-CREST Shareholder who is eligible and elects to use the Special Dealing Service agrees to the terms and conditions of the Rights Issue set out in this Prospectus and the Special Dealing Service Terms and Conditions (including how the price for the sale of their Nil Paid Rights is calculated and the commissions that will be deducted from the proceeds of the sale of such Nil Paid Rights). Qualifying non-CREST Shareholders using the Special Dealing Service should note that they will be clients of Capita Asset Services and not of the Company when using such service. Capita Asset Services' liability to such a Qualifying non-CREST Shareholder and its responsibility for providing the protections afforded by the UK regulatory regime to clients for whom such services are provided is as set out in the Special Dealing Service Terms and Conditions, and neither Capita Asset Services nor the Company shall have any liability or responsibility to a Qualifying non-CREST Shareholder using the Special Dealing Service except as set out in those Special Dealing Service Terms and Conditions. None of the Company, Capita Asset Services, or their agents shall be responsible for any loss or damage (whether actual or alleged) arising from the terms or timing of any sale, any settlement issues arising from any sale, any exercise of discretion in relation to any sale, or any failure to procure any sale, of Nil Paid Rights pursuant to the Special Dealing Service.

The Company, Capita Asset Services and/or their agents shall each have sole discretion to determine the eligibility of Qualifying non-CREST Shareholders, and may each in their sole discretion interpret instructions (including handwritten markings) on the Provisional Allotment Letter, and none of the Company, Capita Asset Services or their agents shall be responsible for any loss or damage (whether actual or alleged) arising from any such exercise of discretion. All remittances will be sent by post, at the risk of the Qualifying non-CREST Shareholder entitled thereto, to the registered address of the relevant Qualifying non-CREST Shareholder (or, in the case of joint holders, to the address of the joint holder whose name stands first in the register of Shareholders). No interest will be payable on any proceeds received from the sale of Nil Paid Rights under the Special Dealing Service.

2.1.6 *Dealings in Fully Paid Rights*

After acceptance and payment in full in accordance with the provisions set out in this document and the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and delivering it, by post or by hand (during normal business hours) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 11.00 a.m. on 6 May 2014. To do this, Qualifying non-CREST Shareholders will need to have their fully paid Provisional Allotment Letters returned to them after acceptance has been effected by the Registrar. Fully paid Provisional Allotment Letters will only be returned to Shareholders if their return is requested by ticking Box 4 on page 4 of the Provisional Allotment Letter. From 7 May 2014, the New Ordinary Shares will be in registered form and transferable in the usual way (see paragraph 2.1.10 of this Part IV below).

2.1.7 *Renunciation and splitting of Provisional Allotment Letters*

Qualifying non-CREST Shareholders who wish to transfer all of their Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter (if it is not already marked “Original Duly Renounced”) and passing the entire Provisional Allotment Letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form and the Nil Paid Rights or Fully Paid Rights (as appropriate) comprised in the Provisional Allotment Letter may be transferred by delivery of the Provisional Allotment Letter to the transferee. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil or fully paid, is 11.00 a.m. on 6 May 2014.

If a holder of a Provisional Allotment Letter wishes to take up some (but not all) of his entitlement and wishes to sell or transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, the Provisional Allotment Letter must be split. To split a Provisional Allotment Letter, it must be delivered by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 3.00 p.m. on 1 May 2014, with Form X on page 4 of the Provisional Allotment Letter duly completed and signed and (if applicable) a cheque for the entitlements he wishes to take up.

The number of split Provisional Allotment Letters required and the number of Nil Paid Rights or (as appropriate) Fully Paid Rights to be comprised in each split Provisional Allotment Letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked “Original Duly Renounced” before issue. The aggregate number of Nil Paid Rights or (as appropriate) Fully Paid Rights comprised in the split Provisional Allotment Letters must equal the number of New Ordinary Shares set out in Box 2 of the original Provisional Allotment Letter (less the number of New Ordinary Shares representing rights that the holder wishes to take up if taking up his entitlement in part). The original Provisional Allotment Letter would then be split and cancelled for split Provisional Allotment Letters. The split Provisional Allotment Letter(s) (representing the New Ordinary Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights, without selling or transferring the remainder, should refer to paragraph 2.1.2(b) of this Part IV.

The Company reserves the right to refuse to register any renunciation in favour of any person in respect of which the Company believes such renunciation may violate applicable legal or regulatory requirements, including (without limitation) any renunciation in the name of any person with an address outside the UK.

2.1.7 *Registration in names of Qualifying non-CREST Shareholders*

A Qualifying non-CREST Shareholder who wishes to have all the New Ordinary Shares to which he is entitled registered in his name must accept and make payment for such allotment in

accordance with the provisions set out in this document and the Provisional Allotment Letter but need take no further action. A share certificate in respect of the New Ordinary Shares subscribed for is expected to be sent to such Qualifying non-CREST Shareholder by no later than 20 May 2014.

2.1.8 *Registration in names of persons other than Qualifying non-CREST Shareholders originally entitled*

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying non-CREST Shareholder(s) originally entitled, the renouncee or his agent(s) must complete Form Y on the Provisional Allotment Letter (unless the renouncee is a CREST member who wishes to hold such New Ordinary Shares in uncertificated form, in which case Form X and the CREST Deposit Form must be completed (see paragraph 2.1.9 of this Part IV below)) and deliver the Provisional Allotment Letter, when fully paid, by post or by hand (during normal business hours) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than the latest time for registration of renunciations, which is 11.00 a.m. on 6 May 2014. Registration cannot be effected unless and until the New Ordinary Shares comprised in a Provisional Allotment Letter are fully paid.

The New Ordinary Shares comprised in several renounced Provisional Allotment Letters may be registered in the name of one holder (or joint holders) if Form Y on the Provisional Allotment Letter is completed on one Provisional Allotment Letter (the “**Principal Letter**”) and all the Provisional Allotment Letters are delivered in one batch. Details of each Provisional Allotment Letter (including the Principal Letter), the number of New Ordinary Shares represented by each Provisional Allotment Letter, the total number of Provisional Allotment Letters to be consolidated and the total number of New Ordinary Shares represented by all the Provisional Allotment Letters to be consolidated should be listed in a covering letter accompanying the Provisional Allotment Letter and the allotment number of the Principal Letter should be entered in the space provided on each of the other Provisional Allotment Letters.

2.1.9 *Deposit of Nil Paid Rights or Fully Paid Rights into CREST*

The Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Similarly, Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Subject as provided in the next following paragraph or in the Provisional Allotment Letter, normal CREST procedures and timings apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights represented by the Provisional Allotment Letter into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear(s) on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced, is as follows: Form X and the CREST Deposit Form (both on the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CREST Courier and Sorting Service (“CCSS”). In addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must apply for split Provisional Allotment Letters by following the instructions in paragraph 2.1.6 above. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (as defined in the CREST Regulations) must not be used.

A holder of Nil Paid Rights (or, if appropriate, the Fully Paid Rights) represented by a Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that

the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 6 May 2014. **In particular, having regard to processing times in CREST and on the part of the Registrar, the latest recommended time for depositing a renounced Provisional Allotment Letter (with Form X and the CREST Deposit Form on the Provisional Allotment Letter duly completed) with the CCSS in order to enable the person acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 6 May 2014 is 3.00 p.m. on 30 April 2014.**

When Form X and the CREST Deposit Form (on the Provisional Allotment Letter) have been completed, the title to the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letters will cease to be renounceable or transferable by delivery, and for the avoidance of doubt any entries in Form Y will not subsequently be recognised or acted upon by the Registrar. All renunciations or transfers of Nil Paid Rights or Fully Paid Rights must be effected through the CREST system once such Nil Paid Rights or Fully Paid Rights have been deposited into CREST.

CREST sponsored members should contact their CREST sponsor as only their CREST sponsor will be able to take the necessary action to take up the entitlement or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of the CREST sponsored member.

2.1.10 Issue of New Ordinary Shares in definitive form

Definitive share certificates in respect of the New Ordinary Shares to be held in certificated form are expected to be despatched by post by 20 May 2014 at the risk of the persons entitled thereto to Qualifying non-CREST Shareholders (or their transferees who hold Fully Paid Rights in certificated form), or in the case of joint holdings, to the first-named Shareholder, at their registered address (unless valid address details have been completed on the Provisional Allotment Letter). After despatch of the definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer of the New Ordinary Shares will be certified by the Registrar against the register.

2.2 Action to be taken by Qualifying CREST Shareholders in relation to Nil Paid Rights and Fully Paid Rights in CREST

2.2.1 General

It is expected that each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights on 17 April 2014. It is expected that such rights will be enabled as soon as practicable after 8.00 a.m. on 17 April 2014. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Ordinary Shares in uncertificated form held at the close of business on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The maximum number of New Ordinary Shares that a Qualifying CREST Shareholder may take up is that which has been provisionally allotted to that Qualifying CREST Shareholder and for which he receives a credit of entitlement into his stock account in CREST. The minimum number of New Ordinary Shares a Qualifying CREST Shareholder may take up is one.

The Nil Paid Rights will constitute a separate security for the purposes of CREST and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If, for any reason, it is impracticable to credit the stock accounts of Qualifying CREST Shareholders, or to enable the Nil Paid Rights by 8.00 a.m. on 17 April 2014, Provisional Allotment Letters shall, unless the Company determines otherwise, be sent out in substitution

for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document will be adjusted as appropriate. **References to dates and times in this document should be read as subject to any such adjustment.** The Company will make an appropriate announcement to a Regulatory Information Service giving details of any revised dates **but Qualifying CREST Shareholders may not receive any further written communication.**

CREST members who wish to take up their entitlements in respect of or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights.

2.2.2 Procedure for acceptance and payment

(a) MTM instructions

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an MTM instruction to Euroclear that, on its settlement, will have the following effect:

- (i) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;
- (ii) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank of the Receiving Agent in pounds sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in paragraph 2.2.2(a)(i) above; and
- (iii) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in paragraph 2.2.2(a)(i) above.

(b) Contents of MTM instructions

The MTM instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of Nil Paid Rights to which the acceptance relates;
- (ii) the participant ID of the accepting CREST member;
- (iii) the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- (iv) the participant ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 7RA33;
- (v) the member account ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 28220BAB;
- (vi) the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;

- (vii) the amount payable by means of the CREST assured payment arrangements on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights to which the acceptance relates;
- (viii) the intended settlement date, which must be on or before 11.00 a.m. on 6 May 2014;
- (ix) the Nil Paid Rights ISIN number which is GB00BKS8RN78;
- (x) the Fully Paid Rights ISIN number which is GB00BKS8RR17;
- (xi) the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST; and
- (xii) contact name and telephone number in the shared note field.

(c) Valid acceptance

An MTM instruction complying with each of the requirements as to authentication and contents set out in paragraph 2.2.2(b) above will constitute a valid acceptance where either:

- (i) the MTM instruction settles by not later than 11.00 a.m. on 6 May 2014; or
- (ii) at the discretion of the Company:
 - (A) the MTM instruction is received by Euroclear by not later than 11.00 a.m. on 6 May 2014;
 - (B) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 11.00 a.m. on 6 May 2014; and
 - (C) the relevant MTM instruction settles by 2 p.m. on 6 May 2014 (or such later time and/or date as the Company may determine).

An MTM instruction will be treated as having been received by Euroclear for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at Euroclear of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

The provisions of this paragraph 2.2.2(c) and any other terms of the Rights Issue relating to Qualifying CREST Shareholders may be waived, varied or modified as regards specific Qualifying CREST Shareholder(s) or on a general basis by the Company.

(d) Representations, warranties and undertakings of CREST members

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with this paragraph 2.2.2 represents, warrants and undertakes to the Company and the Underwriters that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 11.00 a.m. on 6 May 2014 and remains capable of settlement at all times until 2.00 p.m. on 6 May 2014 (or until such later time and date as the Company and the Underwriters may determine). In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that, at 11.00 a.m. on 6 May 2014 and at all times thereafter until 2.00 p.m. on 6 May 2014 (or until

such later time and date as the Company and the Underwriters may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt. In addition, such CREST Sponsored member taking up entitlements makes the representations and gives the warranties set out in paragraph 2.2.2 of this Part IV (*Terms and Conditions of the Rights Issue*).

If there is insufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account of a CREST member or CREST sponsored member for such amount to be debited or the CREST member's or CREST sponsored member's acceptance is otherwise treated as invalid and New Ordinary Shares have already been allotted to such CREST member or CREST sponsored member, the Company and the Underwriters may (in their absolute discretion as to the manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of that CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that has been suffered as a result of the acceptance being treated as invalid and of the expenses of sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by the CREST member or CREST sponsored member pursuant to the Rights Issue in respect of the acquisition of such New Ordinary Shares) on behalf of such CREST member or CREST sponsored member. None of the Company, the Underwriters, or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such CREST member or CREST sponsored member as a result.

(e) CREST procedures and timings

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 a.m. on 6 May 2014. In connection with this, CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(f) CREST member's undertaking to pay

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this paragraph 2.2.2 undertakes to pay to the Receiving Agent, or procure the payment to the Receiving Agent of, the amount payable in pounds sterling on acceptance in accordance with the above procedures or in such other manner as the Receiving Agent may require (it being acknowledged that, where payment is made by means of CREST RTGS payment mechanism (as defined in the CREST manual), the creation of a payment obligation in pounds sterling in favour of the Receiving Agent's settlement bank (as defined in the CREST Manual) in accordance with the payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CREST member (or CREST sponsored member) to pay the amount payable on acceptance) and (b) requests that the Fully Paid Rights and/or New Ordinary Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Articles of Association of the Company.

If the payment obligations of the relevant CREST member or CREST sponsored member in relation to such New Ordinary Shares are not discharged in full and such New Ordinary Shares have already been allotted to the CREST member or CREST sponsored member, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of

the CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that has been suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by such CREST member or CREST sponsored member pursuant to the terms of the Rights Issue in respect of the acquisition of such New Ordinary Shares) or an amount equal to the original payment of the CREST member or CREST sponsored member. None of the Company or the Underwriters or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by the CREST member or CREST sponsored member as a result.

(g) Company's discretion as to rejection and validity of acceptances

The Company may agree in its absolute sole discretion (after consulting the Underwriters) to:

- (i) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2. Where an acceptance is made as described in this paragraph 2.2.2, which is otherwise valid, and the MTM instruction concerned fails to settle by 2.00 p.m. on 6 May 2014 (or by such later time and date as the Company have determined), the Company shall be entitled to assume, for the purposes of its right to reject an acceptance contained in this paragraph 2.2.2, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2 unless the Company is aware of any reason outside the control of the CREST member or CREST sponsor (as appropriate) for the failure to settle;
- (ii) treat as valid (and binding on the CREST member or CREST sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 2.2.2;
- (iii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company and the Underwriters may determine;
- (iv) treat a properly authenticated dematerialised instruction (in this paragraph 2.2.2(g)(iv), the "**first instruction**") as not constituting a valid acceptance if, at the time at which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (v) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by the Registrar in connection with CREST.

2.2.3 *Money Laundering Regulations*

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Registrar is entitled to take reasonable measures to establish the identity of the person or persons (or the ultimate controller of such person or persons) on whose behalf you are making the application and any submission of a MTM instruction is agreeing for the Registrar to make a search via a credit reference agency where deemed necessary. A record of search results will be retained. You must therefore contact the Registrar before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Registrar any information the Registrar may specify as being required for the purposes of the verification of the identity requirements in the Money Laundering Regulations or the FSMA. Pending the provision of such information and other evidence as the Registrar may require to satisfy the verification of identity requirements, the Registrar, having consulted with the Company, may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If such information and other evidence of identity has not been provided within a reasonable time, then the Registrar will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of the Company and/or the Underwriters to take proceedings to recover any loss suffered by any of them as a result of failure by the applicant to provide such information and other evidence.

2.2.4 *Dealings in Nil Paid Rights in CREST*

Assuming the Rights Issue becomes unconditional, dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence as soon as practicable after 8.00 a.m. on 17 April 2014. A transfer (in whole or in part) of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 6 May 2014.

2.2.5 *Dealings in Fully Paid Rights in CREST*

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last time for settlement of any transfer of Fully Paid Rights in CREST is expected to be 11.00 a.m. on 6 May 2014. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 6 May 2014. From 7 May 2014, the New Ordinary Shares will be registered in the name(s) of the person(s) entitled to them in the Company's register of members and will be transferable in the usual way.

2.2.6 *Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST*

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by Euroclear of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights or, if appropriate, Fully Paid Rights from CREST is 4.30 p.m. on 29 April 2014, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights or, if appropriate, Fully Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 6 May 2014. You are recommended to refer to the CREST Manual for details of such procedures.

2.2.7 *Issue of New Ordinary Shares in CREST*

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 6 May 2014, (the latest date for settlement of transfers of Fully Paid Rights in CREST). New Ordinary Shares (in definitive form) will be issued in uncertificated form to those

persons registered as holding Fully Paid Rights in CREST no later than close of business on the date on which the Fully Paid Rights are disabled. The Registrar will instruct Euroclear to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to New Ordinary Shares to take effect as soon as practicable after 8.00 a.m. on 7 May 2014.

2.2.8 *Right to allot/issue in certificated form*

Despite any other provision of this document, the Company reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

2.3 **Procedure in respect of rights not taken up and withdrawal**

2.3.1 *Procedure in respect of rights not taken up*

If rights to New Ordinary Shares are not validly taken up, in accordance with the procedure laid down in this document for acceptance, instruction and payment, then that provisional allotment will be deemed to have been declined and will lapse. The Underwriters will use reasonable endeavours to procure, by not later than 3.00 p.m. on the second dealing day after the last date for acceptance under the Rights Issue, subscribers for all (or as many as possible) of those New Ordinary Shares not taken up at a price per New Ordinary Share which is at least equal to the aggregate of the Issue Price and the expenses of procuring such subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax).

Notwithstanding the above, the Underwriters may cease to endeavour to procure any such subscribers if, in their opinion, it is unlikely that any such subscribers can be procured at such a price and by such a time. If and to the extent that subscribers for New Ordinary Shares cannot be procured on the basis outlined above, the Underwriters will acquire the remaining New Ordinary Shares as principals under the terms of the Underwriting Agreement or by sub-underwriters procured by the Underwriters, in each case at the Issue Price.

Any premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax) shall be paid (subject as provided in this paragraph 2.3.1):

- (a) where the Nil Paid Rights were, at the time they lapsed, represented by a Provisional Allotment Letter, to the person whose name and address appeared on the Provisional Allotment Letter;
- (b) where the Nil Paid Rights were, at the time they lapsed, in uncertificated form, to the person registered as the holder of those Nil Paid Rights at the time of their disablement in CREST; and
- (c) to the extent not provided for above, where an entitlement to New Ordinary Shares was not taken up by an Overseas Shareholder with an address in the United States or any Excluded Territory, to that Overseas Shareholder.

New Ordinary Shares for which subscribers are procured on this basis will be reallocated to the subscribers and the aggregate of any premiums (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers, including any applicable brokerage and commissions and amounts in respect of value added tax), if any, will be paid (without interest) to those persons entitled (as referred to in paragraphs (a) to (c) above) *pro rata* to the relevant lapsed provisional allotments, save that amounts of less than £5.00 per holding will not be so paid but will be aggregated and will ultimately accrue for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for these purposes. Cheques for the amounts due (if any) will be sent by post, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first-named holder in the case of joint holders), **provided that**, where any entitlement concerned was

held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the creation of an assured payment obligation in favour of the relevant CREST member's (or CREST sponsored member's) RTGS settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism.

Any transactions undertaken pursuant to this paragraph 2.3.1 or paragraph 2.6.1 below shall be deemed to have been undertaken at the request of the persons entitled to the lapsed provisional allotments or other entitlements and none of the Company or the Underwriters or any other person procuring subscribers shall be responsible, or have any liability whatsoever for any loss or damage (whether actual or alleged) arising from the terms or timing of any such acquisition, any decision not to endeavour to procure subscribers or the failure to procure subscribers on the basis so described. The Underwriters will be entitled to retain any brokerage fees, commissions or other benefits received in connection with these arrangements.

It is a term of the Rights Issue that all New Ordinary Shares validly taken up by subscribers under the Rights Issue may be allotted to such subscribers in the event that not all of the New Ordinary Shares offered for subscription under the Rights Issue are taken up.

2.3.2 *Withdrawal rights*

Persons who have the right to withdraw their acceptances under Section 87Q(4) of the FSMA after a supplementary prospectus (if any) has been published and who wish to exercise such right of withdrawal must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile), which must include the full name and address of the person wishing to exercise such statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member, with Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by sending an email to withdraw@capita.co.uk so as to be received no later than two Business Days after the date on which the supplementary prospectus was published, withdrawal being effective upon receipt of the written notice of withdrawal. Notice of withdrawal given by any other means or which is deposited with or received by Capita Asset Services after the expiry of such period will not constitute a valid withdrawal. Furthermore, the Company will not permit the exercise of withdrawal rights after payment by the relevant Shareholder of its subscription amount in full and the allotment of the New Ordinary Shares to such Shareholder becoming unconditional. In such circumstances, Shareholders are advised to consult their professional advisers.

Provisional allotments of entitlements to New Ordinary Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Ordinary Shares will be subject to the provisions of paragraph 2.3.1 above as if the entitlement had not been validly taken up.

2.4 Share Schemes

The options and awards granted under the Share Schemes (other than the AESOP) may be adjusted in such way as the Directors consider appropriate to compensate option and award holders for any effect the Rights Issue will have on those options and awards (as permitted by the rules of the relevant Share Schemes). Any adjustments will not be made until after the ex-rights date and will be subject to approval of HMRC and the Company's auditors, where required. Participants in the Share Schemes will be contacted separately with further information on how their options and awards may be affected by the Rights Issue.

2.5 Taxation

Information on taxation in the United Kingdom and the United States with regard to the Rights Issue is set out in Part XII (*Taxation*) of this document. The information contained in Part XII (*Taxation*) is intended only as a general guide to the current tax position in the United Kingdom and the United States and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Rights Issue in light of their own circumstances. Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.

2.6 Overseas Shareholders

Provisional Allotment Letters will be posted to Qualifying non-CREST Shareholders (other than, subject to certain limited exceptions, Qualifying Shareholders with registered addresses in the United States or any of the Excluded Territories) and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying CREST Shareholders with registered addresses in any country other than the United States or an Excluded Territory. No offer of or invitation to subscribe for New Ordinary Shares is being made by virtue of this document or the Provisional Allotment Letters into the United States or any of the Excluded Territories. Qualifying Shareholders in jurisdictions other than the United States or the Excluded Territories may, subject to the laws of their relevant jurisdiction, accept their rights under the Rights Issue in accordance with the instructions set out in this document and, in the case of Qualifying non-CREST Shareholders only, the Provisional Allotment Letters.

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, countries other than the United Kingdom should consult their appropriate professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their Nil Paid Rights or to acquire Fully Paid Rights or New Ordinary Shares. If you are in any doubt as to your eligibility to accept the offer of New Ordinary Shares or to deal with Nil Paid Rights or Fully Paid Rights, you should contact your appropriate professional adviser immediately.

2.6.1 *General*

The making or acceptance of the proposed offer of Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares to persons who have registered addresses in, or who are resident in, or citizens of, countries other than the UK may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlement.

It is the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside the UK wishing to take up rights to New Ordinary Shares or otherwise participate in the Rights Issue to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 2.6 are intended as a general guide only and any Overseas Shareholder who is in doubt as to his position should consult his professional adviser without delay.

Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict the ability of persons in the United States and the Excluded Territories to take up rights to New Ordinary Shares or otherwise participate in the Rights Issue due to the time and costs involved in the registration of this document and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

Receipt of this document and/or a Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed.

New Ordinary Shares will be provisionally allotted (nil paid) to all Shareholders on the register at the close of business on the Record Date. However, Provisional Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST accounts of, Shareholders with registered addresses in the United States or any of the Excluded Territories or their agents or intermediaries, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him nor should he in any event

use the Provisional Allotment Letter or deal with Nil Paid Rights or Fully Paid Rights in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Provisional Allotment Letter could lawfully be used or dealt with without contravention of any registration or other legal requirements. In such circumstances, this document and the Provisional Allotment Letter are to be treated as sent for information only and should not be copied or redistributed.

Accordingly, persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose CREST stock account is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same or transfer Nil Paid Rights or Fully Paid Rights in or into any jurisdiction where to do so would or might contravene local security laws or regulations. If a Provisional Allotment Letter or a credit of Nil Paid Rights or Fully Paid Rights is received by any person in any such territory, or by his agent or nominee, he must not seek to take up the rights referred to in the Provisional Allotment Letter or in this document or renounce the Provisional Allotment Letter or transfer the Nil Paid Rights or Fully Paid Rights unless the Company and the Underwriters determine that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, nominees and trustees) who does forward this document or a Provisional Allotment Letter, or transfer, Nil Paid Rights or Fully Paid Rights into any such territories (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 2.6.

The Company reserves the right to treat as invalid and will not be bound to allot or issue any New Ordinary Shares in respect of any acceptance or instruction or purported acceptance or instruction which:

- (i) appears to the Company or its agents to have been executed, effected or despatched from the United States or an Excluded Territory;
- (ii) in the case of a Provisional Allotment Letter, provides an address for delivery of the share certificates or other statements of entitlement or advice in the United States or an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to deliver such certificates, statements or advice or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or
- (iii) in the case of a credit in CREST, to a CREST member or CREST sponsored member whose registered address is in the United States or an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to make such a credit or if the Company or its agents believe that making such credit may violate applicable legal or regulatory requirements.

Save as provided in this paragraph 2.6, rights to New Ordinary Shares to which Shareholders with registered addresses in the United States or any of the Excluded Territories would otherwise be entitled and entitlements to Nil Paid Rights which have not been taken up by other Shareholders will be sold as described in paragraph 2.3 above. The net proceeds of such sales (after deduction of the Issue Price and expenses) will be paid to the relevant Shareholders pro-rated to their holdings of Existing Ordinary Shares at the close of business on the Record Date as soon as practicable after receipt, except that (i) individual amounts of less than £5.00 per holding and (ii) amounts in respect of fractions will not be distributed but will ultimately accrue for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for these purposes. None of the Company, the Underwriters or any other person shall be responsible or have any liability whatsoever for any loss, damage, liability or cost (actual or alleged) arising from the terms or the timing of the acquisition or the procuring of it or any failure to procure subscribers.

Despite any other provision of this document or a Provisional Allotment Letter, the Company reserves the right to permit any Shareholder to participate in the Rights Issue on the terms and conditions set out in this document if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question. If the Company is so satisfied, the Company will arrange for the relevant Overseas Shareholder to be sent a Provisional Allotment Letter if it is a

Qualifying non-CREST Shareholder or, if it is a Qualifying CREST Shareholder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account.

These Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 2.1 (*Qualifying non-CREST Shareholder*) and 2.2 (*Qualifying CREST Shareholders*) above.

The attention of Overseas Shareholders with registered addresses in the United States or any of the Excluded Territories is also drawn to paragraphs 2.6.2 to 2.6.4 below.

Overseas Shareholders (other than Qualifying CREST Shareholders) should note that all subscription monies must be paid in pounds sterling by cheque or banker's draft and should be drawn on a bank in the UK, made payable to "Capita Registrars Limited re Babcock Rights Issue A/C" and crossed "A/C payee only".

2.6.2 *Offering restrictions relating to the United States*

The New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters have not been and will not be registered under the Securities Act or under any relevant securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States absent registration or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters have not been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Accordingly, subject to certain exceptions, the Rights Issue is not being made in the United States and neither this document nor the Provisional Allotment Letters constitutes or will constitute an offer, or an invitation to apply for, or an offer or an invitation to subscribe for or acquire any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights in the United States. Subject to certain limited exceptions, Provisional Allotment Letters have not been, and will not be, sent to, and Nil Paid Rights have not been, and will not be, credited to the CREST account of, any Qualifying Shareholder with a registered address in or that is known to be located in the United States.

Subject to certain limited exceptions, envelopes containing Provisional Allotment Letters should not be postmarked in the United States or otherwise despatched from the United States, and all persons subscribing for or acquiring New Ordinary Shares and wishing to hold such shares in certificated form must provide an address for registration of the New Ordinary Shares issued upon exercise thereof outside the United States.

Subject to certain limited exceptions, any person who subscribes for or acquires New Ordinary Shares, Nil Paid Rights or Fully Paid Rights will be deemed to have declared, warranted and agreed, by accessing this document or accepting delivery of the Provisional Allotment Letter and delivery of the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights, that it is not, and that at the time of subscribing for or acquiring the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights it will not be, in the United States.

The Company and the Underwriters reserve the right to treat as invalid any Provisional Allotment Letter: (i) that appears to the Company, the Underwriters or their respective agents to have been executed in or despatched from the United States, (ii) that does not include the relevant warranty set out in the Provisional Allotment Letter headed "Overseas Shareholders" to the effect that the person accepting and/or renouncing the Provisional Allotment Letter does not have a registered address and is not located in the United States and is not subscribing for or acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights,

Fully Paid Rights or New Ordinary Shares in the United States, or (iii) where the Company and the Underwriters believe acceptance of such Provisional Allotment Letter may infringe applicable legal or regulatory requirements, and the Company and the Underwriters shall not be bound to allot (on a non-provisional basis) or issue any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights in respect of any such Provisional Allotment Letter. In addition, the Company and the Underwriters reserve the right to reject any MTM instruction in respect of Nil Paid Rights sent by or on behalf of any CREST member with a registered address in or located in the United States.

Notwithstanding the foregoing, the Company reserves the right to offer and deliver the Nil Paid Rights and Provisional Allotment Letters to, and the Fully Paid Rights and the New Ordinary Shares may be offered to and acquired by, a limited number of Shareholders in the United States reasonably believed to be QIBs, in offerings exempt from the registration requirements of the Securities Act.

A QIB will be permitted to take up its entitlements to New Ordinary Shares under the Rights Issue only if the QIB executes a QIB Representation Letter in the form provided by the Company and delivers it to the Company, with a copy to the Underwriters. The QIB Representation Letter will require each such QIB to represent and agree that, amongst other things, (i) it is a QIB and (ii) it will only offer, sell, transfer, assign, pledge or otherwise dispose of the New Ordinary Shares in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with applicable securities laws. The QIB Representation Letter contains additional written representations, agreements and acknowledgements relating to the transfer restrictions applicable to the New Ordinary Shares. Any such QIBs who hold Ordinary Shares through a bank, a broker or other financial intermediary should procure that the relevant bank, broker or financial intermediary submits a QIB Representation Letter on their behalf. The Company has the discretion to refuse to accept any Provisional Allotment Letter that is incomplete, unexecuted or not accompanied by an executed QIB Representation Letter or any other required additional documentation.

Any person in the United States who obtains a copy of this document and/or a Provisional Allotment Letter and who is not a QIB is required to disregard them.

Until 40 days after the commencement of the Rights Issue or the procurement of subscribers for the New Ordinary Shares not taken up in the Rights Issue, any offer, sale or transfer of the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

No representation has been, or will be, made by the Company or any of the Underwriters as to the availability of Rule 144 under the Securities Act or any other exemption under the Securities Act or any state securities laws for the reoffer, resale, pledge or transfer of the New Ordinary Shares.

2.6.3 *US transfer restrictions in respect of shares not taken up in the Rights Issue*

Any person within the United States that subscribes for any New Ordinary Shares that were not taken up in the Rights Issue must meet certain requirements and will be deemed to have represented, acknowledged and agreed that it has received a copy of this document and such other information as it deems necessary to make an investment decision and to have further represented, acknowledged and agreed as follows (terms defined in Rule 144A or Regulation S shall have the same meaning in this section):

- (a) It is a QIB and, if it is subscribing for or acquiring the New Ordinary Shares as a fiduciary or agent for one or more investor accounts, each such account is a QIB.
- (b) It is aware, and each beneficial owner of the New Ordinary Shares has been advised, that the New Ordinary Shares have not been, and will not be, registered under the Securities Act, and that the offer and sale to it (or such beneficial owner) is being made in a transaction not involving a public offering exempt from registration under the Securities Act.

- (c) It is acquiring the New Ordinary Shares for its own account or for the account of a QIB as to which it has full investment discretion (and it has full power and authority to make, and does make, the acknowledgments, representations and agreements herein on behalf of each owner of such account), in each case for investment purposes and not with a view to, or for offer of sale in connection with, any distribution (within the meaning of the United States securities laws) thereof.
- (d) It has made its own assessment concerning the relevant tax, legal, and other economic considerations relevant to its investment in the New Ordinary Shares. It will base its investment decision solely on this document, including the information incorporated by reference herein. It acknowledges that none of the Company, any of its affiliates or any other person (including any of the Underwriters or any of their respective affiliates) has made any representations, express or implied, to it with respect to the Company, the Rights Issue, the New Ordinary Shares or the accuracy, completeness or adequacy of any financial or other information concerning the Company, the Rights Issue or the New Ordinary Shares, other than (in the case of the Company and its affiliates only) the information contained or incorporated by reference in this document. It acknowledges and agrees that it will not hold the Underwriters or any of their affiliates or any person acting on their behalf responsible or liable for any misstatements in or omissions from any publicly available information relating to the Company. It acknowledges that it has not relied on any investigation that the Underwriters or any person acting on their behalf may or may not have conducted, nor any information contained in any research reports prepared by the Underwriters or any of their respective affiliates, and it has relied solely on its own judgment, examination and due diligence of the Company, and the terms of the transaction, including the merits and risks involved, and not upon any view expressed by or information provided by, or on behalf of, the Underwriters or any of their affiliates. It acknowledges that it has read and agreed to the matters set forth under paragraph 2.6 of this Part IV.
- (e) It is aware that the New Ordinary Shares will be “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.
- (f) It is aware that the New Ordinary Shares may not be deposited, and it agrees that it shall not deposit any New Ordinary Shares, into any unrestricted depositary facility and that the New Ordinary Shares may not settle or trade, and it agrees that it shall not settle or trade such New Ordinary Shares, through the facilities of The Depositary Trust Company or any other U.S. exchange or clearing system, unless at the time of deposit, settlement or trading such New Ordinary Shares are no longer “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.
- (g) It will not reoffer, resell, pledge or otherwise transfer the New Ordinary Shares except (i) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S, or (ii) to another QIB in compliance with Rule 144A; or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 or any other exemption from the registration requirements of the Securities Act, subject to its delivery to the Company of an opinion of counsel (and of such other evidence that the Company may reasonably require) that such transfer or sale is in compliance with the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States. It understands that no representation has been made as to the availability of Rule 144 of the Securities Act or any other exemption under the Securities Act or any state securities laws for the offer, resale, pledge or transfer of the securities.
- (h) It understands, and each beneficial owner understands, that the Company does not intend to file a registration statement in respect of the New Ordinary Shares.
- (i) It is an institution, and it, and each other QIB, if any, for whose account it is acquiring the New Ordinary Shares, in the normal course of business invest in or purchase securities similar to the New Ordinary Shares, (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the risks of an investment in the New Ordinary Shares, and (ii) has the financial stability to bear the economic

risk, and sustain a complete loss, of such investment in the New Ordinary Shares for an indefinite period of time and adequate means for providing for current needs and possible contingencies. It agrees that it will not look to any of the Underwriters or any of their affiliates for all or part of any loss it may suffer.

- (j) It is not subscribing for or acquiring the New Ordinary Shares as a result of any general solicitation or general advertising (as those terms are defined in Regulation D under the Securities Act), including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over the radio or television or any seminar or meeting whose attendees have been invited by general solicitation or general advertising or directed selling efforts (as that term is defined in Regulation S).
- (k) It acknowledges that, to the extent the New Ordinary Shares are delivered in certificated form, the certificate delivered in respect of the New Ordinary Shares will bear a legend substantially to the following effect for so long as the securities are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act:

THE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (B) TO A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN AND IN COMPLIANCE WITH RULE 144A; OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL (AND OF SUCH OTHER EVIDENCE THAT THE COMPANY MAY REASONABLY REQUIRE) THAT SUCH TRANSFER OR SALE IS IN COMPLIANCE WITH THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE SHARES REPRESENTED HEREBY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF THESE SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

It will notify any person to whom it subsequently reoffers, resells, pledges or otherwise transfers the New Ordinary Shares of the foregoing restrictions on transfer.

- (l) It acknowledges and agrees that the Company shall not have any obligation to recognise any offer, resale, pledge or other transfer made other than in compliance with the restrictions on transfer set forth and described in this section and that the Company may make notations on its records or give instructions to any transfer agent of the New Ordinary Shares in order to implement such restrictions.
- (m) It acknowledges and agrees that the Company, its affiliates, the Underwriters, their respective affiliates, the Registrar and others will rely upon the truth and accuracy of the foregoing warranties, acknowledgements, representations and agreements. It agrees that if any of the representations, warranties, agreements and acknowledgements deemed to be made cease to be accurate, it shall promptly notify the Company and the Underwriters.

Prospective purchasers are hereby notified that sellers of the New Ordinary Shares may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

2.6.4 Australia, Canada, China, Hong Kong, Japan and South Africa

Due to restrictions under the securities laws of the Excluded Territories, and subject to certain exceptions, no Provisional Allotment Letters will be sent to, and no Nil Paid Rights or Fully Paid Rights will be credited to a stock account in CREST of, persons with registered addresses in the Excluded Territories and the Nil Paid Rights to which they are entitled will be sold if possible in accordance with the provisions of paragraph 2.3 above. Subject to certain exceptions, the Provisional Allotment Letters, the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be transferred or sold to, or renounced or delivered in, the Excluded Territories. No offer of New Ordinary Shares is being made by virtue of this document or the Provisional Allotment Letters into the Excluded Territories.

2.6.5 Overseas territories other than the United States and the Excluded Territories

Provisional Allotment Letters will be posted to Qualifying non-CREST Shareholder and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying CREST Shareholders. Such Qualifying Shareholders may, subject to the laws of the relevant jurisdictions, participate in the Rights Issue in accordance with the instructions set out in this document and, if relevant, the applicable Provisional Allotment Letter. In cases where Overseas Shareholders do not take up Nil Paid Rights, their entitlements will be sold if possible in accordance with the provisions of paragraph 2.3 above.

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlement.

2.6.6 Representations and warranties relating to Overseas Shareholders

(a) Qualifying non-CREST Shareholders

Any person accepting and/or renouncing a Provisional Allotment Letter or requesting registration of the New Ordinary Shares comprised therein represents and warrants to the Company and each of the Underwriters that, except where proof has been provided to the Company's satisfaction that such person's use of the Provisional Allotment Letter or the effecting of the instruction will not result in the contravention of any applicable legal or regulatory requirement in any jurisdiction, (i) such person is not accepting and/or renouncing the Provisional Allotment Letter, requesting registration of the relevant New Ordinary Shares or giving such instruction, from within the United States or any of the Excluded Territories; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Ordinary Shares or to use the Provisional Allotment Letter in any manner in which such person has used or will use it or to give such instructions; (iii) such person is not acting on a non-discretionary basis for, or on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept, renounce or deal was given; and (iv) such person is not acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares into the United States or any Excluded Territory or any territory referred to in (ii) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Ordinary Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter if it (x) appears to the Company to have been executed in or despatched from the United States or any Excluded Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if it believes the same may violate any applicable legal or regulatory requirement; (y) provides an address in the United States or any Excluded Territory (or any

jurisdiction outside the UK in which it would be unlawful to deliver share certificates or sales advice); or (z) purports to exclude the warranty required by this paragraph 2.6.6(a).

(b) **Qualifying CREST Shareholders**

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part IV represents and warrants to the Company and each of the Underwriters that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction, (i) he is not within the United States or any of the Excluded Territories; (ii) he is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Ordinary Shares; (iii) he is not accepting on a non-discretionary basis for, or on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) he is not acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares into the United States or any Excluded Territory.

The provisions of this paragraph 2.6.6 and any other terms of the Rights Issue relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders(s) or on a general basis by the Company and the Underwriters in their absolute discretion. Subject to this, the provisions of this paragraph 2.6.6 supersede any terms of the Rights Issue inconsistent herewith. References in this paragraph 2.6.6 to Shareholders shall include references to the person or persons executing a Provisional Allotment Letter and, in the event of more than one person executing a Provisional Allotment Letter, the provisions of this paragraph 2.6.6 shall apply to them jointly and to each of them.

2.7 Structure of the Rights Issue

The Rights Issue has been structured in a way that is expected to have the effect of providing the Company with the ability to realise distributable reserves approximately equal to the proceeds of the Rights Issue less the nominal value of the New Ordinary Shares issued by the Company.

The Company and J.P. Morgan Cazenove have agreed to subscribe for ordinary shares in JerseyCo. J.P. Morgan Cazenove will apply the proceeds of issue received from Qualifying Shareholders and renouncees and from acquirers of New Ordinary Shares not taken up by Qualifying Shareholders and renouncees under the Rights Issue (less any premium above the Issue Price) to subscribe for redeemable preference shares in JerseyCo.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for J.P. Morgan Cazenove transferring its holdings of ordinary shares and redeemable preference shares in JerseyCo to the Company. Accordingly, instead of receiving cash consideration for the issue of the New Ordinary Shares, the Company will (following completion of the Rights Issue) own the entire issued share capital of JerseyCo, whose only asset will be the cash reserves representing an amount equal to the net proceeds of the Rights Issue. The Company should be able to access those funds by redeeming the redeemable preference shares it holds in JerseyCo or, alternatively, during any interim period prior to redemption, by procuring that JerseyCo lends the amount to the Company. The ability to realise distributable reserves in the Company will facilitate servicing distributions to Shareholders made by the Company in the future.

Accordingly, by taking up New Ordinary Shares under the Rights Issue and submitting a valid payment in respect thereof, a Qualifying Shareholder or other person taking up the Rights under the Rights Issue instructs the Receiving Agent (i) to the extent of a successful application under the Rights Issue, to apply such payment on behalf of J.P. Morgan Cazenove solely to subscribe for redeemable preference shares in JerseyCo and (ii) to the extent of an unsuccessful application under the Rights Issue, to return the relevant payment without interest to the applicant.

2.8 **Times and dates**

The Company shall (in consultation with the Underwriters but otherwise in its discretion) be entitled to amend the dates that the Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence or amend or extend the latest date for acceptance or instruction under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UKLA, and make an announcement on a Regulatory Information Service approved by the UKLA. **In the event that such an announcement is made, Qualifying Shareholders may not receive any further written communication in respect of such amendment or extension of the dates included in this document.**

If a supplementary prospectus is issued by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Rights Issue specified in this document (or such later date as may be agreed between the Company and the Underwriters), the latest date for acceptance or instruction under the Rights Issue shall be extended to the date that is three Business Days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

2.9 **Governing law**

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letters and any non-contractual obligations arising out of or in relation to the Rights Issue shall be governed by, and construed in accordance with, English law.

2.10 **Jurisdiction**

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Rights Issue, this document or the Provisional Allotment Letters (including any dispute relating to any non-contractual obligations arising out of or in connection with them). By accepting rights under the Rights Issue in accordance with the instructions set out in this document and (in the case of Qualifying non-CREST Shareholder only) the Provisional Allotment Letter, Shareholders and any other person who participates in the Rights Issue irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART V INFORMATION ON THE BABCOCK GROUP

The following information should be read in conjunction with the information appearing elsewhere in, or incorporated by reference in, this document, including the financial and other information in, or incorporated by reference in, Part VII (Operating and Financial Review of the Babcock Group) and Part IX (Historical Financial Information Relating to the Babcock Group).

1. INTRODUCTION

Babcock is the UK's leading engineering support services company with customers in the UK and overseas in the defence, energy, emergency services, transport, education, communications, mining and construction sectors. Its customers are mainly central and local governments, regulated bodies, and blue chip companies operating in highly regulated sectors, who own or operate strategically important assets requiring long-term maintenance and upgrade. In the 2013 Financial Year, the Babcock Group generated underlying revenue of £3.2 billion and employed approximately 26,000 staff worldwide across its four divisions: Marine and Technology, Defence and Security, Support Services and International.

2. HISTORY AND DEVELOPMENT

The Company was floated on the London Stock Exchange in 1989 and is now the UK's leading engineering support services company. The Company entered the FTSE 100 index in June 2012.

The Group has its origins in the late 19th century in the development of a boiler making business, which was disposed of in the 1990s. Over the course of the 20th century it entered (and in some cases subsequently exited) a number of engineering-based, defence related and materials handling businesses.

Since 2001, Babcock has been pursuing its strategy of becoming a leading support services business focused on engineering services. Notable steps in the development of the Group's existing business include the following acquisitions:

- 1997: the acquisition of Rosyth Royal Dockyard on its privatisation;
- 2001: the acquisition of Hunting Defence Services, a defence support services business;
- 2002: the acquisition of Service Group International, an infrastructure support services business;
- 2004: the acquisition of the Peterhouse Group, including its rail, power transmission and telecommunications support businesses;
- between 2006 and 2009: the acquisition of several nuclear support businesses including Alstec Group Limited (May 2006), International Nuclear Solutions PLC (January 2007), Strachan and Henshaw Ltd (April 2008) and UKAEA Limited (September 2009) (which latter included the nuclear site licensee companies Dounreay Site Restoration Limited (now held by Cavendish Dounreay Partnership LLP and Research Sites Restoration Limited);
- 2007: the acquisition of Devonport Management Limited, entailing the acquisition of Devonport Royal Dockyard;
- 2008: the acquisition of Strachan and Henshaw Limited which, in addition to its nuclear engineering support services business, included a defence equipment and technology support services business; and
- most notably, in July 2010: the acquisition of VT Group plc for £1.3 billion, an international support services company, which further advanced Babcock's strategy to become the UK's leading engineering support services company by combining two highly complementary businesses to create a business with increased scale and capabilities in its core markets.

Following the acquisition of VT Group plc, Babcock undertook a strategic review of all the business units acquired and the VT Services Inc business was identified as non-core. As a result that business was sold in July 2012.

Since the major acquisition of VT Group plc, there have been a number of further smaller acquisitions that have added to, extended and complemented the core business of the Group, including:

- the acquisition of LGE Process for £25.2 million in December 2012. Based in Edinburgh, LGE Process designs and builds plants for processing, storage and handling of liquid gasses and is a leader in the supply of these solutions to the marine and onshore liquid gas sectors;
- the acquisition of Conbras Engenharia Ltda in July 2013 for £22.6 million, including a maximum of £4.4 million deferred consideration and earn out. Conbras Engenharia is a Brazilian company operating in the public and private sector facilities management sector in Brazil;
- the acquisition of Skills2Learn for approximately £5 million in December 2013. Skills2Learn specialises in the delivery of virtual reality and e-learning based training and will enable Babcock's Skills and Learning business to offer customers a broader range of innovative training solutions;
- the acquisition of Context Information Security ("ContextIS") for £28 million plus deferred consideration of £4 million in December 2013. ContextIS provides specialist technical consultancy services in the cyber security sector; and
- the acquisition of National Training Institute ("NTI") in Oman for approximately £12 million in January 2014. NTI provides training solutions for customers in the energy, oil and gas and construction sectors across the Middle East and combined with Babcock's UK training expertise will provide a strong base from which to expand in the region.

3. BUSINESS OVERVIEW

Babcock International Group PLC is the parent company of the Babcock Group. Babcock's business is organised through four divisions: Marine and Technology, Defence and Security, Support Services and International.

In the financial year ended 31 March 2013, 55 per cent. of the Babcock Group's revenue was attributable to the UK Ministry of Defence contracts, 7 per cent. was to international defence customers and the remaining 38 per cent. was to civil customers.

A full list of Babcock's principal subsidiary and associated undertakings which are considered by Babcock to be likely to have a significant effect on the assessment of the assets, liabilities, the financial position and/or the profits and losses of Babcock, is set out in paragraph 11 of this Part V (*Information on the Babcock Group*) below.

3.1 Marine and Technology

The Marine and Technology division operates a wide range of strategic shore-based naval support facilities and provides through-life services, engineering support and deep maintenance to the Royal Navy's major warships and nuclear-powered submarines, as well as providing services to customers in commercial markets in the UK and overseas.

Building on its expertise in the UK naval support sector, the division continues to enhance its international presence, providing engineering support and programme management for submarine and surface ship fleets in countries such as Canada, Australia and New Zealand. In other overseas markets, the division is providing design and build support for weapons handling and launch systems for the submarine programmes in South Korea and Spain.

It is also utilising its core capabilities and skills to increase its footprint in the commercial marine and offshore energy sectors where the division is able to provide design and build expertise as well through-life support for high integrity, complex marine assets and infrastructures.

Submarines

As the Royal Navy's strategic support partner, the Babcock Group is the lead support provider of both deep and in-service maintenance, including refuelling and defueling activities, as well as infrastructure support for the UK fleet of nuclear powered submarines. In addition, through the Submarine Enterprise Performance Programme, a partnership between Babcock, the MoD, BAE Systems and Rolls Royce, Babcock works to ensure maximum availability for the submarine fleet. These activities are undertaken at Babcock's Devonport facility and at HMNB Clyde, where Babcock is responsible for the delivery of services.

In Canada, since 2008, Babcock has been delivering the Victoria In-Service Support Contract (VISSC) to support the Canadian Navy's fleet of four submarines. In Australia, Babcock continues to have a role as through-life support partner for the weapons handling and launch systems on the Collins class of submarines and in 2013 was awarded a key role in the Future Submarine Project IPT.

Surface warships

The Babcock Group undertakes a significant proportion of the deep maintenance and in-service refits and support for the UK surface ship fleet. Babcock is a Tier 1 partner to the MoD within the UK's Surface Ship Support Alliance (SSSA). This alliance covers all current and future classes of warships, including Type 45 Destroyers and the new Type 26 Global Combat Ships and Queen Elizabeth Aircraft Carriers (QEC). Babcock is also a member of the Aircraft Carrier Alliance (ACA), which is an alliance between the MoD and industry created to transform the delivery of large scale projects such as the QEC programme. Babcock has a key role in the QEC programme. It has been responsible for significant elements of the design, the build of a number of the sections and the final assembly and integration of the two vessels at its facility in Rosyth.

In addition to building a number of the sections for the QEC programme, its facility in Appledore, North Devon is fabricating and building two Offshore Patrol Vessels for the Irish Navy.

In Australia, Babcock won its first surface ship support contract in 2012 in partnership with UGL Infrastructure Pty Ltd, to provide support to the Australian Navy's fleet of eight ANZAC class frigates.

Naval infrastructure

The Babcock Group has ownership or operational control of key naval infrastructure, across the UK, essential for deep maintenance and in-service support activities undertaken for the Royal Navy, including the Queen Elizabeth Class dock at Rosyth, the syncrolift and Astute jetty at HMNB Clyde and the ballistic nuclear submarine refitting facility, the submarine refit complex, landing craft facilities and frigate refit complex at Devonport.

The Babcock Group has worked with the MoD at HMNB Devonport since 2007 and HMNB Clyde over the last 10 years delivering cost reductions and service improvements. As an experienced nuclear site operator, the Babcock Group also works with its customer to maximise fleet-time engineering support, waterfront support services, estates and facilities management and logistics and transport services. These services are principally delivered through two Warship Support Modernisation Initiative (WSMI) contracts. The Babcock Group is currently in discussions with the MoD regarding a successor to these contracts and is currently working on the basis of interim arrangements until the new contract is agreed.

Babcock, in partnership with AWE and Lockheed Martin, is responsible for the management of strategic weapons services at RNAD Coulport. This 15 year contract was awarded in July 2012.

Commercial

The Babcock Group supplies high integrity, long term and complex through-life engineering solutions to customers within the offshore energy and marine engineering support services sectors, such as a £30 million contract with BP to deliver over 70 subsea structures for its Schiehallion and Loyal developments west of Shetland. Following the acquisition of LGE Process in January 2013, Babcock has a growing presence in the marine and onshore liquid gas sectors, where it offers design and installation of mechanical, electrical and chemical process equipment for ships, oil and gas platforms and onshore support facilities.

Technology

As an international provider of specialised equipment, systems, full lifecycle engineering support and consultancy services the Babcock Group delivers:

- complex equipment design, development, supply and through-life support or operation; and
- technical engineering and management services which includes:
 - engineering asset management and supply chain services;
 - engineering design, naval architecture and management services;
 - specialist systems design, production and through-life support/operation;

- systems engineering and specialist analysis; and
- information management /analytics and collaborative working environments.

The Technology business has three consultancy businesses: Frazer Nash, a multidisciplinary engineering consultancy; LSC, a technical consulting and IT company; and ContextIS, a specialist in the cyber security sector, all operating under their own brand names.

For further information in respect of the Marine and Technology division, please see the information in the relevant paragraphs under the “Marine and Technology” sub-section of the “Operating review” sections of Babcock’s Half Year Report 2013/14, Annual Report 2013 and Annual Report 2012 that are incorporated by reference into this document in Part XV (*Documents Incorporated by Reference*) of this document.

3.2 **Defence and Security**

The Defence and Security division is a leading support provider to all three UK armed forces delivering asset, infrastructure and training support. It supports c.17,000 military vehicles, including the MoD’s white fleet and the UK Army’s construction vehicle fleet and provides integrated facilities management to the MoD estate in the UK and Germany. The division is the largest training support provider to the MoD offering expertise in engineering, artisan trades, flight and naval training.

Air

The Babcock Group delivers airfield, operational and engineering support and military aircraft availability to the RAF and manages and supports over 25 per cent. of all MoD rotary and fixed wing aircraft. Babcock also plays a key role in the Future Strategic Tanker Aircraft (FSTA) programme. For example, it was responsible for the delivery of the new Main Operating Base facilities and now provides support to the communications and information systems as part of the through-life service until 2035.

The Babcock Group supports the MoD’s Flying Training at the Elementary, Basic and Advanced stages, and is now also supporting the first training packages in the RAF’s Advanced Jet Training and Rear Crew Training under the UK Military Flying Training System (UKMFTS) programme. In addition, Babcock maintains and operates simulators used for aircraft and fighter controller training for the Royal Navy, Royal Fleet Auxiliary and overseas navies.

The Babcock Group also provides technical support and supply chain management to the RAF through integrated operational fleet support and air base operational support contracts.

Infrastructure

The Babcock Group works with defence sector customers, delivering a range of property-related services which help customers to optimise the performance of their built estate. With its joint venture partners, the Babcock Group delivers integrated facilities management to the MoD in the UK through its two regional prime contracts, Regional Prime East and Regional Prime South West. Babcock is also responsible for the management of the British Forces Germany estate.

Babcock has pre-qualified to tender for six of the “next generation estate contracts” (NGEC) opportunities. Bids have been submitted and decisions on contract awards are currently expected in May/June 2014.

Land and Sea

The Babcock Group provides equipment support, vehicle fleet management and military training to the British Army, and manages and supports approximately 30 per cent. of the MoD’s vehicle inventory and is a leading provider of training services to the MoD.

As a leading supplier of complex, dispersed fleet management, Babcock provides management of and continuity of service for over 14,000 vehicles in the MoD’s white fleet through its Phoenix contract awarded in 2011. Further fleet management experience is demonstrated through the ALC joint venture contract with Amey plc to provide and manage the MoD’s fleet of construction vehicles worldwide and also through the Allenby Connaught programme to provide maintenance and fleet management for the MoD’s green fleet. Babcock is also responsible for managing and supporting over 500 armoured and support vehicles that make up the British Army’s training fleets.

Babcock is the largest private sector provider of military training to all three armed forces in the UK. For over 10 years Babcock has provided training to the Royal Electrical and Mechanical Engineers at the Defence School of Electronic and Mechanical Engineering and the Engineering Command and Leadership Wing at Arborfield and the Defence School of Electronic and Mechanical Engineering at Bordon. At the Armour Centre, Bovington, Babcock manages and operates the Army's main armoured training facility and since 2008, Babcock has been delivering technical, trade and professional training and education for all Royal Engineers, and other parts of the armed services, at the Royal School of Military Engineering.

For the Royal Navy, Babcock delivers a range of courses, training design and support covering areas such as weapon engineering, damage control, chemical, biological, radiological and nuclear training, sea survival and seamanship as well as Phase 1 initial training for ratings and officers. At three sites across the UK, Babcock delivers fire fighting training for the Royal Navy, other overseas navies and the UK fire services.

For further information in respect of the Defence and Security division, please see the information in the relevant paragraphs under the "Defence and Security" sub-section of the "Operating review" sections of Babcock's Half Year Report 2013/14, Annual Report 2013 and Annual Report 2012 that are incorporated by reference into this document in Part XV (*Documents Incorporated by Reference*) of this document.

3.3 Support Services

The Support Services division has well-established positions across several sectors. The division has three core capabilities: it manages critical assets, delivers complex programmes and provides training for civil government and blue-chip commercial organisations. It is one of the UK's largest private sector training providers and is a leader in the management of critical assets, including vehicle and equipment fleets, global broadcast infrastructure, high-voltage power networks and baggage handling systems. Its reputation for delivering complex programmes extends to the nuclear industry, where its subsidiary, Cavendish Nuclear, delivers decommissioning, new build and power generation support and has the largest nuclear skilled workforce in the UK. The Babcock Group is also one of the UK's largest conventional rail track renewals companies.

The division's customer base spans the energy, transport, mobile communications, education and local government sectors. Its customers include the Metropolitan Police Service, the BBC, National Grid, Heathrow Airport, BMW, Network Rail and several local authorities.

Cavendish Nuclear

Babcock's wholly owned subsidiary, Cavendish Nuclear, is one of the UK's largest nuclear engineering companies providing specialist services to the nuclear industry in the UK and overseas. With offices and sites in the UK, France, Canada and Japan, Cavendish Nuclear offers expertise across all aspects of the nuclear energy life cycle.

In support of the UK's current fleet of nuclear power stations, Cavendish Nuclear is a strategic partner to EDF Energy, working with them on their lifetime extension programme. In the nuclear new build sector, Cavendish Nuclear is working with Hitachi on its programme to deliver a new fleet of nuclear power plants at their sites in Wylfa, on Anglesey, and at Oldbury in Dorset. Cavendish Nuclear is also bidding for work on EDF's new build stations at Hinckley Point.

In the nuclear decommissioning sector, Cavendish Nuclear's expertise is in the management and delivery of complex dismantling, clean-up and remedial tasks. In 2012, Cavendish Nuclear, in partnership with CH2MHill and URS, was awarded the contract and appointed as the Parent Body Organisation to decommission and return to its interim end state the UK's former fast reactor research and development centre at Dounreay. At Sellafield, Cavendish Nuclear undertakes decommissioning activities based on its expertise in the design and build of waste treatment facilities, waste management and fuel handling. The Babcock Group also provides nuclear site management at Harwell and Winfrith through Research Site Restoration Limited ("**RSRL**"). Cavendish Nuclear is currently bidding in partnership with Fluor for the Parent Body Organisation contract for the decommissioning of the Magnox and RSRL sites, a decision on which is expected around the end of March 2014.

Critical Services

This business unit provides through-life fleet and asset management services to a range of customers in the resilience and emergency services, airports, and mining and construction sectors.

For customers in the airports sector, Babcock designs, installs and manages complex baggage handling systems, for example for Heathrow Airports Limited. For British Airways at London's Heathrow airport it also manages the engineering support for its specialist ground support vehicles.

Babcock is one of the largest providers of support services to the UK's emergency services sector, managing vehicles, equipment and facilities on behalf of the Metropolitan Police Service, the London Fire Brigade, the Highways Agency and Associated British Ports. The business also delivers civil contingency and resilience services for the National Fire and Rescue Services through its New Dimensions contract.

In September 2011, Babcock entered the mining and construction sector, winning its first management and maintenance contract for the heavy mobile equipment of Lafarge, the construction materials company. This contract has been extended from the UK into North America and Babcock continues to discuss further opportunities for expanding its offering into new geographies for Lafarge and to other companies in the sector.

Integrated Services

Through the Integrated Services business unit, Babcock's Support Services division provides integrated school improvement services and infrastructure and property related services to customers in the UK. The business is also responsible for the delivery of audio and video content for a number of broadcasters, including delivery of the BBC's World Service.

The business unit is also responsible for the Conbras business in Brazil, acquired in 2013, which delivers integrated facilities management services to customers in sectors which include financial services, energy and utilities and health care.

Network Engineering

Babcock undertakes infrastructure projects for customers operating in the highly regulated power, rail and communications infrastructure industries. For example, Babcock designs, builds, operates and maintains infrastructure for the mobile communication network in the UK. In addition, Babcock operates in the high-voltage electricity transmission and distribution sector in the UK providing design, construction, maintenance and upgrade capabilities.

In the rail infrastructure sector Babcock is a leading player and the largest conventional track renewals company in the UK. Key activities comprise traditional track renewal, signalling and control system installation and telecommunications system installation. Through its ABC joint venture with Alstom and Costain, Babcock has recently been awarded two contracts for the overhead line electrification of two regions in Network Rail's £2 billion investment programme.

Skills and Learning

Babcock is one of the largest private sector provider of vocational training in the UK. It delivers a range of training services to customers in the automotive, transport, energy and service sectors including BMW, VW Group, Network Rail and EDF.

For further information in respect of the Support Services division, please see the information in the relevant paragraphs under the "Support Services" sub-section of the "Operating review" sections of Babcock's Half Year Report 2013/14, Annual Report 2013 and Annual Report 2012 that are incorporated by reference into this document in Part XV (*Documents Incorporated by Reference*) of this document.

3.4 International

In Africa, the International division is a leading supplier of engineering support services to the energy, mining and construction industries in South Africa. It is responsible for the construction, erection and

maintenance of high-voltage power lines and provides engineering support to the power stations of Eskom, South Africa's power utility company. Since 2000, the division has been the exclusive distributor for Volvo construction equipment in South Africa, and is developing its dealership network for DAF Trucks. Having recently established an office in Mozambique in connection with its activities for Volvo, Babcock now has branches across South Africa, Mozambique and Zambia and is supporting other independent dealerships in South Africa, Botswana, Namibia and Swaziland. The division also has a growing crane and plant hire business, providing cranes and plant for major infrastructure and construction programmes.

In Oman, the division provides military flight maintenance and support to the Royal Oman Air Force.

For further information in respect of the International division, please see the information in the relevant paragraphs under the "International" sub-section of the "Operating review" sections of Babcock's Half Year Report 2013/14, Annual Report 2013 and Annual Report 2012 that are incorporated by reference into this document in Part XV (*Documents Incorporated by Reference*) of this document.

4. **STRATEGY**

Babcock is the UK's leading engineering support services company. Its objective is to grow from this position in both the UK and overseas as well as to deliver superior and sustainable value for its shareholders. Babcock aims to achieve this strategy by creating and growing a balanced portfolio of businesses that:

- work for governments, public sector organisations, regulated bodies and blue-chip companies;
- provide technical services that are critical, complex and bespoke;
- have long-term integrated output or availability contracts, balancing risk and reward;
- are customer-focused and work collaboratively;
- are, or are capable of becoming, top three in their marketplace; and
- have a strong health and safety focus.

5. **COMPETITIVE ENVIRONMENT**

In most of its principal activities and geographic areas of operation, Babcock experiences competition from large international and national companies. Babcock's competitors vary by division and business unit, although some competitors span more than one division. It has four main competitor groupings: defence OEMs; construction and facilities management companies; support services generalists and international engineering, procurement and construction companies. The Babcock Board believes that the Babcock Group has a strong competitive position and that this is a result of the combination of: a strong customer focus; empathy and alignment with customers' objectives; long-term integrated output or availability contracts; the depth and breadth of its engineering capabilities; its strong market position and its know-how, assets and capabilities.

6. **PROPERTY**

6.1 Babcock's principal facilities are located at the Rosyth and Devonport dockyards.

The Rosyth site is owned by the Company's subsidiary, Rosyth Royal Dockyard Limited ("**RRDL**"), and operated by Babcock Marine (Rosyth) Limited. At the Rosyth site the Babcock Group is engaged in (i) the fabrication and assembly of the Queen Elizabeth Class aircraft carriers, (ii) the operation of nuclear facilities for the MoD, (iii) the storage of laid up submarines, (iv) other engineering services and (v) dockyard port operations.

Devonport Royal Dockyard is owned by the Company's subsidiary, Devonport Royal Dockyard Ltd ("**DRDL**"), and is located next to HMNB Devonport, a major operational naval base that is owned by the MoD, for which the Babcock Group provides a range of engineering and logistic services. The Devonport site is the only UK facility equipped for the refitting, refuelling and defuelling of Royal Navy nuclear-powered submarines and it also has a number of docks equipped for the docking and deep

maintenance of major surface warships. Supported by a wide range of engineering workshops, it carries out (i) refits and dockings on nuclear powered submarines, (ii) defuelling and de-equipping of end-of-life nuclear-powered submarines, (iii) refits and dockings of major surface warships and smaller surface craft, (iv) the supply and overhaul of marine equipment and related systems, (v) other manufacturing and assembly activities on military and commercial equipment, and (vi) complex infrastructure and facility operations and upgrades.

The articles of association of RRDL and DRDL 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 per cent. 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.

6.2 The material properties owned by the Babcock Group are as follows:

Location	Description and Tenure	Use	Building/site use area
Rosyth Royal Dockyard and Rosyth Business Park, Rosyth, Scotland	Dockyard, Dockyard Port and Business Park (Freehold)	Maintenance and construction of surface warships Fabrication and assembly of the Queen Elizabeth Class aircraft carriers Storage of laid up nuclear-powered submarines Engineering workshops, business park Dockyard port operations	Approximately 1,218,104 square metres
Devonport Royal Dockyard, Plymouth, England	Dockyard, Dockyard Port (Freehold)	Maintenance of nuclear powered submarines and surface warships Engineering workshops, storage and staff parking	Approximately 905,278 square metres

6.3 As disclosed in paragraph 6.2 above, the existing or planned material tangible fixed assets owned or leased by the Babcock Group are those assets incorporated in the infrastructure or operation of the two principal dockyards.

The net book value of the tangible fixed assets of the Babcock Group as at 31 March 2013 was £248.9 million.

7. **CONTRACTS, PATENTS AND LICENCES**

7.1 **Contracts**

The majority of the Babcock Group's revenue comes, directly or indirectly, from UK government customers, particularly the Ministry of Defence, and other UK public sector bodies and agencies, through various contracts across different businesses, which together are essential to the business of the Babcock Group as a whole, as are its borrowing facilities with banks and other lenders.

7.2 **Patents and Licences**

The Babcock Group owns an intellectual property portfolio which includes a number of UK and foreign patents, as well as unpatented know-how, trademarks and copyrights, all of which contribute to the preservation of the Babcock Group's competitive position in the market place. Babcock does not believe that the loss of any patent would have a material adverse effect on its business, financial condition or operating results.

8. **REGULATION**

The Babcock Group is subject to various laws and regulations that are relevant to the industries in which it operates in the UK, South Africa, Canada, Australia and other jurisdictions in which it operates its business. These include restrictions on the sale, export and sharing of technology and the disclosure of information (particularly in respect of its Marine and Technology and Defence and Security divisions), and health and safety and environmental laws and regulation across its business divisions.

The Babcock Group has a wide range of licences, permissions and other consents granted by various regulatory and other public bodies in connection with its business. These include licences to deal with radioactive and explosive substances, consents to discharge waste water and incinerate waste, licences for vehicles and export and import licences.

Some of the licences, permissions and other consents held by members of the Babcock Group apply generally to activities carried on by specific Babcock Group companies; others only apply to specific occurrences or activities on specified sites or by specified individuals. At any given time a number of applications will be in place to renew or replace existing licences, permissions and other consents and to obtain new licences, permissions and consents for other activities.

Babcock recognises that compliance with laws and regulations is vital for the success and regulation of its business and seeks to establish and maintain good working relationships with all regulatory and other public bodies with which it deals.

Nuclear Industry

The UK nuclear industry is subject to regulation by a number of independent regulators:

- the Office for Nuclear Regulation (the “**ONR**”) is currently part of the UK Health and Safety Executive (but from 1 April 2014 it will become a public corporation under the Energy Act 2013) and is responsible for the regulation of activities on nuclear licensed sites under, in particular, Health and Safety at Work legislation and the Nuclear Installations Act 1965 (the “**NIA**”). The ONR grants licences to operate nuclear licensed sites, and is also responsible for the security of civil nuclear sites and places requirements in relation to security, often under international agreements, on site operators.
- the UK Defence Nuclear Safety Regulator (the “**DNSR**”) who is accountable to the Secretary of State for Defence and authorises defence nuclear activities to be undertaken;
- the UK Environment Agency (the “**EA**”) regulates both radioactive and non-radioactive discharges to the environment from nuclear sites in England and Wales. The EA does so under the Environment Protection Act; and
- the Scottish Environment Protection Agency (the “**SEPA**”) holds similar responsibilities to the EA in Scotland.

On the civil nuclear side, the Babcock Group provides nuclear site management at Dounreay through Dounreay Site Restoration Limited (“**DSRL**”) and at Harwell and Winfrith through Research Site Restoration Limited (“**RSRL**”). Both DSRL and RSRL are site licence companies and are licensed to operate nuclear sites by the ONR.

On the defence nuclear side, the Babcock Group's nuclear activities at Devonport and Rosyth are licensed by the ONR. In addition, certain of the Babcock Group's activities at Devonport and its activities at Faslane (those activities relating to nuclear powered submarines) are licensed by the DNSR.

All the nuclear activities of the Babcock Group fall under the regulation of the EA or SEPA.

Under the NIA a site operator, such as the Babcock Group at Devonport and Rosyth, DSRL at Dounreay and RSRL at Harwell and Winfrith, is liable for the consequences of nuclear incidents on the site for which it holds a licence, regardless of fault. The Babcock Group's liability as site licence holder is capped at £140 million for each nuclear occurrence and claims may be brought against it up to 10 years after an occurrence. The site licence holder must maintain insurance to cover this potential liability. At Dounreay, Harwell and Winfrith, this insurance is maintained by the UK Nuclear Decommissioning Authority, the authority established by the Energy Act 2004 to manage the clean up of the UK's civil nuclear legacy. At Rosyth and Devonport, the Babcock Group relies on indemnities provided by the Ministry of Defence to cover its statutory liabilities. Claims above the £140 million cap are met by the UK government.

9. EMPLOYEES

In the 2013 Financial Year, the Babcock Group employed an average of 26,155 staff worldwide. In the 2012 Financial Year and the 2011 Financial Year, the Babcock Group employed an average of 27,277 and 27,588 staff worldwide, respectively.

The following table sets out the average number of staff employed by the Babcock Group by division in the 2011, 2012 and 2013 Financial Years.

	Financial Year		
	2011	2012	2013
Division			
Marine and Technology	8,836	9,137	9,576
Defence and Security	6,720	6,996	6,689
Support Services	8,038	7,621	7,866
International	1,382	1,386	1,379
Central functions	249	185	282
International discontinued	2,363	1,952	363
Total	27,588	27,277	26,155

The Babcock Group has recognition agreements with a number of trade unions including Unite, Prospect, GMB and the RMT. As at 31 March 2013, approximately 50 per cent. of the Babcock Group's employees worked for companies and/or sites which were covered by collective agreements with trade unions (although employees working in an environment covered by a collective agreement are not necessarily members of trade unions). The Babcock Directors believe that the Babcock Group has a good relationship with the trade unions.

10. INSURANCE

The Babcock Group maintains insurance coverage which is mostly negotiated on a Group-wide basis. Coverage includes employer's liability, workers compensation, property damage, business interruption, public and product liability and motor vehicle liabilities in all of the countries in which the Babcock Group operates. The Babcock Group has not made any material claims under any of its insurance policies in the last three years. For information on nuclear liability insurance, see paragraph 8 of this Part V (*Information on the Babcock Group*).

Taking into account the nature of the Babcock Group's business, the Babcock Board believes that the level of insurance for the Babcock Group is in line with industry standards, and that the Babcock Group is compliant with any contractual requirements for insurance cover imposed by customers, where applicable.

11. SIGNIFICANT SUBSIDIARIES

Babcock is the parent company of the Babcock Group.

The following is a list of the principal subsidiaries and associated undertakings of Babcock (each of which is considered by Babcock to be likely to have a significant effect on the assessment of the assets, liabilities, the financial position and/or the profits and losses of the Babcock Group) as at the Latest Practicable Date.

The businesses listed below operate principally in the country in which they are incorporated.

Name of subsidiary undertaking	Country of origin/ incorporation	Percentage holding of shares and voting rights (%)	Nature of business
Babcock Marine (Rosyth) Limited	Scotland	100	Trading company
Rosyth Royal Dockyard Limited	Scotland	99.999	Owner of Rosyth dockyard
Babcock Marine (Devonport) Limited	England and Wales	100	Trading company
Devonport Royal Dockyard Limited	England and Wales	99.999	Maintains Royal Navy ships and provides support services to naval base
Babcock Marine (Clyde) Limited	Scotland	100	Trading company
LSC Group Limited	England and Wales	100	Consultancy and project management
Frazer-Nash Consultancy Limited	England and Wales	100	Systems and engineering technology services
Appledore Shipbuilders (2004) Limited	England and Wales	100	Shipbuilding
Babcock (Pty) Limited	Australia	100	Engineering and maintenance support
Babcock Integrated Technology Limited	England and Wales	100	Design, supply and installation of specialist handling equipment
Air Power International Limited	Scotland	100	Compressed air management and support services
Babcock Support Services Limited	England and Wales	100	Support services and facilities management
Babcock Flagship Limited	England and Wales	100	Naval training services
Babcock Aerospace Limited	England and Wales	100	Airfield support services
Babcock Land Limited	England and Wales	100	Fleet management and training services
Babcock Land (Whitefleet Management) Limited	England and Wales	100	Contract management services
Cavendish Nuclear Limited	England and Wales	100	Engineering solutions and services
Babcock Airports Limited	England and Wales	100	Airport support services
Babcock Rail Limited	England and Wales	100	Rail infrastructure repair and maintenance
Babcock Networks Limited	England and Wales	100	Powerline erection and maintenance
Babcock Communications Limited	England and Wales	100	Communication services
Babcock Africa Services (Pty) Limited	South Africa	100	Equipment sales, hire and maintenance

Name of subsidiary undertaking	Country of origin/ incorporation	Percentage holding of shares and voting rights (%)	Nature of business
Holdfast Training Services Limited	England and Wales	74	Military training
ALC (Superholdco) Limited	England and Wales	50	PFI operator
Airtanker Limited	England and Wales	13.3	In-flight refuelling support
Ascent Flight Training (Holdings) Limited	England and Wales	50	Flight training
Cavendish Dounreay Partnership Limited	England and Wales	50	Nuclear site decommissioning

PART VI INFORMATION ON THE AVINCIS GROUP

1. INTRODUCTION

Avincis is a leading supplier of helicopter and fixed wing emergency services (medical, search and rescue (SAR), fire-fighting and civil protection) in Europe and Australia and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with a clear ambition to expand this service into the growing Norwegian and Australian offshore oil and gas sectors. Avincis operates through three business divisions:

- (a) ***Life and Rescue services***: emergency medical services and search and rescue missions;
- (b) ***Safety and Environmental services***: fire-fighting support, law enforcement, disaster intervention and maintenance services; and
- (c) ***Energy Support Services***: assistance to oil platform operations by transporting employees, provisions and meals to the platforms.

As of 31 December 2013, Avincis total fleet comprised 343 aircraft, operating from more than 200 operational bases and the average age of its on balance sheet aircraft, weighted by value, was approximately 9.3 years.

Avincis is headquartered in London and employs over 2,800 staff, including over 1,000 technicians and engineering staff.

2. HISTORY AND DEVELOPMENT

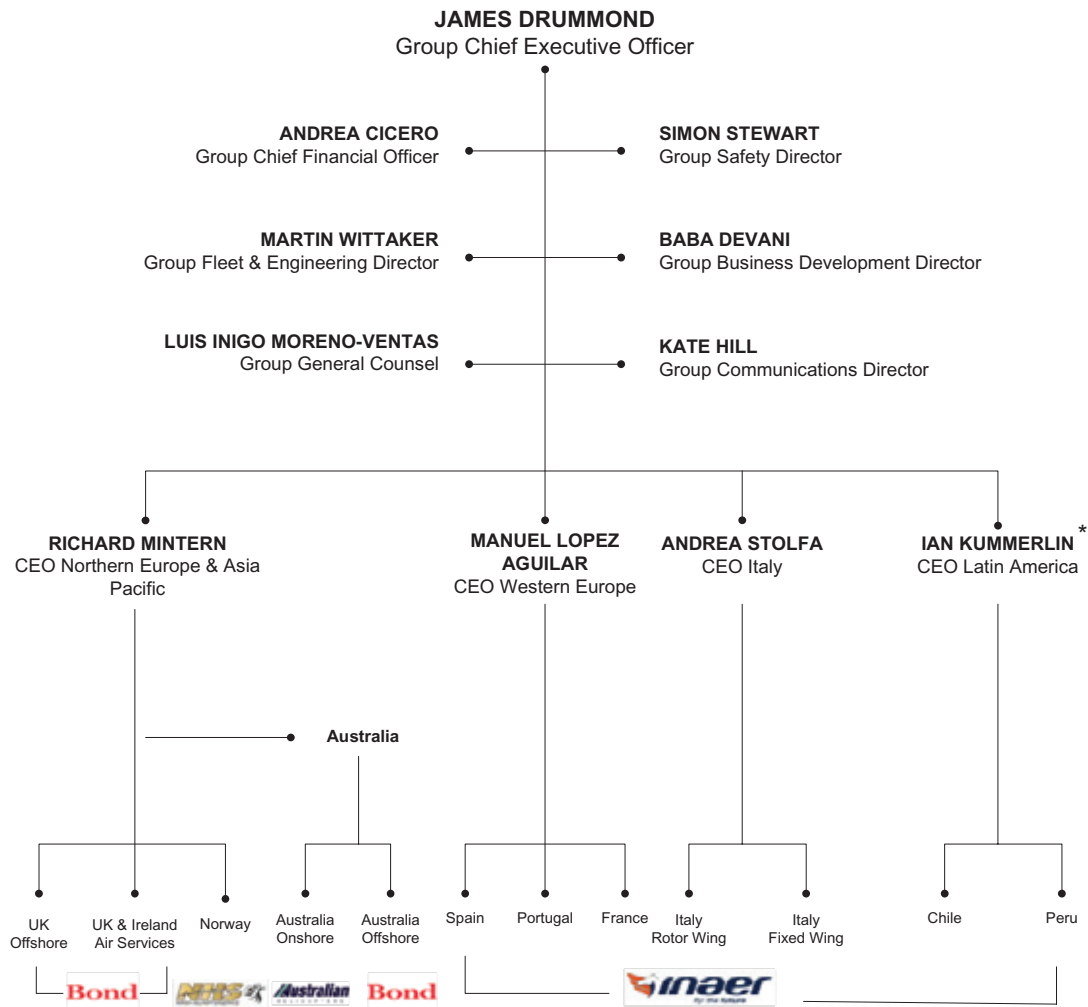
The origins of Avincis can be traced back to the incorporation of Helicsa Helicópteros, S.A., which began providing aerial works in 1965, oil and gas helicopter services in 1972 and maritime search and rescue in 1990 in Spain. In 2003, Helicsa Helicópteros, S.A. combined its operations with Helicópteros del Sureste, S.A., a company established in 1983 in Alicante, Spain to provide certain helicopter services to public administrations, to form the Inaer group. As a result of this business combination, Inaer became a leading company in the Spanish helicopter-based air services sector. Notable steps in the development of the Avincis Group since that time include:

- 2004: the group began its international expansion, incorporating Helisul in Portugal;
- 2005: World Helicopters (whose share capital at the time was owned by funds advised by companies of the Investindustrial group) purchased a majority stake in the Inaer group and contributed to the consolidation in the European mission-critical helicopter services sector both by reinforcing organic growth in the Spanish domestic sector and by implementing selective international bolt-on acquisitions in Italy, France and the UK;
- 2010: KKR Aviation Investor, a company owned by investment funds advised by KKR, acquired a 49.9 per cent. stake in the Inaer group. In the same year, the group acquired Australian Helicopters;
- 2011: the group expanded further through the acquisition of the Bond group in the UK, a leading provider of mission-critical and other essential helicopter services, Norsk Helikopterservice (NHS), a start-up business in Norway and started operations in Peru;
- 2012: the Avincis Group moved its headquarters to London and Avincis became the holding company for the group;
- 2013: the Avincis board approved the discontinuance of its Latin American business;
- 2014: Avincis Mission Critical Services Scandinavia AB entered into a conditional agreement to acquire an indirect interest of approximately 85 per cent. of Scandinavian AirAmbulance, which has operations in Sweden and Finland, for an initial cash consideration of SEK206.5 million with a further SEK84.2 million (subject to a completion adjustment) payable in two years' time. Completion of the acquisition remains subject to the satisfaction or waiver of a number of conditions, and there is no guarantee as to when or whether those conditions will be satisfied.

3. ORGANISATIONAL STRUCTURE AND EXECUTIVE TEAM

Avincis is the holding company of the Avincis Group.

An overview of the Avincis Group's organisational structure including the names of the Avincis executive team members is set out below:



* In 2013, the Avincis board approved the discontinuance of the Avincis Group's business in Latin America.

A list of Avincis subsidiaries is set out in paragraph 13 of this Part VI (*Information on the Avincis Group*) below.

4. BUSINESS OVERVIEW

Business divisions

Avincis services are provided predominantly to blue-chip corporations, public administrations (principally national and regional governments) and charities on medium to long-term contracts. Avincis provides services in three divisions: Life and Rescue, Safety and Environment and Energy Support Services.

The following table sets out a summary of Avincis portfolio of businesses together with a percentage breakdown of turnover per business division for the year ended 31 December 2013.

Business divisions	Services provided	Percentage of turnover
Life and Rescue	Emergency Medical Services	46%
	• Emergency transport of medical equipment and personnel	
	• Medical attention and transport of patients	
	• Emergency organ transport between hospitals	
	Search & Rescue	
	• Search and rescue operations in open seas	
Safety and Environment	• Government services	30%
	• Medical evacuation services, maritime pollution monitoring, maritime traffic control and navigation alerts	
	Environmental and Disaster Intervention	
	• Fire-fighting	
	• Fishing and environmental surveillance	
	Safety & Security	
	• Helicopter and fixed wing support in border and customs surveillance	
	• Law enforcement	
Energy Support Services	• Full range of maintenance, repair and overhaul services to third parties	24%
	• Passenger and equipment transportation services to oil and gas offshore platforms	

Life and Rescue

Life and rescue services accounted for 46 per cent. of the Avincis Group's revenue in 2013 and consist of the emergency medical services ("EMS") and search and rescue ("SAR") businesses.

EMS

Avincis EMS business includes (i) the transport of medical personnel and equipment directly to the scene of an accident and the rapid transport of victims to hospital; (ii) meeting road ambulances coming from either a hospital or accident site to facilitate rapid transport of victims by helicopter to a hospital; (iii) planned urgent and rapid transfers of critically ill patients requiring specialised care between hospitals and (iv) the transport of organs for urgent organ transplantation.

Avincis offers customers EMS by way of the provision of air ambulance helicopters complete with crew and maintenance personnel, as well as medical crews if required by the customer. Both flight crew and health professionals receive continuous training in order to provide this service. EMS helicopters are typically linked to operational base locations and are normally operated by the relevant emergency centre who dispatch aircraft in response to requests received from centralised emergency call centres.

As measured by number of air ambulances in operation, Avincis is Europe's leading provider of EMS services.

SAR

Avincis SAR business includes (i) search and rescue operations in open seas, (ii) monitoring maritime pollution, (iii) maritime traffic control and (iv) navigational assistance.

Avincis offers its customers SAR services by way of the provision of aircraft, pilots, maintenance and rescue personnel. Given that a number of SAR operations may involve medical assistance there is often a degree of overlap with the EMS business.

Avincis SAR crew are multi-disciplined, including hoist operators and rescue swimmers, and are also capable of providing ground-based technical rescue support for high angle rope rescue, worker entrapment and confined space rescue support on various oil platforms and vessels. SAR crew undergo extensive training for the high level of expertise required for maritime search and rescue.

Aircraft are specifically configured for the work of SAR and are equipped with advanced equipment and technology, making them more expensive to operate and maintain when compared to the helicopters used for other services. This is primarily due to the additional training that pilots, technical and maintenance staff need to undertake to enable them to operate and maintain SAR aircraft and technology.

Safety and Environment

Safety and Environment services accounted for 30 per cent. of the Avincis Group's revenue in 2013 and consist of the environmental and disaster intervention and safety and security businesses.

Environmental and Disaster Intervention

Avincis environmental and disaster intervention business consists of support for fire-fighting, and fishing and environmental surveillance.

The fire-fighting business involves supporting forest and mountain fire protection and extinction services, as well as the transportation of work teams. Due to the type of work carried out, fire-fighting services require a less modern fleet of helicopters with less specialized equipment, meaning it is possible to redeploy spare fleet capacity from other services, as capacity allows, providing increased flexibility.

In addition to fire-fighting, Avincis offers surveillance and environmental services by way of the provision of pilots, maintenance, crew and technical assistance for fishing and environmental surveillance, marine pilotage and lighthouse support and infrastructure, as well as wind farm and grid intervention. For example, Bond provides services to one offshore wind farm customer (the first operation of its kind in the UK).

Safety and Security

Avincis safety and security business consists of (i) helicopter and fixed wing support in border and customs surveillance, (ii) law enforcement and (iii) a full range of maintenance, repair and overhaul services.

Avincis provides surveillance services for border, customs and law enforcement by way of the provision of pilots, maintenance, crew and technical assistance. As these services are often considered mission-critical or are a matter of national security, the helicopters and fixed wing aircraft are highly advanced and secure equipment. Helicopters and aircraft carry a sophisticated array of detection, recording and communication equipment. Because of the governmental importance of the operations, the helicopters used in these operations are usually owned by the government or public authorities and operated by Avincis. Therefore Avincis often incurs no fleet capital expenditure in this sector.

As an official certified service station of major helicopter OEMs, Avincis also provides a range of maintenance, repair and overhaul services to third parties. Although it prioritises the maintenance of its own fleet in the first instance, Avincis is able to generate maintenance revenue by carrying out the review and repair of aircraft, engines and components for third parties at maintenance centres as well as by performing modifications to aircraft when hangers and personnel capacity allows. Maintenance is performed through several maintenance centres where simultaneous maintenance of aircraft can be performed.

Energy Support Services

Avincis energy support services business accounted for 24 per cent. of the Avincis Group's revenue in 2013. Energy support services consist of passenger and equipment transportation services to oil and gas offshore platforms, as well as critical helicopter and fixed wing services.

Oil and gas

Avincis provides services to a broad base of major integrated, national and independent offshore energy companies. The majority of its customers are large national and multinational companies primarily in the UK, Australia, Italy and Spain.

Customers' operating expenditures in the production sector are the principal source of Avincis oil and gas revenue, while exploration and development capital expenditures provide a lesser portion of revenue. Customers primarily contract helicopters to transport personnel and time-sensitive equipment between onshore bases and offshore production platforms, drilling rigs and other installations. The majority of oil and gas contracts are of a recurring nature and are with long standing customers. Short-term spot contracts with oil and gas companies are also used to satisfy peaks of demand for specific projects from time to time.

The costs of individual oil and gas aircraft are amongst the highest in Avincis fleet which reflects their advanced technology, the long distances needed to travel and the large number of personnel that are required to be transported. The cabin layout of oil and gas aircraft can be easily reconfigured to meet the needs of customers, including freight or stretcher carrying.

5. COMPETITORS AND BUSINESS MODEL

5.1 Competitors

Avincis competitors in the Life and Rescue and Safety and Environment businesses are typically smaller, local, regional or national companies, as the market is highly fragmented. However, international players do also participate in these sectors, so the competitive environment can vary.

In respect of Energy Support Services, Avincis has two major competitors, Bristow and CHC. Bristow and CHC derive the majority of their turnover from oil and gas crew-change operations. Bristow operates in most of the major oil and gas producing regions worldwide, with a presence in the North Sea, the Gulf of Mexico, Latin America and Africa. CHC has operations in the UK, Norway, the Netherlands, South Africa, Australia and Canada. Both Bristow and CHC have substantial worldwide fleets and typically operate heavy and medium sized aircraft. There are also a number of smaller local companies that operate in the oil and gas crew-change markets targeted by Avincis.

In respect of the maintenance business, Avincis faces competition in carrying out third-party aircraft maintenance from helicopter manufacturers. The largest manufacturers, AgustaWestland, Bell, Eurocopter and Sikorsky, all offer third party maintenance services and Avincis can face competition over price and capacity, and to a lesser extent, the availability of parts.

5.2 Business model

The Avincis Group's business model can be summarised as follows:

- (a) ***Established business model with resilient and good visibility of revenue and cash flows in the medium term***
 - (i) ***Medium to long-term contracts:*** Avincis business is characterised by medium to long-term contracts typically between four to seven years in duration. The average contract renewal rate over the three years ended 31 December 2013 was approximately 96 per cent. These factors provide significant revenue visibility in the medium term.
 - (ii) ***Fixed-revenue:*** Risk and reward are balanced through a high fixed revenue component (approximately 75 per cent. across the Life and Rescue and Safety and Environment business divisions, and approximately 60 per cent. in the Energy Support Services business division), variable revenue dependent on hours flown and often a pass through of fuel costs, which generates a predictable and resilient revenue stream.
 - (iii) ***Upward contract adjustments:*** Many of Avincis contracts include provisions for various adjustments to the fixed charges, including yearly increases based on consumer price index formulas.
 - (iv) ***Predictable cost structure:*** Avincis costs and capital expenditure over the life of a customer contract are generally predictable, as the equipment and services giving rise to these costs are usually specified in the contract at its outset. Capital expenditure relating to the acquisition of a helicopter is generally fixed and known well in advance, due to long lead times to acquire new aircraft. Personnel, insurance, operating rentals and maintenance costs are primarily linked to the aircraft designed to service a particular

contract. Maintenance costs are tied to the number of hours actually flown by the helicopters, and are therefore normally correlate to the additional revenue based on number of flying hours. This cost structure together with high revenue visibility contributes to predictable cash flows.

(b) ***A leading supplier of mission critical helicopter services operating in highly regulated markets***

In Mission Critical Services, Avincis is a leading supplier of mission critical helicopter services in Europe, based on number of aircraft. In Energy Support Services, Avincis is a well-established player in the UK sector of the North Sea with significant growth opportunities in the UK, Australia and Norway.

Size and availability of fleet and their associated economies of scale generally provide larger helicopter operators with direct cost advantages in operating and maintaining mission critical helicopter services. Investment effort and financing capabilities are required in order to build-up and maintain a competitive fleet, as are investment in attracting and training personnel with the requisite levels of technical qualifications, certifications and training. Helicopter operators must also comply with regulatory requirements with increasing standards of safety, security, maintenance and technology in Europe.

(c) ***Diversified service offering to a large number of customers across various geographies***

Avincis business and revenue streams are diversified by services, customers and geographic coverage. This reduces its exposure to any one market or customer and provides it with flexibility in deploying its aircraft:

- (i) *By service:* Avincis offers a comprehensive range of mission critical helicopter services including EMS and civil protection, fire-fighting, SAR and surveillance as well as oil and gas, maintenance and other aerial services;
- (ii) *By customer:* As of 31 December 2013 the Avincis Group had 148 contracts with 143 customers; and
- (iii) *By area:* Excluding the Latin America businesses which Avincis has decided to discontinue, the Avincis Group has presence in 8 countries: the UK, Spain, Italy, Portugal, France, Ireland, Norway and Australia. Following the completion of the acquisition of Scandinavian AirAmbulance, the Avincis Group will also have a presence in Sweden and Finland.

(d) ***Value retention of helicopters through continual maintenance works***

Helicopters' value retention is achieved through continual maintenance, replacement and overhauls of their major components. Many of Avincis operated fleet is covered by a full nose-to-tail power by the hour programme with the major helicopter manufacturers which allows Avincis to retain significant portion of the fleet's value over time.

6. AVIATION REGULATION

The helicopter and aircraft industry is subject to a high degree of international, European and government regulation covering most aspects of helicopter operations. This framework governs operational standards (relating to safety, security, aircraft noise and maintenance) as well as commercial activity.

In Europe, Avincis operations are mainly subject to the jurisdiction of the European Aviation Safety Agency ("EASA"). The EASA was established with a view to providing high and consistent standards of aviation safety through cooperation amongst European Union member states.

The basis for European regulation of helicopters derives from European Union law. Pursuant to European regulations on common rules in the field of civil aviation Avincis is subject to laws in respect of:

- airworthiness and environmental certification of aircraft and related products, parts and appliances, as well as the certification of design and production organisations;

- the continuing airworthiness of aircraft and aeronautical products, parts and appliances and on the approval of organisations and personnel involved in these tasks; and
- technical requirements and administrative procedures relating to air operations.

In addition, the national aviation authorities in each of the countries in which Avincis operates will implement and monitor all applicable legislation with which Avincis must comply.

Increased levels of regulation in recent years have led to increases in both capital and operational expenditure. For instance, in order for Avincis to become compliant in respect of its EMS and oil and gas services, it needed to invest in new equipment in order to modernise its helicopters. This also required greater investment in personnel to ensure compliance levels could be met.

Standards and compliance are monitored through regular inspections. For example, in Europe, the Approvals and Standardisation Directorate (the “**Directorate**”) within the EASA is responsible for ensuring that EU aviation safety legislation is properly, uniformly and consistently applied. This role covers the standardisation of inspections by national aviation authorities. In addition, inspections of national aviation authorities are performed by the Directorate in the context of the accreditation process for allocation of certification tasks. The Directorate also focuses on the granting and oversight of Avincis “demonstration of capability” approval.

7. **PROPERTIES, PLANTS AND EQUIPMENT**

7.1 **Fleet**

As at 31 December 2013, the Avincis Group operated 343 aircraft (300 helicopters and 43 fixed wing), of which 129 were owned, 103 rented, 51 owned by third parties (customers) and 60 finance leased. The insured value of the total operating fleet is €1.78 billion.

The fleet is well balanced to service the needs of Avincis clients and is predominantly sourced from AgustaWestland, Eurocopter, Bell and Sikorsky as well as other well-known manufacturers.

In 2011, Avincis ordered 16 S-92 helicopters from Sikorsky, of which four have been delivered and two are awaiting delivery. A deposit has been paid in respect of the remaining 10 helicopters, although Avincis is not under a contractual obligation to purchase these 10 helicopters.

Avincis fleet is operated either (i) directly under its ownership; or (ii) through finance leasing under long-term or short-term operating rentals with fleet owners different from its customers; or (iii) under independent contracts whereby the customer owns the aircraft and Avincis operates the aircraft and provides maintenance. The decision to own, rent or operate an aircraft depends on multiple factors, including the services to be performed by the aircraft, the requirements of the customer, the terms of the customer contracts serviced by the aircraft, the value of the aircraft and Avincis financial resources. Generally, scale creates opportunities in procurement through supply chain management and in financing through flexibility between fully owned, leased or rented.

Fleet under ownership

The acquisition of an aircraft takes approximately two years from the date the purchase order is placed. Purchase orders are generally structured as options and Avincis often structures the timing of further payments under purchase order options so they will only be made if an aircraft is required for a specific customer contract. If it is decided that the aircraft is no longer required, the option can generally be sold on the secondary market or the option can be terminated with no further payments being made, although any payments already made will generally not be recoverable.

Avincis has disposed of older aircraft in the worldwide secondary market. Disposals of helicopters in the secondary market can be achieved relatively quickly as demand historically has been consistent due to the long lead times associated with the acquisition of newly manufactured helicopters and the fact that approximately 70 per cent. of a helicopter’s value is attached to components which are regularly repaired and overhauled during the useful life of the helicopter.

At 31 December 2013 Avincis had purchase options on 75 aircraft representing a value of over €650 million. Aircraft are likely to be financed through a mixture of finance leases, operating leases and outright purchases.

Fleet under lease or rental

Rentals enable Avincis to modernise its fleet without increasing its financial leverage and is an effective management tool to adjust its fleet to respond to seasonality requirements and non-recurring customer contract opportunities.

Avincis' long-term rentals have an average duration of around five years and may be with helicopter brokers or with financial institutions, which focus on larger, more expensive aircraft. Some of Avincis operating long-term rentals with financing institutions include the option to purchase the aircraft at market prices at the end of the rental contract. Avincis long-term rentals are dry leases, meaning Avincis rents the aircraft only and is responsible for providing crew and maintenance.

Avincis' short-term rentals typically have a duration of less than 12 months. Short-term rentals are primarily used for fire-fighting contracts, where seasonality dictates the operation of additional aircraft. The rental terms of these contracts are agreed with Avincis primary suppliers on a rolling basis in order to have maximum flexibility to meet customers' needs. Some of these short-term rentals are wet leases, meaning the rentals include the crew and maintenance. In most cases, the short-term rental agreements include a fixed component and a variable portion based on the number of flying hours completed by the aircraft.

Customer owned fleet

Avincis operates aircraft owned by public administrations relating to SAR, surveillance, fire-fighting services and civil protection where customers perceive that the nature of the service requires them to own the aircraft. Under this type of agreement, Avincis provides the crew, maintenance and insurance. Customer contracts in which Avincis customers own the aircraft allows for the generation of revenue without expending the capital required to invest in an aircraft.

7.2 Bases and maintenance centres

The Avincis Group operates from more than 200 operational bases and has 14 maintenance centres across Europe and Australia.

8. CUSTOMERS AND CONTRACTS

Avincis business model offers services primarily to public administrations and to blue-chip corporations in the oil and gas industry for a fixed revenue stream on medium to long-term contracts. Avincis customers in the Life and Rescue and Safety and Environment business division are mostly national and regional governments and public bodies, for example, Salvamento Marítimo, Protezione Civile and Strathclyde Police. Avincis customers in the Energy Support Services business division are blue chip corporations, for example, BP and Eni.

In the 12 months ended 31 December 2013, approximately 24 per cent. of the Avincis Group's revenue came from contracts in the Energy Support Services business division, approximately 46 per cent. from the Life and Rescue business division and approximately 30 per cent. from the Safety and Environmental business division. 97 per cent. of the Avincis Group's 2013 consolidated revenue was from civil customers and the remaining 3 per cent. was from international defence customers.

Most of Avincis contracts with public administrations are won as a result of a competitive public tender process. Contracts are typically awarded through a tender process based mainly on factors such as price, service quality, reliability, safety record, maintenance capabilities, experience and reputation. Customers can incur significant operational and cost risk when changing supplier so they are likely to value long-standing relationships and reputation.

On average and across the Avincis Group, the fixed fee that Avincis invoices to its customers is based on fleet and crew availability, and there is an additional fee based on number of flying hours. In Spain, for some fire-fighting contracts, the fixed fee includes a small amount of flying hours but that is not standard practice. Avincis contracts also generally include provisions for various adjustments to the fixed charges, including yearly increases based on inflation indices. Fuel costs in high volume activities in Energy Support Services and a limited number of contracts in the Northern European regions are generally passed through to the customer at cost.

Avincis primarily contracts with customers on a sole use basis, meaning that one customer has exclusive use of a helicopter or helicopters. A small number of Avincis contracts are on a pay as you use

(“PAYU”) basis, where customers pay to use helicopters on a shared basis, or an ad hoc charter basis. In PAYU contracts, the turnover is unpredictable, as services are charged on the basis of the flying hours effectively flown, with no minimum fees.

9. **SUPPLIERS AND INSURANCE**

Avincis is able to benefit from economies of scale. Whenever possible, inventories are secured on a consignment basis. Avincis purchases spare parts for engines and major components from several key certified and authorized suppliers, including from the world’s largest helicopter manufacturers.

Avincis also makes pre-payments to manufacturers at an early stage when bidding for customer contracts in a tender process. This practice is to ensure Avincis has a “slot” on the manufacturing chain so if it is awarded the contract, the aircraft will be delivered in time for commencement of the services. If Avincis is not awarded the customer contract, the purchase options can be sold on the secondary market. As a result of its preferred relationship with certain original equipment manufacturers, Avincis benefits from flexibility regarding timing of aircraft delivery, allowing it to synchronise aircraft delivery with contract commencement. In the event Avincis is not awarded a particular contract, it might be able to sell the aircraft delivery slot in the secondary market.

The amount of insurance Avincis carries is driven by the total size of its fleet, the value and technical capabilities of the aircraft it operates, the services it performs and the countries in which it operates. Avincis insurance includes coverage for the aircraft it owns as well those it operates for customers. Avincis insurance covers aviation risks related to its operations, including civil liability in respect of accidents, but excluding, among other things, reputation losses and criminal liability. Consistent with market practice, Avincis insurance is subject to certain deductibles and maximum coverage amounts.

10. **HEALTH, SAFETY AND ENVIRONMENT**

Avincis has stated that it believes that it will only achieve operational excellence when its safety performance is at the optimal level. Avincis regards the health and safety of customers and employees as paramount. The Avincis Group is working to identify areas for improvement and homogenization of safety practices and policies throughout the group, customized to the specific needs of each country of operation and type of services offered. Avincis commitment to safety was recognized in March 2013 when it was awarded the “Moral Courage Safety Award” by the US Department of Transportation for demonstrating superior commitment to cultivating a positive corporate safety culture.

Avincis operations are subject to law and regulation controlling the discharge of materials into the environment. Avincis operations, and its facilities, involve the use, handling and storage of material that may be classified as environmentally hazardous, such as fuel. Avincis endeavours to comply with the laws and regulations applicable to it in the jurisdictions in which it operates.

11. **RESEARCH AND DEVELOPMENT**

Avincis has invested around €7 million over the last few years in research and development. Since 2011, Avincis has been engaged in the development of a number of research and development projects including PROMETEO and IGNIS.

- (a) *PROMETEO*: the largest applied research project granted to a business consortium in Europe in the sphere of fighting forest fires, a cooperation project among 15 companies, with the active collaboration of 15 public research bodies distributed throughout Spain.
- (b) *IGNIS*: a comprehensive communications system for forest fire-fighting. This project continues the line of research of the PROMETEO project to develop solutions in the short and medium term to improve existing telecommunications system used in the management of forest fire-fighting.

12. LITIGATION AND INVESTIGATIONS

Avincis is party to certain legal proceedings and investigations, most of which are routine and all of which are incidental to its business. Some matters involve claims for damages as well as other relief. Other than the proceedings set out below, Avincis believes that, if any or all of these legal proceedings or investigations are determined against it, they will not have a material adverse effect on its financial position or results of operations. However, the outcome of legal proceedings can be extremely difficult to predict with certainty. The main ongoing proceedings and investigations are set out below.

- (a) A Fatal Accident Inquiry (FAI) under Scottish law, into a fatal accident in the North Sea on 1 April 2009 caused by a catastrophic gearbox failure in an AS332L2 Super Puma operated by Bond Offshore Helicopters Limited, concluded in mid March 2014. Prior to the FAI being held, The Lord Advocate had stated that there would be no prosecutions in relation to the accident, and following the publication of the findings a Crown Office spokesman said that decision remained the correct one. All liability claims arising out of the accident have been settled, with the exception of one passenger liability claim which is insured.
- (b) Following the ditching of an EC 225 Super Puma on 10 May 2012, solicitors acting for the passengers on board the aircraft have served notice of their intention to submit passenger liability claims but as yet none of these claims have been quantified. None of the passengers on board sustained serious injury, and Avincis expects the amount of the claims to be covered by its aviation liability insurance.
- (c) The Air Accident Investigation Branch is carrying out an investigation into the 29 November 2013 helicopter accident in Glasgow, which resulted in ten fatalities, several persons injured and significant property damage. A separate investigation into the accident is also being carried out by Police Scotland under the direction of the Procurator Fiscal. Avincis is cooperating with the Air Accident Investigation Branch and Police Scotland, and other authorities that are investigating the causes of the accident and are waiting to know the outcome of these investigations. In addition, Bond has received several intimations of civil claims for compensation for personal injury and property damage from solicitors acting for people impacted by the accident, including, without limitation, a potential employers' liability claim in respect of the Bond Air Services pilot who died in the accident. While waiting to know the final outcome of these investigations, Bond's insurance company has informed it that, without any acknowledgement of liabilities (other than strict liability of Bond Air Services Ltd as operator under the applicable laws and regulations), the insurance company has started to make certain interim payments to give support to some of the people impacted by the accident that had intimated a civil claim.
- (d) On 8 March 2011, the Spanish tax authorities initiated a tax audit with respect to Avincis Mission Critical Services Holding, S.L. and the deductibility for corporate income tax ("CIT") purposes of certain expenses in 2007 and 2008. The tax audit resulted in an "assessment in disagreement" amounting to a CIT quota of around €5 million (plus a sum for interest/late payment penalties, if applicable). On 18 January 2013, Avincis Mission Critical Services Holding, S.L. appealed the assessment before the economic-administrative courts, which is currently pending resolution. The assessment is currently precautionary and suspended until a final decision is issued.
- (e) Under the terms of the Avincis Group's acquisition of Helitalia, SpA., an intra-group loan was left outstanding between Helitalia, SpA. and the seller for an amount of €4 million, repayable in four tranches. Following repayment of the second tranche, the Avincis Group discovered an error in the balance sheet of Helitalia, SpA. which had not be disclosed at the time of the acquisition. The Avincis Group therefore ceased repayment of further tranches pending resolution of the dispute. The seller brought a claim against Avincis for the outstanding amount payable under the loan (€2 million) and Avincis has brought a counterclaim for an amount of €4.5 million. Avincis has made a provision in its accounts for an amount of €2 million in connection with this matter.

13. SUBSIDIARIES

Avincis is the holding company of an international group of companies.

The following is a list of the subsidiaries of Avincis as at the Latest Practicable Date.

Name of subsidiary	Country	Percentage holding of shares (%)	Percentage holding of voting rights (%)	Nature of business
Avincis Mission Critical Services Ltd.	UK	100	100	Holding company
Avincis Mission Critical Services Holdings S.L.U.	Spain	100	100	Holding company
Avincis Mission Critical Services Group, S.A.U.	Spain	100	100	Holding company
Avincis Mission Critical Services, S.A.U.	Spain	100	100	Holding company
Avincis Mission Critical Services, Scandinavia AB	Sweden	93.96	93.96	Holding company
Inaer Aviation International, S.A.U.	Spain	100	100	Holding company
Inaer Helicópteros, S.A.U.	Spain	100	100	Aircraft operator
Inaer Asset Management, S.A.U.	Spain	100	100	Leasing of aircraft
Inaer Galicia, S.L.	Spain	91.11	91.11	Aircraft operator
Inaer Fleet Management, S.A.U.	Spain	100	100	Leasing of aircraft
Inaer Helicopter Chile, S.A.	Chile	100	100	Aircraft operator
Inaer Aviation Italia, S.p.A.	Italy	100	100	Aircraft operator
Inaer Aviation Italia Fleet, S.p.A.	Italy	100	100	Leasing of aircraft
Inaer Helicopter Portugal, LDA	Portugal	75	75	Aircraft operator
Inaer Helicopter France, S.A.	France	100	100	Aircraft operator
Inaer Ireland Finance Ltd	Ireland	100	100	Holding company
Inaer Helicopter Australia Pty Ltd	Australia	100	100	Holding company
AUH Bid-Co Pty Limited	Australia	100	100	Aircraft operator
Australian Helicopters Pty Ltd	Australia	100	100	Aircraft operator
Inaer Helicopter Perú, S.A.C.	Peru	99.06	70	Aircraft operator
Bond Aviation Topco Ltd	UK	93.96	93.96	Holding company
Bond Aviation Group Ltd	UK	93.96	93.96	Holding company
Bond Mission Critical Services PLC	UK	93.96	93.96	Holding company
Bond Aviation Holdings Ltd	UK	93.96	93.96	Holding company
Bond Aviation Holdings II Ltd	UK	93.96	93.96	Holding company
Bond Helicopters Europe Ltd	UK	93.96	93.96	Holding company
Bond Aviation Europe Ltd	UK	93.96	93.96	Holding company
Bond Air Services (Ireland) Ltd	Ireland	93.96	93.96	Aircraft operator
Bond Air Services Ltd	UK	93.96	93.96	Aircraft operator
Bond Offshore Helicopters Ltd	UK	93.96	93.96	Aircraft operator
Bond Aviation Leasing Ltd	UK	93.96	93.96	Leasing of aircraft
International Aviation Leasing Ltd	UK	93.96	93.96	Leasing of aircraft
Bond European Aviation Leasing Ltd	UK	93.96	93.96	Leasing of aircraft
Bond Dormant Ltd	UK	93.96	93.96	Dormant
Proiris Management Services, Ltd	UK	93.96	93.96	Holding company
Bond SAR Holdings Limited	UK	93.96	93.96	Holding company
Bond SAR Ltd	UK	93.96	93.96	Aircraft operator

Name of subsidiary	Country	Percentage holding of shares (%)	Percentage holding of voting rights (%)	Nature of business
Bond Helicopters Australia Pty Ltd	Australia	93.96	93.96	Aircraft operator
World Helicopters Norway Ltd	Norway	93.96	93.96	Holding company
Norsk Helicopterservice A.S.	Norway	79.08	79.08	Aircraft operator
European Air Crane, S.p.A.	Italy	49	50	Aircraft operator
Helidax S.A.S.	France	50	50	Aircraft operator
Consorzio Elisoccorso San Raffaele in Liquidazione	Italy	50	50	Aircraft operator

PART VII OPERATING AND FINANCIAL REVIEW OF THE BABCOCK GROUP

The following is a discussion of the Babcock Group's results of operations and financial condition for the 2011 Financial Year, the 2012 Financial Year, the 2013 Financial Year and the half-year ended 30 September 2013. Prospective investors should read the following discussion, together with the whole of this document and any documents incorporated by reference herein, including Risk Factors, the Babcock Group's historical consolidated financial statements and the related notes included in Part IX (Historical Financial Information Relating to the Babcock Group) and should not just rely on the key or summarised information contained in this Part VII (Operating and Financial Review of the Babcock Group).

This section contains "forward-looking statements". Those statements, although based on assumptions that the Directors consider to be reasonable, are subject to risks, uncertainties and other factors that could cause the Company's future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward-looking statements. Among the important factors that could cause the Babcock Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include those in the sections headed "Importance Information: Forward-Looking Statements" and "Risk Factors" in this document. All statements other than statements of historical fact, such as statements regarding the Babcock Group's future financial position, risks and uncertainties related to the Company's business, plans and objectives for future operations, are forward-looking statements.

The results of the 2011 Financial Year have been restated to reflect the classification of VT Services Inc. as a discontinued operation. The 2013/14 Half Year Financial Statements incorporated by reference have been prepared using IAS 19 (amendment) 'employee benefits' and the results for the period ending 30 September 2012 and the 2013 Financial Year have been restated accordingly. The impact on the results for the 2013 Financial Year has been to reduce operating profit by £31.0 million, increase finance costs by £11.8 million and reduce the taxation charge by £10.3 million. There was no impact on the net retirement liability.

Unless otherwise stated, in this Part VII (Operating and Financial Review of the Babcock Group) and the information incorporated by reference that forms a part of this section, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to the Babcock Group's underlying results, before amortisation of acquired intangibles and exceptional items. Underlying revenue, operating profit, operating margins and net finance costs also include the Babcock Group's share of equity accounted joint ventures and associates. Underlying operating profit and operating margin include investment income arising under IFRIC12 (Accounting for Service Concession Arrangements) which is presented as financial income in the income statement. Collectively these adjustments are made to derive the underlying operating results of the Babcock Group's business. All underlying numbers are stated before the effect of tax rate changes.

A reconciliation of statutory to underlying results is provided below. The Directors feel that the underlying figures provide a consistent measure of business performance year to year thereby facilitating comparison and understanding of Babcock Group's financial performance across financial periods.

1. OVERVIEW

Babcock is the UK's leading engineering support services company with customers in the UK and overseas in the defence, energy, emergency services, transport, education, communications, mining and construction sectors. Its customers are mainly central and local governments, regulated bodies, and blue chip companies operating in highly regulated sectors, who own or operate strategically important assets requiring long-term maintenance and upgrade.

Babcock International Group PLC is the parent company of the Babcock Group and Babcock's business is organised through four divisions: Marine and Technology, Defence and Security, Support Services and International. Each division provides a different variety of services to customers and enters into different contractual arrangements, depending on the services provided and the customer relationship. With respect to each new contract, the Babcock Group estimates the expected cost to provide the relevant services and then determines the price at which it is willing to bid for the contract. If the bid is successful, the Babcock Group thereafter focuses on performing under the contract while managing costs (acknowledging that costs are not always within its control) so as to achieve or exceed the expected margin for the contract. Because of the large number of contracts and the varying nature of the services performed, the Babcock Group's management primarily focuses on revenues and margins in the operation of its business. Accordingly, the discussion in this section, including the information incorporated by reference, focuses on revenue and margins rather than costs.

The majority of the Babcock Group's revenue comes, directly or indirectly, from UK government customers, particularly the Ministry of Defence, and other UK public sector bodies and agencies through various contracts across different businesses, which together are essential to the business of the Babcock Group as a whole, as are its borrowing facilities with banks and other lenders. Details of the Babcock Group's material contracts are set out in paragraph 9 of Part XIV (*Additional Information*) of this document.

The Babcock Group operates its business principally through its subsidiaries and joint ventures (JVs). A full list of the principal subsidiaries and associated undertakings of Babcock (each of which is considered by Babcock to be likely to have a significant effect on the assessment of the assets, liabilities, the financial position and/or the profits and losses of the Babcock Group) as at the Latest Practicable Date is included in paragraph 11 of Part V (*Information on the Babcock Group*) of this document.

2. KEY PERFORMANCE INDICATORS

The following table sets forth certain key performance indicators for the Babcock Group for the years ended 31 March 2013, 2012 and 2011.

	For the year ended 31 March		
	2013 (restated)	2012	2011 (restated)
	(in £ millions except percentages)		
Free cash flow ⁽¹⁾	163.4	149.6	206.0
Operating cash flow conversion rate ⁽²⁾	119%	111%	146%
Operating return on revenue ⁽³⁾	10.7%	10.7%	10.2%
Adjusted return on invested capital ⁽⁴⁾	19.4%	18.0%	13.9%

⁽¹⁾ Free cash flow is defined as cash flows from operating activities minus capital expenditure (net), interest paid, net of interest received and income tax paid. Capital expenditure (net) is the sum of proceeds on disposal of property, plant and equipment, purchases of property, plant and equipment, purchases of intangible assets and new finance leases.

⁽²⁾ Operating cash flow conversion rate is defined as cash flows from operating activities after adding back exceptional items and retirement benefit payments in excess of income statement as a percentage of operating profit before exceptional items and amortisation of acquired intangibles.

⁽³⁾ Operating return on revenue is defined as underlying operating profit expressed as a percentage of underlying revenue.

⁽⁴⁾ Adjusted return on invested capital is defined as underlying operating profit divided by total invested capital (which is equal to equity, excluding retirement benefit deficits or surpluses, plus net debt).

3. RESULTS OF OPERATIONS

3.1 Selected Statutory Financial Information

The financial information in the table below setting forth the Babcock Group's results of operations for the six months ended 30 September 2013 and 2012 as well as for the 2013, 2012 and 2011 Financial Years has been extracted without material adjustment from the Babcock Group's Historical Financial Information.

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012 (restated)	2013 (restated)	2012	2011 (restated)
	(in £ millions)		(in £ millions)		
Group revenue	1,583.6	1,450.3	3,029.4	2,848.4	2,564.5
Group operating profit	113.3	93.2	203.5	202.0	153.2
Share of results of joint ventures and associates	10.2	6.7	18.0	4.3	6.1
Investment income	0.8	0.9	1.7	2.2	2.2
Net finance costs	(18.4)	(20.4)	(41.4)	(35.5)	(50.4)
Profit before tax	105.9	80.4	181.8	173.0	111.1
Tax	(11.6)	(5.7)	(18.0)	(15.8)	(10.1)
Profit from continuing operations	94.3	74.7	163.8	157.2	101.0

3.2 Underlying Financial Information

The following tables show a reconciliation of the Babcock Group's statutory results of continuing operations for the six months ended 30 September 2013 and 2012 as well as for the 2013, 2012 and 2011 Financial Years, as derived from the Babcock Group's Historical Financial Information, to the underlying results of operations for the periods indicated.

(in £ millions)	Continuing operations statutory	Joint ventures and associates			IFRIC 12 Income	Amortisation of acquired intangibles	Change in UK tax rate	Exceptional items	Continuing operations underlying
		Revenue and operating profit	Finance cost	Tax					
For the six months ended 30 September 2013									
Revenue	1,583.6	117.0							1,700.6
Operating profit	113.3	11.2			19.4	28.9			172.8
Share of profit from jv	10.2	(11.2)	12.7	3.8	(18.6)	3.1			-
Investment income	0.8				(0.8)				-
Net finance costs	(18.4)		(12.7)						(31.1)
Profit before tax	105.9	-	-	3.8	-	32.0	-	-	141.7
Tax	(11.6)			(3.8)		(7.4)	(2.7)		(25.5)
Profit after tax	94.3	-	-	-	-	24.6	(2.7)	-	116.2
(in £ millions)	Continuing operations statutory	Joint ventures and associates			IFRIC 12 Income	Amortisation of acquired intangibles	Change in UK tax rate	Exceptional items	Continuing operations underlying
		Revenue and operating profit	Finance cost	Tax					
For the six months ended 30 September 2012 (restated)									
Revenue	1,450.3	106.4							1,556.7
Operating profit	93.2	10.6			19.6	32.4		2.6	158.4
Share of profit from jv	6.7	(10.6)	16.8	2.7	(18.7)	3.1			-
Investment income	0.9				(0.9)				-
Net finance costs	(20.4)		(16.8)						(37.2)
Profit before tax	80.4	-	-	2.7	-	35.5	-	2.6	121.2
Tax	(5.7)			(2.7)		(8.5)	(1.3)	(0.7)	(18.9)
Profit after tax	74.7	-	-	-	-	27.0	(1.3)	1.9	102.3
(in £ millions)	Continuing operations statutory	Joint ventures and associates			IFRIC 12 Income	Amortisation of acquired intangibles	Change in UK tax rate	Exceptional items	Continuing operations underlying
		Revenue and operating profit	Finance cost	Tax					
(in £ millions)									
For the year ended 31 March 2013 (restated)									
Revenue	3,029.4	214.1							3,243.5
Operating profit	203.5	21.2			40.2	66.4		14.3	345.6
Share of profit from jv	18.0	(21.2)	29.2	6.3	(38.5)	6.2			-
Investment income	1.7				(1.7)				-
Net finance costs	(41.4)		(29.2)						(70.6)
Profit before tax	181.8	-	-	6.3	-	72.6	-	14.3	275.0
Tax	(18.0)			(6.3)		(17.4)	(1.2)	(2.7)	(45.6)
Profit after tax	163.8	-	-	-	-	55.2	(1.2)	11.6	229.4

(in £ millions)	Continuing operations statutory	Joint ventures and associates				IFRIC 12 Income	Amortisation of acquired intangibles	Change in UK tax rate	Exceptional items	Continuing operations underlying
		Revenue and operating profit	Finance cost	Tax						
		(in £ millions)								
For the year ended 31 March 2012										
Revenue	2,848.4	222.0								3,070.4
Operating profit	202.0	11.0			27.8	77.3		10.9		329.0
Share of profit from jv	4.3	(11.0)	19.4	6.7	(25.6)	6.2				-
Investment income	2.2				(2.2)					-
Net finance costs	(35.5)		(19.4)							(54.9)
Profit before tax	173.0	-	-	6.7	-	83.5	-	10.9		274.1
Tax	(15.8)			(6.7)		(21.7)	(3.4)	(2.8)		(50.4)
Profit after tax	157.2	-	-	-	-	61.8	(3.4)	8.1		223.7
(in £ millions)	Continuing operations statutory	Joint ventures and associates				IFRIC 12 Income	Amortisation of acquired intangibles	Change in UK tax rate	Exceptional items	Continuing operations underlying
		Revenue and operating profit	Finance cost	Tax						
		(in £ millions)								
For the year ended 31 March 2011 (restated)										
Revenue	2,564.5	138.7								2,703.2
Operating profit	153.2	9.3			16.0	76.6		20.3		275.4
Share of profit from jv	6.1	(9.3)	8.3	4.1	(13.8)	4.6				-
Investment income	2.2				(2.2)					-
Net finance costs	(50.4)		(8.3)							(58.7)
Profit before tax	111.1	-	-	4.1	-	81.2	-	20.3		216.7
Tax	(10.1)			(4.1)		(22.7)	(2.7)	(3.8)		(43.4)
Profit after tax	101.0	-	-	-	-	58.5	(2.7)	16.5		173.3

3.3 Period to Period Discussion

The table below sets forth the sections of Babcock's Interim Management Statement, Half-Year Report 2013/14, Annual Report 2013 and Annual Report 2012 which contain information in respect of Babcock's operating and financial review that are incorporated by reference into, and form part of, this document.

The information in the Babcock Annual Report 2013 is based on the results for the 2013 Financial Year prior to the restatement of those results as a result of the application of IAS 19 (amendment) 'employee benefits', as set forth in the Babcock Half-Year Report 2013/14. On the basis of the restated numbers, the underlying operating profit of the Babcock Group increased by 5 per cent. to £345.6 million for the 2013 Financial Year, as compared to £329.0 million in the 2012 Financial Year, finance costs of the Babcock Group were £70.6 million for the 2013 Financial Year as compared to £54.9 million in the 2012 Financial Year and the taxation charge totalled £45.6 million for the 2013 Financial Year, as compared to £50.4 million for the 2012 Financial Year.

Reference document	Information in respect of Babcock's operating and financial review	Page number in reference document
Babcock Interim Management Statement	<ul style="list-style-type: none"> All of the information contained in the Interim Management Statement but excluding, for the avoidance of doubt, the contact details and text that follows after "Ends". 	1 to 3
Babcock Half-Year Report 2013/14	<ul style="list-style-type: none"> The information from the "Financial review" section on pages 3 to 5 (inclusive); the following information from the "Operational review" section commencing on page 6: <ul style="list-style-type: none"> in the sub-section titled "Marine and Technology", the table under the title and the text under the heading "Financial review"; 	3 to 5 6

Reference document	Information in respect of Babcock's operating and financial review	Page number in reference document
Babcock Annual Report 2013	<ul style="list-style-type: none"> in the sub-section titled "Defence and Security", the table under the title and the text under the heading "Financial review"; 	7 and 8
	<ul style="list-style-type: none"> in the sub-section titled "Support Services", the table under the title and the text under the heading "Financial review"; and 	9
	<ul style="list-style-type: none"> in the sub-section titled "International", the table under the title and the text under the heading "Financial review". 	11
	<ul style="list-style-type: none"> The following information from the "Operating review" section commencing on page 14: <ul style="list-style-type: none"> in the sub-section titled "Marine and Technology", the text under the heading "Financial review"; 	17
	<ul style="list-style-type: none"> in the sub-section titled "Defence and Security", the text under the heading "Financial overview"; 	23
	<ul style="list-style-type: none"> in the sub-section titled "Support Services", the text under the heading "Finance review"; 	29
	<ul style="list-style-type: none"> in the sub-section titled "International", the text under the heading "Financial overview"; 	33
	<ul style="list-style-type: none"> the following information from the "Financial review" section commencing on page 36: <ul style="list-style-type: none"> the table under the heading "Statutory to underlying reconciliation"; and 	36
	<ul style="list-style-type: none"> pages 37 to 43 (inclusive) but excluding any information found at the embedded cross-references. 	37 to 43
Babcock Annual Report 2012	<ul style="list-style-type: none"> The following information from the "Operating review" section commencing on page 26: <ul style="list-style-type: none"> in the "Marine and Technology" sub-section, the text under the heading "Financial review"; 	28
	<ul style="list-style-type: none"> in the "Defence and Security" sub-section, the text under the heading "Financial review"; 	30
	<ul style="list-style-type: none"> in the "Support Services" sub-section, the text under the heading "Financial review"; 	33
	<ul style="list-style-type: none"> in the "International" sub-section, the text under the heading "Financial overview"; 	35
	<ul style="list-style-type: none"> the following information from the "Financial review" section commencing on page 20: <ul style="list-style-type: none"> the table under the heading "Income Statement - continuing operations—Statutory to underlying reconciliation"; and 	20
	<ul style="list-style-type: none"> pages 21 to 25 (inclusive) but excluding any information found at the embedded cross-references. 	21 to 25

4. LIQUIDITY AND CAPITAL RESOURCES

The Babcock Group manages its operations through a mixture of retained earnings and borrowings. The relative proportions of equity and borrowings are governed by specific parameters approved by the Babcock Board. These are designed to preserve prudent financial ratios, including interest, dividend and cash flow cover, whilst also minimising the Babcock Group's overall weighted average cost of capital.

The Babcock Group coordinates all treasury activities through a central function (Group Treasury) to manage the Babcock Group's financial risks and to secure short and long-term funding at the minimum cost to the Babcock Group. It operates within a framework of clearly defined policies and procedures approved by the Babcock Board, including permissible funding and hedging instruments, exposure limits and a system of authorities for the approval and execution of transactions. It operates as a cost-centre, and is not permitted to make use of financial instruments or other derivatives other than to hedge the Babcock Group's identified exposures. Speculative use of such instruments or derivatives is not permitted.

Group Treasury arranges the Babcock Group's borrowing facilities, and the funds borrowed under such facilities are then lent to operating subsidiaries on commercial arm's length terms. In some cases, operating subsidiaries have external borrowings, but these are supervised and controlled centrally.

The Babcock Group intends to continue to finance its working capital and capital expenditure programmes and any future acquisitions with a combination of cash flows from operations and debt facilities.

As of 30 September 2013, the Babcock Group had current financial debt of £12.7 million, non-current financial debt of £664.8 million (this consists of non-current bank and other borrowings of £674.2 million net of non-current other financial instrument assets of £9.4 million) and cash and cash equivalents of £105.3 million, resulting in net financial debt of £572.2 million. As of 30 September 2013, the Babcock Group had committed revolving credit facilities of £500.0 million, of which £139.0 million was drawn as of that date, and £82.2 million of available overdrafts.

As at 31 December 2013, the Avincis Group's third party net debt outstanding was €842.8 million in various forms. Accordingly, the consolidated leverage of the Enlarged Group will be substantially higher than that of the Babcock Group as of 30 September 2013. For more information regarding the outstanding indebtedness of the Avincis Group, see the Avincis Group's Historical Financial Information set forth in Part X (*Historical Financial Information Relating to the Avincis Group*) and paragraph 9.2 of Part XIV (*Additional Information*). Some or all of the Avincis Group's existing debt may become repayable by its terms at Completion and the Babcock Board may decide to refinance some or all of any remaining Avincis Group debt. The Babcock Group has entered into a new multicurrency debt facility for an amount of £900 million to enable it to refinance the existing debt of the Avincis Group following Completion should the Babcock Board consider it necessary or desirable to do so. The final maturity date for the Bridge Facility is 27 March 2015, which may be extended by two further periods of six months at the option of Babcock. See "*Risk Factors – Upon completion of the Acquisition, Babcock will take on the outstanding debt of the Avincis Group, which will result in a substantial increase of leverage of the Enlarged Group and may limit its commercial and financial flexibility*" in this document.

4.1 Capitalisation and Indebtedness

4.1.1 Capitalisation

The table below sets out the capitalisation of the Babcock Group as at 30 September 2013.

	As at 30 September 2013 (unaudited) (£ in thousands)
Shareholders' equity⁽¹⁾	
Share capital	217,243
Share premium	873,065
Capital redemption and other reserves	(26,858)
Total ⁽²⁾	<u>1,063,450</u>

(1) Shareholders' equity does not include the profit and loss account reserve.

(2) There has been no material change in the capitalisation of the Babcock Group since 30 September 2013.

4.1.2 *Indebtedness*

The following tables set out the gross and net financial indebtedness of the Babcock Group as at 28 February 2014:

	As at 28 February 2014 (unaudited) (£ in thousands)
Total current debt	
- Guaranteed	-
- Secured ⁽¹⁾	(6,135)
- Unguaranteed/Unsecured	(67,429)
	(73,564)
Total non-current debt	
- Guaranteed	-
- Secured ⁽¹⁾	(24,687)
- Unguaranteed/Unsecured	(697,201)
	(721,888)
Total gross indebtedness	(795,452)

(1) Finance leases are secured against the assets which they relate to.

4.1.3 *Net financial indebtedness*

	As at 28 February 2014 (unaudited) (£ in thousands)
Cash and overdrafts	64,740
Liquidity	64,740
Current financial receivable	5,008
Current bank debt	(1,402)
Other current financial debt ⁽¹⁾	(3,864)
Current financial indebtedness	(5,265)
Net current financial indebtedness	64,482
Non-current bank loan	(709,260)
Other non-current financial debt ⁽¹⁾	(12,628)
Non-current financial indebtedness	(721,888)
Net financial indebtedness	(657,406)

(1) Other current and non-current financial debt are financial leases.

(2) The Babcock Group has no indirect or contingent indebtedness as at 28 February 2014 other than as disclosed in paragraph 7 of this Part VII (*Operating and Financial Review of the Babcock Group*) below.

4.2 **Borrowings**

4.2.1 *Existing Facility Agreement*

A description of the principal terms of the syndicated £500,000,000 multicurrency revolving credit facility agreement entered into by Babcock with certain financial institutions is set out in paragraph 9.1(e) (*Babcock's material contracts*) of Part XIV (*Additional Information*) of this document.

4.2.2 *Backstop Facility Agreement*

A description of the principal terms of the syndicated £500,000,000 multicurrency backstop facility agreement entered into by Babcock with certain financial institutions is set out in paragraph 9.1(f) (*Babcock's material contracts*) of Part XIV (*Additional Information*) of this document. The Babcock Group intends to borrow under the Backstop Facility to refinance borrowings under the existing multicurrency revolving credit facility agreement if the lenders under the existing facility agreement do not consent to the Acquisition.

4.2.3 *Bridge Facility Agreement*

A description of the principal terms of the £900,000,000 multicurrency bridge loan facility entered into by Babcock with certain financial institutions is set out in paragraph 9.1(g)

(*Babcock's material contracts*) of Part XIV (*Additional Information*) of this document. The Bridge Facility is available for use to refinance the existing indebtedness of the Avincis Group if the Babcock Board considers it necessary or desirable to do so.

4.2.4 *Note Purchase Agreement*

A description of the principal terms of the note purchase agreement pursuant to which Babcock issued to certain financial institutions US\$150 million 4.94% Series A Senior Notes due 17 March 2018 and US\$500 million 5.64% Series B Senior Notes due 17 March 2021 (together, the “**Babcock Private Placement Notes**”) is set out in paragraph 9.1(h) (*Babcock's material contracts*) of Part XIV (*Additional Information*) of this document.

4.2.5 *Multi-Currency Note Facility Agreement*

A description of the principal terms of the multi-currency note facility agreement pursuant to which Babcock issued to Prudential Investment Management Inc. (and certain of its affiliates) two series of loan notes: (a) £60 million 4.995 per cent. Series A Shelf Notes due 21 January 2017; and (b) £40 million 5.405 per cent. Series B Shelf Notes due 21 January 2020 (together, the “**Babcock Multi-Currency Loan Notes**”) is set out in paragraph 9.1(i) of Part XIV (*Additional Information*) of this document.

4.3 **Working capital**

See paragraph 11 of Part XIV (*Additional Information*) of this document.

5. **CAPITAL EXPENDITURE**

As set forth in the Babcock Group's Historical Financial Information, the Babcock Group's capital expenditure representing additions to property, plant and equipment and intangible assets, were £59.3 million, £48.7 million and £34.4 million for the 2013, 2012 and 2011 Financial Years, respectively. The Directors expect that capital expenditure will increase following the Acquisition due to the capital intensive nature of the Avincis Group's business.

6. **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The following table summarises the maturity profile of the Babcock Group's financial indebtedness as at 30 September 2013.

Contractual Obligations (in £ million)	Payments due by period				
	Total	Less than one year	1 to 3 years	3 to 5 years	More than five years
Credit Facility ⁽¹⁾	139.0	-	139.0	-	-
Notes ⁽²⁾	508.8	-	-	152.7	356.1
Other ⁽³⁾	20.5	8.4	3.3	2.8	6.0
Total	668.3	8.4	142.3	155.5	362.1

⁽¹⁾ Existing £500,000,000 multicurrency revolving credit facility

⁽²⁾ Babcock Private Placement Notes and Babcock Multi-currency Loan Notes

⁽³⁾ Other includes bank loans and overdrafts

See note 34 to the 2013 Financial Statements for information on the Babcock Group's operating lease commitments and note 36 to the 2013 Financial Statements for information on the Babcock Group's capital and other financial commitments. The 2013 Financial Statements are incorporated by reference into this document as further described in Part IX (*Historical Financial Information Relating to the Babcock Group*) and Part XV (*Documents Incorporated by Reference*) of this document.

7. **CONTINGENT LIABILITIES**

See note 35 to the 2013 Financial Statements for information on the Babcock Group's contingent liabilities. The 2013 Financial Statements are incorporated by reference into this document as further described in Part IX (*Historical Financial Information Relating to the Babcock Group*) and Part XV (*Documents Incorporated by Reference*) of this document.

8. **CRITICAL ACCOUNTING POLICIES**

See “Critical accounting estimates and judgements” in note 1 to the 2013 Financial Statements incorporated by reference into this document. The financial information incorporated by reference is described in Part IX (*Historical Financial Information Relating to the Babcock Group*) and Part XV (*Documents Incorporated by Reference*) of this document.

9. **RELATED PARTY TRANSACTIONS**

See paragraph 10 of Part XIV (*Additional Information*) of this document and the notes to the Audited Financial Statements described therein for information on related party transactions entered into by the Babcock Group in the last three financial years.

10. **QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

See note 2 to the 2013 Financial Statements incorporated by reference into this document. The financial information incorporated by reference is described in Part IX (*Historical Financial Information Relating to the Babcock Group*) and Part XV (*Documents Incorporated by Reference*) of this document.

PART VIII OPERATING AND FINANCIAL REVIEW OF THE AVINCIS GROUP

The following is a discussion of the Avincis Group's results of operations and financial condition as of and for the years ended 31 December 2013, 2012 and 2011. Unless otherwise specified or the context otherwise requires, the financial information set forth and discussed herein is based on the Avincis Group's Historical Financial Information. Prospective investors should read this discussion in conjunction with the section entitled "Important Information" of this document and Part X (Historical Financial Information Relating to the Avincis Group) of this document.

Following the acquisition of the Bond Aviation Group Limited by the Avincis Group on 28 April 2011, the results of operations, assets and liabilities and cash flows of the Bond Aviation Group Limited and its subsidiaries were consolidated with those of the rest of the Avincis Group from 28 April 2011. Accordingly, the Avincis Group's results for the twelve month period ended 31 December 2011 are not directly comparable to those for any subsequent financial period.

1. OVERVIEW

Avincis is a leading supplier of helicopter and fixed wing emergency services (medical, search and rescue (SAR), fire-fighting and civil protection) in Europe and Australia and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea, with a clear ambition to expand this service into the growing Norwegian and Australian offshore oil and gas markets. Avincis operates through three business divisions:

- (a) **Life and Rescue services:** emergency medical services and search and rescue missions;
- (b) **Safety and Environmental services:** fire-fighting support, law enforcement, disaster intervention and maintenance services; and
- (c) **Energy Support Services (ESS):** provides assistance to oil platform operations by transporting employees, provisions and meals to the platforms.

As at 31 December 2013, Avincis total fleet comprised 343 aircraft, operating from more than 200 operational bases and the average age of its on balance sheet aircraft, weighted by value, was approximately 9.3 years.

Avincis is headquartered in London and employs more than 2,800 staff, including over 1,000 technicians and engineering staff .

2. ORDER BOOK AND PIPELINE

Set forth below are details relating to the order book and pipeline for the Avincis Group as at and for the periods indicated. In order to calculate the relevant contract or potential contract value for the order book and pipeline, the Avincis Group makes an estimate of the number of flying hours under the contract based on previous experience with single contracts. For existing contracts, flying hours are based on the actual flying hours from the previous twelve month period.

	Year ended 31 December		
	2013	2012	2011
	<i>(in € millions)</i>		
Order intake	1,162.5	793.0	925.4
Order book (at period end)	2,281.4	1,567.1	1,326.6
	As at 10 March 2014		
	<i>(in € millions)</i>		
Total pipeline			7,079
Tracking			6,349
Bidding			730

Order Intake

Order intake represents the value of all new contracts and renewed contracts signed during the period.

Order Book

The order book is the Avincis Group's management's estimate of future revenue attributable to the Avincis Group's contracts as of a particular date. The Avincis Group's order book is calculated on a contract by contract basis, and then total order book is calculated by aggregating the order book attributable to each contract. For each contract, order book is calculated by aggregating the total monthly fixed charges over the life of the contract and an estimate of flying hours multiplied by the applicable price per flying hour set forth in the contract and deducting any amounts previously invoiced to the customer at the date of calculation. The Avincis Group's order book does not include any revenue or estimated revenue relating to pay as you use contracts, spot contracts, training services, design and completion services or inflation adjustments to the monthly fixed charges. The following tables set forth a breakdown of the Avincis Group's order book as at 31 March 2013.

By business unit	(%)	By geography	(%)	By contract value	(%)
Helicopter and fixed wing					
emergency services*	69	UK	33	Greater than £100 million	35
Offshore oil and gas	31	Spain	23	£100 – 50 million	14
		Italy	22	£50-25 million	14
		France	12	£25-10 million	17
		Australia	8	Less than £10 million	20
		Portugal	2		

* Includes Life and Rescue services and Safety and Environmental services.

Pipeline

The Avincis Group's pipeline has two categories: tracking and bidding. The tracking pipeline includes opportunities that the Avincis Group may bid for in the future. The bidding pipeline includes opportunities for which the Avincis Group has either submitted a bid or for which a tender process has commenced and the Avincis Group has decided to submit a bid. The following tables set forth a breakdown of the Avincis Group's total pipeline as at 10 March 2014.

By business unit	(%)	By geography	(%)	By contract value	(%)
Helicopter and fixed wing					
emergency services*	46	UK	33	Greater than £100 million	43
Offshore oil and gas	54	Australia	25	£100 – 50 million	18
		Norway	17	£50-25 million	15
		Italy	7	£25-10 million	15
		France	6	Less than £10 million	9
		Spain	6		
		Other	6		

* Includes Life and Rescue services and Safety and Environmental services.

3. KEY FACTORS AFFECTING THE AVINCIS GROUP'S RESULTS OF OPERATIONS

Demand for life and rescue, safety and environmental and ESS helicopter services

The demand for life and rescue and safety and environmental helicopter services has been driven by an outsourcing trend for these services by public administrations in the European Union. By outsourcing the operation and maintenance of helicopters to specialised helicopter operators like the Avincis Group instead of retaining them in-house, public administrations have been able to achieve costs savings and improved service, such as increased coverage and more modern aircraft. Additionally, the Avincis Group benefits from product substitution as certain customers use helicopters to maintain geographic coverage following closures of smaller or regional hospitals or by replacing a number of car ambulance services with one helicopter.

The Avincis Group's demand for energy support services is dependent on levels of activity in offshore oil and gas exploration, development and production. While these activity levels are affected by trends in, and expectations regarding, oil and gas prices, the Avincis Group's ESS customers typically base their capital expenditure budgets on their long-term commodity expectations and not necessarily on the spot price. The oil and gas production business is typically less cyclical than the exploration and development business because the oil and gas production platforms remain in place over the long-term and are relatively unaffected by economic cycles.

Safety incidents and accidents and aircraft groundings

On 10 May 2012, a Eurocopter EC225 helicopter operated by Bond Offshore Helicopters Limited (“**Bond**”), a member of the Avincis Group, suffered a total loss of main gearbox oil pressure during a routine out-bound crew change service and made a controlled descent and landing on the sea, 24 nautical miles off-shore, in line with standard operating procedures (the “**Bond EC225 Incident**”). All 12 passengers and two crew members were unharmed. However, despite the lack of injuries, the customer decided to suspend its contract with Bond pending investigation of the incident by the relevant aviation authorities. This contract remains suspended.

On 22 October 2012, one of Avincis competitors operating the same helicopter type, a Eurocopter EC225, was forced to make a similar controlled descent and landing on the sea (this incident, together with the Bond EC225 Incident, the “**2012 EC225 Incidents**”). As a result of this second incident, the UK Civil Aviation Authority prohibited passenger flights over water in this type of aircraft. The Avincis Group’s revenue has been negatively impacted as a result of both the contract suspension and the prohibition of passenger flight over water using the Eurocopter EC225 fleet in the United Kingdom, given the reduced availability of spare fleet to provide energy support services in the North Sea. Eurocopter, the manufacturer of the affected aircraft, has acknowledged the technical issues leading to the incidents and, following detailed analysis and testing, has stated that the solution is a redesign with the earliest availability of the redesigned part being mid-2014. To allow a return to service, interim solutions have been implemented in accordance with airworthiness authority regulations. As a result of this, the Avincis Group’s EC225 fleet returned to service in the fourth quarter of 2013.

On 29 November 2013 a twin-engine Eurocopter EC135 T2 operated by Bond Air Services Limited (a company within the Avincis Group) crashed into a public house in Glasgow. All three people on board and seven others in the public house were killed. More than 30 people were taken to hospitals after the crash. While the incident did not have an impact on the Avincis Group’s financial results in 2013, the cause of the crash has not yet been established and the investigation is ongoing. The incident may result in the Avincis Group being liable to pay damages. See paragraph 12 (*Litigation*) of Part VI (*Information on the Avincis Group*) of this document for further information.

Any safety incidents and accidents, resulting contract suspensions or terminations and aircraft groundings could have a material adverse effect on the Avincis Group’s future business, financial condition and results of operations. See section 1.3 “*The operations of the Babcock Group and the Avincis Group carry significant health and safety and environmental risks and the Enlarged Group will be exposed to a greater extent to the risk of losses and reputational damage from safety incidents and accidents*” in “*Risk Factors*.”

Fleet rationalisation and modernisation

In recent years, the Avincis Group has significantly rationalised and modernised its fleet in response to changing demand from its customers and to offer higher value added services. The ongoing rationalisation and modernisation of the fleet has included not only the acquisition of new, larger and more modern aircraft but also the disposal of older aircraft and an overall reduction in the number of aircraft and aircraft models operated by the Avincis Group. The number of aircraft utilised by the Avincis Group has decreased due to this rationalisation and modernisation initiative from 365 at 31 December 2011 to 349 at 31 December 2012 and 343 at 31 December 2013. As a result of these changes to the Avincis Group’s fleet, the Avincis Group generated higher revenue per aircraft during the periods under review, due to larger and more modern aircraft being charged out at higher rates to customers and more efficient use of its back-up fleet. The fleet rationalisation and modernisation programme has also resulted in higher fleet cash capital expenditures incurred to purchase and maintain the new aircraft, partially offset by the proceeds received from the sale of older aircraft, and will lower operating costs resulting from having fewer aircraft models to maintain as well as generally, higher indebtedness levels incurred to finance the capital expenditures. Certain fleet disposals have resulted in the recognition of a loss on disposal on the Avincis Group’s income statement. Results for the Avincis Group’s Spain segment, in particular, were affected in 2012 and 2013 due to the Spanish operating companies having owned and leased to other members of the Avincis Group many of the older aircraft that were disposed and therefore having recognised losses on such sales.

Owned fleet, rented fleet and customer fleet

The Avincis Group's fleet can be operated under its own ownership, either directly or through finance leasing, under long-term or short-term operating leases with third-party owners or under contracts whereby the customer owns the aircraft and the Avincis Group operates the aircraft and provides its maintenance. The decision to own, rent or operate an aircraft depends on multiple factors, including the nature of the services to be performed by the aircraft, the requirements of the customer, the terms of the customer contracts serviced by the aircraft, the value of the aircraft and the Avincis Group's financial resources. For example, heavier aircraft are more likely to be operated pursuant to operating leases, particularly those servicing ESS customers who typically require aircrafts to be replaced quickly in shorter periods of time.

The operation of the fleet under ownership or finance leasing results in higher operating profit as the cost associated with the financing of the fleet is accounted as interest expense, and it also results in higher capital expenditures associated with the purchase of the aircraft and higher indebtedness incurred in financing the fleet. Conversely, operating leases reduce the Avincis Group's indebtedness and capital expenditures, but they also reduce operating profit, because the rental payments are accounted for as an operating expense. Finally, the operation of aircraft fleet owned by customers generally results in lower revenue when compared to contracts serviced with aircraft owned or under operating leases as the contract with the customer typically does not price in the cost of financing or renting the aircraft, but they also involve lower capital expenditures and indebtedness.

Bond Aviation Group Acquisition

On 28 April 2011 the Avincis Group completed the acquisition of 93.96% of the shares of Bond Aviation Group Limited (the "**Bond Acquisition**"), a leading provider of ESS, Life and Rescue and Safety and Environmental mission-critical helicopter services in the UK. The total consideration paid for the acquisition was £259.0 million. The consolidated results of operations of Bond Aviation Group Limited have been included in the Avincis Group's Historical Financial Information from 28 April 2011.

Discontinued operations

In 2013, following a strategic review, the Avincis Group decided to reduce its activities in Peru and Chile with a view to exiting these non-core markets. The review determined that the nature of the market and customer base currently available in these countries do not support the scale of operations necessary to permit the Avincis Group to deliver the highest standards of operational excellence which it requires of all its subsidiaries.

In 2012, the Avincis Group ceased to provide a passenger transport service to the town of Ceuta and maintenance services of power lines as a result of a new policy of the Avincis Group's business initiated in previous years.

The Avincis Group has recorded the financial results from its discontinued operations under "(loss)/profit for the year from discontinued operations attributable to owners of the parent" on its consolidated statement of income. During the periods under review, discontinued operations recorded a loss in 2013 and 2012 and a profit in 2011.

4. UNDERLYING OPERATING PROFIT, UNDERLYING OPERATING PROFIT BEFORE LOSS ON DISPOSAL OF NON-CURRENT ASSETS AND ADJUSTED EBITDA

Underlying operating profit, underlying operating profit before loss on disposal of non-current assets and adjusted EBITDA are supplemental measures of performance and liquidity. Underlying operating profit, underlying operating profit before loss on disposal of non-current assets and adjusted EBITDA are not financial measures that are required by, or presented in accordance with, IFRS. For additional information on the use of non-IFRS financial measures, see paragraph 3 (*Presentation of Financial Information*) of “Important Information” in this document. The following table shows underlying operating profit, underlying operating profit before loss on disposal of non-current assets and adjusted EBITDA for the periods indicated.

	For the year ended 31 December		
	2013	2012	2011
	(in € thousands)		
Underlying operating profit ⁽¹⁾⁽²⁾	71,963	81,065	79,568
Underlying operating profit margin ⁽³⁾	12.4%	14.1%	15.4%
Underlying operating profit before loss on disposal of non-current assets ⁽¹⁾⁽⁴⁾	84,354	88,485	91,909
Underlying operating profit before loss on disposal of non-current assets margin ⁽⁵⁾	14.5%	15.4%	17.8%
Adjusted EBITDA ⁽¹⁾⁽⁶⁾	134,962	141,308	137,618
Adjusted EBITDA margin ⁽⁷⁾	23.2%	24.6%	26.7%

⁽¹⁾ The following table shows a reconciliation of the Avincis Group's loss for the year to underlying operating profit, underlying operating profit before loss on disposal of non-current assets and adjusted EBITDA for the periods indicated.

	For the year ended 31 December		
	2013	2012	2011
	(in € thousands)		
Loss for the year	(77,480)	(27,477)	(9,383)
Loss/(Profit) for the year from discontinued operations attributable to owners of the parent	14,092	1,000	(69)
Income tax credit	(5,415)	(8,634)	(1,980)
Other gains and losses	3,468	496	(6,763)
Finance income	(2,020)	(1,652)	(792)
Finance costs	104,117	86,964	76,071
Share of results of joint ventures and associates	(1,836)	(2,550)	(1,998)
Group operating profit	34,926	48,147	55,086
Exceptional items	30,185	26,169	19,004
Amortisation of acquired intangibles	1,987	2,091	1,399
Share of operating profit of joint ventures and associates	4,865	4,658	4,079
Underlying operating profit	71,963	81,065	79,568
Loss on disposal of non-current assets	12,391	7,420	12,341
Underlying operating profit before loss on disposal of non-current assets	84,354	88,485	91,909
Depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets	44,702	44,614	37,588
Impairment of non-current assets	4,994	6,339	6,700
Share of depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets of joint ventures and associates	912	1,870	1,421
Adjusted EBITDA	134,962	141,308	137,618

⁽²⁾ Underlying operating profit represents the Avincis Group's loss for the year adjusted to exclude the effects of (loss)/profit from discontinued operations attributable to owners of the parent, income tax credit, other gains and losses, finance income, finance costs, share of results of joint ventures and associates, exceptional items and amortisation of acquired intangibles plus share of operating profit of joint ventures and associates.

⁽³⁾ Underlying operating profit margin is calculated as the ratio of underlying operating profit to the Avincis Group's total revenue.

⁽⁴⁾ Underlying operating profit before loss on disposal of non-current assets represents underlying operating profit plus loss on disposal of non-current assets.

⁽⁵⁾ Underlying operating profit before loss on disposal of non-current assets margin is calculated as the ratio of underlying operating profit before loss on disposal of non-current assets to the Avincis Group's total revenue.

⁽⁶⁾ Adjusted EBITDA represents the Avincis Group's loss for the year adjusted to exclude the effects of (loss)/profit for the year from discontinued operations attributable to owners of the parent, income tax credit, other gains and losses, finance income,

finance costs, share of results of joint ventures and associates, exceptional items and amortisation of acquired intangibles, plus share of operating profit of joint ventures and associates, and after excluding loss on disposal of non-current assets, depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets, impairments on non-current assets, and share of depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets of joint ventures and associates.

(7) Adjusted EBITDA margin is calculated as the ratio of adjusted EBITDA to the Avincis Group's total revenue.

5. RESULTS OF OPERATIONS

The following table sets forth the Avincis Group's results of operations for the periods indicated.

	For the year ended 31 December		
	2013	2012	2011
	<i>(in € thousands)</i>		
Total Revenue	582,192	573,518	515,531
Less: joint ventures and associates revenue	(15,704)	(20,961)	(19,175)
Group Revenue	566,488	552,557	496,356
Operating profit before amortisation of acquired intangibles and exceptional items	67,098	76,407	75,489
Amortisation of acquired intangibles	(1,987)	(2,091)	(1,399)
Exceptional items	(30,185)	(26,169)	(19,004)
Group operating profit	34,926	48,147	55,086
Share of results of joint ventures and associates	1,836	2,550	1,998
Group operating profit plus share of joint ventures and associates	36,762	50,697	57,084
Finance costs	(104,117)	(86,964)	(76,071)
Finance income	2,020	1,652	792
Other gains and losses	(3,468)	(496)	6,763
Loss before tax	(68,803)	(35,111)	(11,432)
Income tax credit	5,415	8,634	1,980
Loss for the year from continuing operations	(63,388)	(26,477)	(9,452)
(Loss)/profit for the year from discontinued operations attributable to owners of the parent	(14,092)	(1,000)	69
Loss for the year	(77,480)	(27,477)	(9,383)

5.1 Year ended 31 December 2013 compared to year ended 31 December 2012

Group revenue

The Avincis Group's revenue increased by €13,931 thousand, or 2.5%, from €552,557 thousand in 2012 to €566,488 thousand in 2013. The increase in revenue was mainly due to the new contracts awarded during 2013 of approximately €42.5 million. This increase was partially offset by the impact of the 2012 EC225 Incidents which, in aggregate, decreased revenue by €14.1 million. Expired and non-renewed contracts decreased the Avincis Group's revenue by €11.5 million. Other minor impacts, such as negative exchange rate differences, decreased revenue by €2.8 million.

The following table sets forth the Avincis Group's revenue according to geographical segment for the periods indicated.

	For the year ended 31 December		Variation	
	2013	2012	2013/2012	2013/2012
	<i>(in € thousands)</i>		<i>(%)</i>	
Spain	213,071	219,843	(6,772)	(3.1)
Italy	140,056	137,979	2,077	1.5
United Kingdom	184,679	163,675	21,004	12.8
Australia	37,570	37,192	378	1.0
France	27,997	29,146	(1,150)	(3.9)
Other countries	15,870	30,014	(14,144)	(47.1)
Inter-segment eliminations	(52,755)	(65,292)	12,540	19.2
Total	566,488	552,557	13,931	2.5

Group operating profit

The Avincis Group had a €13,221 thousand, or 27.5%, decrease in group operating profit from €48,147 thousand in 2012 to €34,926 thousand in 2013 due to the following factors:

Cost of sales

The Avincis Group's cost of sales increased by €4,307 thousand, or 1.4%, from €318,732 thousand in 2012 to €323,039 thousand in 2013. The increase in the Avincis Group's cost of sales was attributable primarily to increases in operating lease costs associated with the growth in the Avincis Group's heavy aircraft fleet as well as increased maintenance expenses and personnel costs which were almost entirely offset by a reduction in fuel costs arising from a decrease in fuel prices.

Administrative expenses

The Avincis Group's administrative expenses increased by €18,933 thousand, or 12.0%, from €157,418 thousand in 2012 to €176,351 thousand in 2013. The increase in the Avincis Group's administrative expenses was due primarily to increased set-up expenses associated with new contracts, increased depreciation expenses resulting principally from capitalised costs associated with major aircraft overhauls and increased support function expenses associated with growth in the business.

Exceptional items

The following table sets forth a break-down of exceptional items for the periods indicated..

	For the year ended 31 December	
	2013	2012
	<i>(in € thousands)</i>	
Reorganisation	14,377	9,557
Onerous contract	4,273	10,203
New country set-up	10,461	4,000
Bid costs	1,074	2,409
Exceptional items	30,185	26,169

Reorganisation costs in both periods relate to various projects to enhance group efficiency and to improve operational safety as well as costs associated with the change in the Avincis Group's head office from Spain to the United Kingdom.

Approximately half of the onerous contract costs in both periods related to costs associated with suspension of the customer contract following the Bond EC225 Incident discussed above. In addition, onerous contract expenses in 2012 included a significant charge relating to an onerous contract in Italy.

New country set-up costs principally comprise licensing and certification costs and costs associated with establishment of operational infrastructure in new countries of operation. In 2013 and 2012, these costs related to new operations in Norway and Australia. In 2013, these costs also included costs associated with the introduction of a new heavy aircraft model (the Sikorsky S-92).

Bid costs in 2013 and 2012 relate to the Avincis Group's unsuccessful bid for a large life and rescue contract in the UK.

Underlying operating profit

The Avincis Group's underlying operating profit decreased by €9,102 thousand, or 11.2%, from €81,065 thousand in 2012 to €71,963 thousand in 2013 primarily due to the increase in administrative expenses discussed above.

The following table sets forth the Avincis Group's underlying operating profit according to geographical segment for the periods indicated.

	For the year ended 31 December		Variation	
	2013	2012	2013/2012	2013/2012
	<i>(in € thousands)</i>			<i>(%)</i>
Spain	16,027	23,451	(7,424)	(31.7)
Italy	16,731	18,389	(1,658)	(9.0)
United Kingdom	24,664	33,028	(8,364)	(25.3)
Australia	9,475	3,461	6,014	173.8
France	5,541	5,540	1	0.0
Other countries	(2,610)	(4,000)	1,390	(34.8)
Inter-segment eliminations	2,135	1,196	939	78.5
Total	71,963	81,065	(9,102)	(11.2)

The significant decrease in underlying operating profit in Spain in 2013 reflects a significant loss on disposal of fixed assets from sales of older helicopters and a decrease in revenue.

Underlying operating profit in the UK decreased due to the impact of the 2012 EC225 Incidents.

Share of results of joint ventures and associates

The Avincis Group's share of results of joint ventures and associates decreased by €714 thousand, or 28.0%, from €2,550 thousand in 2012 to €1,836 thousand in 2013. The decrease was primarily due to increased interest expense at Helidax, S.A.S. ("**Helidax**"), a joint venture that provides training services to the French Ministry of Defence, which more than offset the increase in its operating profit. In addition, share of results of joint ventures and associates in 2012 benefitted from the utilisation of tax loss carry-forwards by Helidax.

Finance costs

Finance costs increased by €17,153 thousand, or 19.7%, from €86,964 thousand in 2012 to €104,117 thousand in 2013. The issue of £200 million of senior secured floating rate notes by Bond Mission Critical Services plc increased total indebtedness as well as the average interest rate of the Avincis Group's indebtedness and resulted in the write off of certain debt issuance expenses associated with indebtedness refinanced with a portion of the proceeds of the note issue.

Income tax credit

Income tax credit decreased by €3,219 thousand, or 37.3%, from €8,634 thousand in 2012 to €5,415 thousand in 2013 despite the increase in loss before tax, principally due to changes in tax regulations in Italy and Spain which reduced the deductibility of interest expenses and reduced the Avincis Group's ability to recognise a deferred tax credit in 2013.

Loss for the year from continuing operations

As a result of the foregoing, the Avincis Group's loss for the year from continuing operations increased by €36,911 thousand, from €26,477 thousand in 2012 to €63,388 thousand in 2013.

5.2 **Year ended 31 December 2012 compared to year ended 31 December 2011**

Group revenue

The Avincis Group's revenue increased by €56,201 thousand, or 11.3%, from €496,356 thousand in 2011 to €552,557 thousand in 2012. The increase in the Avincis Group's revenue was attributable primarily to the full period effect of the Bond Acquisition in April 2011. The positive impact of new contracts in 2012 was offset almost entirely by the negative impact of contract expirations.

The following table sets forth the Avincis Group's revenue according to geographical segment for the periods indicated.

	For the year ended 31 December		Variation	
	2012	2011	2012/2011	2012/2011
	<i>(in € thousands)</i>			<i>(%)</i>
Spain	219,843	227,271	(7,428)	(3.3)
Italy	137,979	139,157	(1,178)	(0.8)
United Kingdom	163,675	112,166	51,509	45.9
Australia	37,192	33,730	3,462	10.2
France	29,146	27,400	1,747	6.4
Other countries	30,014	14,451	15,563	7.7
Inter-segment eliminations	(65,292)	(57,819)	(7,478)	12.9
Total	552,557	496,356	56,201	11.3

Group operating profit

The Avincis Group had a €6,939 thousand, or 12.6%, decrease in group operating profit from €55,086 thousand in 2011 to €48,147 thousand in 2012 due to the following factors:

Cost of sales

The Avincis Group's cost of sales increased by €53,791 thousand, or 20.3%, from €264,941 thousand in 2011 to €318,732 thousand in 2012. The increase was due primarily to the full-year effect of the Bond Acquisition as well as an increase in maintenance costs and fuel price increases leading to higher fuel costs.

Administrative expenses

The Avincis Group's administrative expenses increased by €1,492 thousand, or 1.0% from €155,926 thousand in 2011 to €157,418 thousand in 2012. The increase was attributable mainly to the full period effect of the Bond Acquisition as well as an increase in start-up costs associated with new contracts.

Exceptional items

The following table sets forth a break-down of exceptional items for the periods indicated.

	For the year ended 31 December	
	2012	2011
	<i>(in € thousands)</i>	
Reorganisation	9,557	-
Onerous contract	10,203	10,584
Acquisitions	-	8,420
New country set-up	4,000	-
Bid costs	2,409	-
Exceptional items	26,169	19,004

Onerous contract costs in 2011 related to the onerous Italian contract discussed in section 5.1 (Exceptional Items) above.

Acquisition costs relate to transaction costs in connection with the Bond Acquisition.

Underlying operating profit

The Avincis Group's underlying operating profit increased by €1,479 thousand, or 1.9%, from €79,568 thousand in 2011 to €81,065 thousand in 2012 primarily due to the increase in group revenue offsetting the increases in cost of sales and administrative expenses as discussed above.

The following table sets forth the Avincis Group's underlying operating profit according to geographical segment for the periods indicated.

	For the year ended 31 December		Variation	
	2012	2011	2012/2011	2012/2011
	<i>(in € thousands)</i>			<i>(%)</i>
Spain	23,451	24,665	(1,214)	(4.9)
Italy	18,389	19,920	(1,531)	(7.7)
United Kingdom	33,028	22,896	10,132	44.3
Australia	3,461	7,946	(4,485)	(56.4)
France	5,540	6,650	(1,110)	(16.7)
Other Countries	(4,000)	2,905	(6,905)	(237.7)
Inter-segment eliminations	1,196	(5,414)	6,610	(122.1)
Total	81,065	79,568	1,497	1.9

Underlying operating profit for Australia decreased due to the impairment in value of certain aircraft recognised in 2012.

Share of results of joint ventures and associates

The Avincis Group's share of results of joint ventures and associates increased by €552 thousand, or 27.6%, from €1,998 thousand in 2011 to €2,550 thousand in 2012. The increase was primarily a result of recognition of certain tax loss carry-forwards at Helidax in 2012.

Finance costs

Finance costs increased by €10,893 thousand, or 14.3%, from €76,071 thousand in 2011 to €86,964 thousand in 2012. The increase was attributable primarily to an increase in borrowings primarily to finance working capital needs.

Income tax credit

Income tax credit increased by €6,654 thousand from €1,980 thousand in 2011 to €8,634 thousand in 2012 primarily reflecting the increase in loss before tax.

Loss for the year from continuing operations

As a result of the foregoing, the Avincis Group's loss for the year from continuing operations increased by €17,025 thousand from €9,452 thousand in 2011 to €26,477 thousand in 2012.

6. LIQUIDITY AND CAPITAL RESOURCES

During the periods under review, the Avincis Group financed its operations principally by using a combination of cash flow from operating activities and borrowings, including bond issuances. As at 31 December 2013, the Avincis Group had third party net debt of €842,768 thousand.

As discussed in paragraph 4 (*Liquidity and Capital Resources*) of Part VII (*Operating and Financial Review of the Babcock Group*), the Babcock Board may choose to refinance the indebtedness of the Avincis Group by utilising the Bridge Facility.

Cash flows

	For the year ended 31 December		
	2013	2012	2011
	<i>(in € thousands)</i>		
Net cash flows from/(used in) operating activities	66,670	(20,147)	38,242
Net cash flows used in investing activities	(36,877)	(58,007)	(209,527)
Net cash flows from financing activities	61,995	116,148	140,617
Net increase/(decrease) in cash	91,788	37,994	(30,668)
Cash at beginning of year	80,943	44,181	76,430
Effects of foreign exchange rate fluctuations	(146)	(1,232)	(1,581)
Cash at end of year	172,585	80,943	44,181

Net cash flows from operating activities

In 2013, net cash flows from operating activities increased by €86,817 thousand, from a cash outflow of €20,147 thousand in 2012 to a cash inflow of €66,670 thousand in 2013. The increase was due primarily to improved working capital reflecting a reduction in receivables as a result of an increase in factoring on a non-recourse basis and improvement in payment terms of Italian and Spanish customers and reduced payables as a result of negotiating better terms with certain key suppliers. The improvement in working capital was partially offset by the worsening profitability of the Avincis Group.

In 2012, net cash flows from operating activities decreased by €58,389 thousand from an inflow of €38,242 thousand in 2011 to an outflow of €20,147 thousand in 2012. The decrease was due primarily to worsening working capital mainly resulting from an increase in receivables as a result of a decrease in factoring on a non-recourse basis with certain factoring lines being temporarily suspended in 2012 as well as worsening profitability.

Net cash flows from investing activities

In 2013, net cash flows from investing activities amounted to an outflow of €36,877 thousand, mainly as a result of an increase in maintenance and other capital expenditure, including net fleet capital expenditure (representing the sum of the amount spent on new aircraft acquisition offset by the amount gained on the disposal of aircraft), offset in part by the recovery of deposits paid in 2012 for delivery of new aircraft and net cash inflows from fleet capital expenditure.

In 2012, net cash flows from investing activities amounted to an outflow of €58,007 thousand. The Avincis Group's primary use of cash from investing activities was maintenance and other capital expenditure, including the payment of deposits for new aircraft, offset by net cash inflows from fleet capital expenditure.

In 2011, net cash flows from investing activities amounted to an outflow of €209,527 thousand, principally relating to the Bond Acquisition as well as maintenance and other capital expenditure and net cash outflows from fleet capital expenditure.

Net cash flows from financing activities

In 2013, net cash flows from financing activities amounted to an inflow of €61,995 thousand, reflecting the issuance of £200 million senior secured floating rate notes which were used, in part, to refinance existing debt and increased total indebtedness as well as additional finance leases to fund the Avincis Group's fleet.

In 2012, net cash flows from financing activities amounted to an inflow of €116,148 thousand, reflecting the increased borrowings under the Avincis Revolving Facility to fund working capital needs and additional finance leases.

In 2011 net cash flows from financing activities amounted to an inflow of €140,617 thousand which principally included borrowings associated with the Bond Acquisition.

7. CAPITAL EXPENDITURE

The following table sets for the Avincis Group's capital expenditure cash outflow for the periods indicated.

	For the year ended 31 December		
	2013	2012	2011
	<i>(in € millions)</i>		
Net fleet capital expenditure	(9.1)	(24.9)	25.8
Fleet advances	(20.0)	28.3	5.5
Fleet maintenance and other capital expenditure	65.0	54.2	43.8
Total capital expenditure cash outflow⁽⁴⁾	35.9	57.6	75.1

⁽¹⁾ Net fleet capital expenditure represents the amount spent on new aircraft acquisitions less the proceeds from disposals of aircraft.

⁽²⁾ Fleet advances are deposits paid to aircraft manufacturers in connection with purchase options for new aircraft, less the return of deposits on inception of aircraft financing.

- (3) Fleet maintenance and other capital expenditure includes expenditure on major overhauls of aircraft and all non-aircraft capital expenditure, less the proceeds from disposals of such items.
- (4) Total capital expenditure cash outflow represents cash outflows for purchases of property, plant and equipment and intangible assets, less cash inflows from proceeds on disposal of property, plant and equipment and intangible assets.

Avincis makes pre-payments to aircraft manufacturers to ensure it has a “slot” on the manufacturing chain so if it is awarded a contract, the required aircraft will be delivered in time for commencement of the services. If Avincis determines that it does not require an aircraft for which it has made pre-payments, the purchase option can generally be sold on the secondary market. As at 31 December 2013 Avincis had purchase options on 75 aircraft representing a value of over €650 million. In 2011, Avincis ordered 16 Sikorsky S-92 helicopters, of which four have been delivered and two are awaiting delivery. A deposit has been paid in respect of the remaining 10 helicopters. However, Avincis is not under a contractual obligation to purchase these 10 helicopters.

8. CONTRACTUAL OBLIGATIONS

The following table summarizes the maturity profile of the Avincis Group’s contractual obligations as at 31 December 2013.

Contractual Obligations (in € million)	Payments due by period				
	Total	Less than one year	1 to 3 years	3 to 5 years	More than five years
Avincis Revolving Facility	145.0	-	145.0	-	-
9.5% senior secured notes due 2017 issued by Inaer Aviation Finance Limited	470.0	-	-	470.0	-
Senior secured floating rate notes due 2019 issued by Bond Mission Critical Services plc ⁽¹⁾	239.9	-	-	-	239.9
Vendor loan note ⁽²⁾	12.5	-	-	12.5	-
Shareholder loan ⁽³⁾	117.5	-	-	-	117.5
Other ⁽⁴⁾	390.3	74.0	147.1	95.3	73.9
Total	1,375.2	74.0	292.1	577.8	431.3

(1) On 27 January 2014, an additional £60 million of senior secured floating rate notes due 2019 were issued.

(2) Amount owed (including accrued interest) to prior shareholders as a result of the Bond Acquisition.

(3) The shareholder loan will be repaid at Acquisition.

(4) Other comprises principally obligations under finance leases and operating lease rentals as well as derivative financial instruments and a facility with National Australia Bank Limited entered into by a member of the Avincis Group.

9. OFF-BALANCE SHEET ARRANGEMENTS

The Avincis Group generally does not utilise off-balance sheet arrangements, other than performance bonds for obligations under customer contracts with public authorities and non-recourse factoring of certain trade receivables. As of December 31, 2013, the Avincis Group had non-recourse factoring of trade receivables in an aggregate amount of €68.2 million and performance bonds outstanding in an aggregate amount of €84.8 million.

See note 19 to the Avincis Group’s Historical Financial Information which can be found in Part X (*Historical Financial Information Relating to the Avincis Group*) for information on the Avincis Group’s guarantees and commitments with third parties.

10. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

See note 13 to the Avincis Group’s Historical Financial Information which can be found in Part X (*Historical Financial Information Relating to the Avincis Group*) for information on the Avincis Group’s market risks.

11. CRITICAL ACCOUNTING POLICIES

See “Critical judgements in applying the Avincis Group’s accounting policies” in note 3 to the Avincis Group’s Historical Financial Information which can be found in Part X (*Historical Financial Information Relating to the Avincis Group*) for information on the Avincis Group’s critical accounting policies.

12. RECENT DEVELOPMENTS

On 27 January 2014, Bond Mission Critical Services plc, issued £60 million of additional senior secured floating rate notes due 2019. The proceeds of the issuance of the notes will be used for capital expenditure and general corporate purposes, cash overfunding and to pay commissions, fees and other expenses associated with the issuance of the notes. The notes are additional notes under the indenture dated 9 May 2013 governing the initial £200 million of senior secured floating rate notes due 2019 issued in 2013 and have the same terms as the initial notes. See paragraph 9.2(e) (“*Avincis material contracts – Senior Secured Floating Rate Notes due 2019*”) of Part XIV (*Additional Information*) of this document.

On 1 March 2014, Avincis Mission Critical Services Scandinavia AB entered into a conditional agreement to acquire an indirect interest of approximately 85 per cent. of Scandinavian AirAmbulance for an initial cash consideration of SEK206.5 million with a further SEK4.2 million (subject to a completion adjustment) payable in two years’ time. Scandinavian AirAmbulance provides emergency medical services in Sweden and Finland from 12 permanent bases. For the financial year ended 30 April 2013, Scandinavian AirAmbulance reported net revenue of SEK429 million and EBITDA of SEK103 million. Completion of the acquisition remains subject to the satisfaction or waiver of a number of conditions, and there is no guarantee as to when or whether those conditions will be satisfied.

PART IX
HISTORICAL FINANCIAL INFORMATION RELATING TO THE BABCOCK GROUP

1. INCORPORATION BY REFERENCE

The Audited Financial Statements, as set out in the Company's Annual Report 2011, 2012 and 2013, which are available on the Company's website at www.babcockinternational.com, together with the unqualified independent audit reports in respect of those financial statements and the Half Year Report 2013/14 are hereby incorporated by reference into this document.

2. CROSS REFERENCE LIST

The following list is intended to enable Shareholders to identify easily specific items of financial information which have been incorporated by reference into this document.

2.1 Unaudited consolidated financial information for the Group for the six months ended 30 September 2013 and the unqualified review report thereon

The page numbers below refer to the relevant pages of the Half Year Report 2013/14:

Group income statement	page 12
Group statement of comprehensive income	page 13
Group statement of changes in equity	page 13
Group balance sheet	page 14
Group cash flows statement	page 15
Notes to the group half year financial statements	pages 16-24

2.2 Consolidated financial statements for the Group for the financial year ended 31 March 2013 and the unqualified audit report thereon

The page numbers below refer to the relevant pages of the Company's Annual Report 2013:

Independent auditor's report to the members of Babcock	page 101
Group income statement	page 102
Group statement of comprehensive income	page 103
Group statement of changes in equity	page 103
Group balance sheet	page 104
Group cash flows statement	page 105
Notes to the group financial statements	pages 106-148

2.3 Consolidated financial statements for the Group for the financial year ended 31 March 2012 and the unqualified audit report thereon

The page numbers below refer to the relevant pages of the Company's Annual Report 2012:

Independent auditor's report to the members of Babcock	page 83
Group income statement	page 84
Group statement of comprehensive income	page 85
Group statement of changes in equity	page 85
Group balance sheet	page 86
Group cash flows statement	page 87
Notes to the group financial statements	pages 88-127

2.4 Consolidated financial statements for the Group for the financial year ended 31 March 2011 and the unqualified audit report thereon

The page numbers below refer to the relevant pages of the Company's Annual Report 2011:

Independent auditor's report to the members of Babcock	page 81
Group income statement	page 82
Group statement of comprehensive income	page 83
Group statement of changes in equity	page 83
Group balance sheet	page 84
Group cash flows statement	page 85
Notes to the group financial statements	pages 86-124

PART X
HISTORICAL FINANCIAL INFORMATION RELATING TO THE AVINCIS GROUP

**SECTION A1: ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF
AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED**

Deloitte.

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD

The Board of Directors
on behalf of Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

27 March 2014

Dear Sirs

Avincis Mission Critical Services Topco Limited (“Avincis” and, with its subsidiaries, the “Avincis Group”)

We report on the financial information of the Avincis Group for the three years ended 31 December 2013 set out in Section A2 of Part X of the prospectus and Class 1 circular relating to the issue of new ordinary shares by Babcock International Group PLC (the “**Company**”) and the acquisition of Avincis (the “**Prospectus**”). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in notes 2 and 3 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”) and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Avincis Group as at 31 December 2013, 31 December 2012 and 31 December 2011 and of its losses, cash flows and changes in equity for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP

Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

**SECTION A2: HISTORICAL FINANCIAL INFORMATION OF AVINCIS MISSION CRITICAL
SERVICES TOPCO LIMITED**

AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR
ENDED 31 DECEMBER 2013, 2012 AND 2011**

(€'000)

	Note	31 December 2013	31 December 2012	31 December 2011
Total revenue	17	582,192	573,518	515,531
Less: joint ventures and associates revenue		(15,704)	(20,961)	(19,175)
Group revenue	17	566,488	552,557	496,356
Operating profit before amortisation of acquired intangibles and exceptional items		67,098	76,407	75,489
Amortisation of acquired intangibles		(1,987)	(2,091)	(1,399)
Exceptional items	17	(30,185)	(26,169)	(19,004)
Group operating profit		34,926	48,147	55,086
Joint ventures and associates	8			
Share of operating profit		4,865	4,658	4,079
Finance costs		(1,759)	(1,101)	(1,754)
Income tax expense		(1,270)	(1,007)	(327)
Joint ventures and associates		1,836	2,550	1,998
Group and joint ventures and associates				
Operating profit before amortisation of acquired intangibles and exceptional items		71,963	81,065	79,568
Amortisation of acquired intangibles		(1,987)	(2,091)	(1,399)
Exceptional items	17	(30,185)	(26,169)	(19,004)
Joint ventures and associates finance costs		(1,759)	(1,101)	(1,754)
Joint ventures and associates income tax expense		(1,270)	(1,007)	(327)
Group operating profit plus share of joint ventures and associates		36,762	50,697	57,084
Finance costs				
Finance costs	17	(104,117)	(86,964)	(76,071)
Finance income		2,020	1,652	792
Other gains and losses	24	(3,468)	(496)	6,763
Loss before tax	17	(68,803)	(35,111)	(11,432)
Income tax credit	16	5,415	8,634	1,980
Loss for the year from continuing operations		(63,388)	(26,477)	(9,452)
Discontinued operations				
(Loss)/profit for the year from discontinued operations attributable to owners of the parent	20	(14,092)	(1,000)	69
Loss for the year		(77,480)	(27,477)	(9,383)
Owners of the parent		(75,793)	(25,541)	(9,385)
Non-controlling interest		(1,687)	(1,936)	2

AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR

ENDED 31 DECEMBER 2013, 2012 AND 2011

(€'000)

	Note	31 December 2013	31 December 2012	31 December 2011
Loss for the year		(77,480)	(27,477)	(9,383)
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		(13,215)	4,259	(4,540)
Income tax relating to items that may be reclassified		(258)	(52)	1,121
Total income and expenses recognised directly in equity		(13,473)	4,207	(3,419)
Total comprehensive loss		(90,953)	(23,270)	(12,801)
Attributable to:				
Owners of the parent		(89,260)	(21,391)	(12,803)
Non-controlling interest		(1,693)	(1,879)	2
Total comprehensive loss		(90,953)	(23,270)	(12,801)

AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013, 2012 AND 2011

(€'000)

	Note	31 December 2013	31 December 2012	31 December 2011
Non-current assets				
Goodwill	4	196,240	205,085	200,528
Other intangible assets	5	32,109	33,610	33,152
Property, plant and equipment	6	760,364	795,790	794,393
Investment in joint ventures and associates	8	10,042	9,931	8,206
Other receivables	10	46,159	44,683	42,872
Other financial assets		13,038	4,718	5,190
Deferred tax asset	16	46,723	46,155	33,127
Total non-current assets		1,104,675	1,139,972	1,117,468
Current assets				
Inventories	9	27,703	26,260	21,561
Trade and other receivables	10	120,414	153,893	112,022
Other financial assets		443	2,832	2,134
Cash and cash equivalents	22	172,585	80,943	44,181
Total current assets		321,145	263,928	179,898
Total assets		1,425,820	1,403,900	1,297,366
Equity				
Share capital	11	173	173	90,954
Share premium	11	172,968	172,968	75,159
Shareholders' contribution reserve		-	-	6,198
Translation reserve		(7,760)	5,707	1,821
Retained losses		(105,611)	(28,724)	(3,099)
Merger reserve		(830)	(830)	-
Non-controlling interest		(56)	543	2,074
Total equity		58,884	149,837	173,107
Non-current liabilities				
Provisions	14	7,633	7,310	7,211
Obligations under finance leases	7	122,548	113,103	140,052
Bank and other borrowings	12	842,483	769,862	623,761
Long-term debts with sole shareholder	12	117,526	106,386	96,274
Vendor loan note	12	12,594	18,380	18,068
Derivative financial instruments	25	779	2,572	4,009
Government grants		1,286	1,286	1,349
Deferred tax	16	52,056	57,065	57,172
Total non-current liabilities		1,156,905	1,075,964	947,896
Current liabilities				
Provisions	14	2,222	-	-
Obligations under finance leases	7	22,096	20,440	20,023
Bank and other borrowings	12	26,920	37,671	32,812
Trade and other payables	15	158,266	119,346	123,482
Derivative financial instruments	25	494	595	38
Other financial liabilities		33	47	7
Total current liabilities		210,031	178,099	176,362
Total equity and liabilities		1,425,820	1,403,900	1,297,366

AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED AND SUBSIDIARIES

**STATEMENT OF CONSOLIDATED CASH FLOWS FOR
THE YEARS ENDED ON 31 DECEMBER 2013, 2012 AND 2011
(€'000)**

	Note	31 December 2013	31 December 2012	31 December 2011
Cash flows from operating activities				
Cash generated from operations	22	144,128	55,761	114,802
Income tax paid		(1,442)	(3,572)	(8,268)
Interest paid		(78,036)	(73,988)	(69,084)
Interest received		2,020	1,652	792
Net cash flows from/(used in) operating activities	22	66,670	(20,147)	38,242
Cash flows from investing activities				
Proceeds on disposal of trading investments		11	-	2,537
Proceeds on disposal of intangibles		108	-	-
Proceeds on disposal of subsidiary		648	-	-
Proceeds on disposal of property, plant and equipment		92,025	74,598	33,020
Purchases of property, plant and equipment		(124,267)	(127,659)	(93,596)
Purchases of Group companies		-	-	(135,807)
Purchases of trading investments		(1,686)	(361)	(1,147)
Purchases of intangible assets		(3,716)	(4,585)	(14,534)
Net cash flows used in investing activities		(36,877)	(58,007)	(209,527)
Cash flows from financing activities				
Dividends from associates		1,309	600	177
Issuance of Equity instruments		-	-	2,351
Repayments of other loans		(28,522)	(25,531)	(37,311)
Repayments of bank loans		(177,887)	(37,847)	(142,622)
Proceeds on issue of other loans		226,847	5,216	147,753
New bank loans raised		40,248	173,710	170,269
Net cash flows from financing activities		61,995	116,148	140,617
Net increase/(decrease) in cash		91,788	37,994	(30,668)
Cash at beginning of year		80,943	44,181	76,430
Effects of foreign exchange rate fluctuations		(146)	(1,232)	(1,581)
Cash at end of year	22	172,585	80,943	44,181

AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS
ENDED ON 31 DECEMBER 2013, 2012 AND 2011
(€'000)**

	Share capital	Share premium account	Shareholders' contribution reserve	Translation reserve	Retained losses	Merger reserve	Non- controlling interest	Total
Balance at 1 January 2011	71,173	75,159	6,198	5,239	6,286	-	875	164,930
Total comprehensive (loss)/income for the period 2011	-	-	-	(3,418)	(9,385)	-	2	(12,801)
Capital increase	19,781	-	-	-	-	-	-	19,781
Adjustment arising from change in non-controlling interest	-	-	-	-	-	-	1,197	1,197
Balance at 31 December 2011	90,954	75,159	6,198	1,821	(3,099)	-	2,074	173,107
Total comprehensive (loss)/income for the period 2012	-	-	-	4,150	(25,541)	-	(1,879)	(23,270)
Group reconstruction	(90,781)	97,809	(6,198)	-	-	(830)	-	-
Adjustment arising from change in non-controlling interest	-	-	-	(264)	264	-	-	-
Other movements	-	-	-	-	(348)	-	348	-
Balance at 31 December 2012	173	172,968	-	5,707	(28,724)	(830)	543	149,837
Total comprehensive (loss)/income for the period 2013	-	-	-	(13,467)	(75,793)	-	(1,693)	(90,953)
Adjustment arising from change in non-controlling interest	-	-	-	-	(1,094)	-	1,094	-
Balance at 31 December 2013	173	172,968	-	(7,760)	(105,611)	(830)	(56)	58,884

AVINCIS MISSION CRITICAL SERVICES TOPCO LIMITED AND SUBSIDIARIES

NOTES TO HISTORICAL FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

1. General Information

Avincis Mission Critical Services Topco Ltd (“Avincis”) is a company incorporated in the United Kingdom under the Companies Act. Avincis (together with its subsidiaries, joint ventures and associates, the “Avincis Group”), is one of the world’s leading providers of helicopter and fixed wing services for mission critical operations. Avincis Group services are provided predominantly to blue-chip corporations, public administrations (principally national and regional governments) and charities on medium to long-term contracts. Although financial information is reported internally by geography, the Avincis Group provides services in three divisions: Life & Rescue, Safety & Environment and Energy Support Services. Headquartered in London and employing more than 2,800 employees, the Avincis Group’s operations are primarily conducted in the following locations: Australia, France, Italy, Ireland, Norway, Portugal, Spain, United Kingdom, and Latin America.

This financial information is presented in euros because that is the currency of the primary economic environment in which the Avincis Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

The following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in this historical financial information for all periods.

Standards affecting the financial information

IFRS 13
Fair Value Measurement

The Avincis Group has applied IFRS 13. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value-in-use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated historical financial information.

Standards not affecting the reported results nor the financial position

The following new and revised Standards and Interpretations have been adopted and applied in this historical financial information for all periods presented.

Amendments to IFRS 7 Disclosures

The Avincis Group has applied the amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendments has had no impact on the disclosures or on the amounts recognised in the consolidated financial statements.

IAS 19

The application of the amendments has had no impact on the disclosures or on the amounts recognised in the consolidated historical financial information.

2. Adoption of new and revised Standards (continued)

Standards not yet effective

The following Standards and Interpretations which have not been applied in the historical financial information were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27	Separate Financial Statements (2011)
IAS 28	Investments in Associates and Joint Ventures (2011)
IAS 32	Financial Instruments: Presentation
IAS 36 (amendments)	Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 (amendments)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC Interpretation 21	Levies

The directors do not expect that the adoption of Standards and Interpretations listed above will have a material impact on the financial statements of the Avincis Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments.

3 Accounting policies and critical accounting estimates and judgements

Basis of accounting

The preparation of this historical financial information of the Avincis Group has been performed solely for the inclusion by Babcock in its Class 1 Circular prepared in accordance with the Listing Rules made by the Financial Conduct Authority for the purposes of Part VI of the Financial Services and Markets Act.

Accordingly, this historical financial information has been prepared in compliance with the requirements of the Listing Rules of the United Kingdom Listing Authority and with IFRS as adopted by the European Union ("IFRS-EU"). Where there is more than one recognition measurement, presentation or disclosure option available under IFRS-EU, the Avincis Group has chosen to follow the application undertaken by Babcock.

The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial information incorporates the financial information of Avincis and entities controlled by Avincis (its subsidiaries) made up to 31 December each year. Control is achieved when Avincis has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Avincis Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transitions between the members of the Avincis Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Avincis Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Avincis Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Avincis Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of Avincis.

When the Avincis Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of

3 Accounting policies and critical accounting estimates and judgements (continued)

any retained interests and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Avincis Group had directly disposed of the relevant assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

The financial information consolidates the financial statements of the company and all of its subsidiaries. Avincis Group' Group revenue and Group operating profit therefore excludes amounts earned from interests in associates and joint ventures. In 2012, the Avincis Group underwent a reorganisation to establish the company as the holding company of the Avincis Group. This transaction was a common control transaction, which does not have specific accounting guidance under International Financial Reporting Standards ("IFRS"). As the corporate reorganisation did not have a direct result on the Avincis Group or its subsidiaries and the underlying business has operated for all three years presented, the Board of Directors have prepared the financial statements to present both years on a comparative basis using the principles of merger accounting. There has been no accounting impact from the corporate reorganisation except for the recognition of a merger reserve at the point of the transaction and the share capital of Avincis Mission Critical Services Topco Ltd replacing the share capital of the previous legal parent. As such the Avincis Group financial statements are presented as if Avincis Mission Critical Services Topco Ltd had been the parent of the Avincis Group for all years presented.

Going concern

The Avincis Group incurred a loss in 2013 of €77.5 million and has net assets at the end of that year of €58.9 million. The Avincis Group has secured revenue streams from long-term contracts and is able to meet its debts as they fall due.

The Avincis Group is financed by long term-loans from both banks and other group undertakings and the cash flows generated are sufficient to meet the interest payments and covenant tests as they fall due. The directors have prepared and reviewed a five-year plan and, as a result, they believe the Avincis Group is well placed to be profitable going forward.

The directors have considered forecast performance, cashflows and debt covenant requirements for the Avincis Group for a period no less than 12 months from the date of the issuing of this prospectus. Following their review, the directors have a reasonable expectation that Avincis and the Avincis Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the historical financial information.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Avincis Group, liabilities incurred by the Avincis Group to the former owners of the acquiree and the equity interest issued by the Avincis Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as for sale in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Avincis Group in a business combination includes assets or a liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date

3 Accounting policies and critical accounting estimates and judgements (continued)

fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Avincis Group's previously held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Avincis Group reports provision amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

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

Goodwill arising on consolidation represents the excess of acquisition cost over the Avincis Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the acquisition date.

For the purposes of impairment testing, goodwill is allocated to each of the Avincis Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Avincis Group's policy for goodwill arising on the acquisition of an associate is described in "Investment in associates" below.

Investment in associates

An associate is an entity over which the Avincis Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Avincis Group's share of the profit or loss and other comprehensive income of the associate. When the Avincis Group's share of losses of an associate exceeds the Avincis Group's interest in that

3 Accounting policies and critical accounting estimates and judgements (continued)

associate (which includes any long-term interests that, in substance, form part of the Avincis Group's net investment in the associate), the Avincis Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Avincis Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Avincis Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Avincis Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Avincis Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Avincis Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Avincis Group retains an interest in the former associate and the retained interest is a financial asset, the Avincis Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Avincis Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Avincis Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Avincis Group reduces its ownership interest in an associate but the Avincis Group continues to use the equity method, the Avincis Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Avincis Group, profits and losses resulting from the transactions with the associate are recognised in the Avincis Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Avincis Group.

Interests in joint ventures

A joint venture is an entity over which the Avincis Group has control jointly with one or more other parties and that is neither a subsidiary nor an interest in an associate. Joint control is contractually agreed sharing of control over an economic activity, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, the interest in joint ventures is carried on the balance sheet at cost plus post-acquisition changes in the Avincis Group's share of its net assets, less distributions received and less any impairment in value of the individual investments. The Avincis Group income statement reflects the share of the jointly controlled entity's results after tax. Where there has been a change recognised in the comprehensive income of the jointly controlled entity, the Avincis Group recognises its share of any such changes in the Avincis Group statement of comprehensive income. Losses of a joint venture in excess of the Avincis Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Avincis Group's net investment in the joint venture) are recognised only to the extent that the Avincis Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the Avincis Group's share of the net fair value of the entity's identifiable assets, liabilities and

3 Accounting policies and critical accounting estimates and judgements (continued)

contingent liabilities, is included in the carrying amount of the jointly controlled entity and is not amortised. To the extent that the fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Avincis Group's share of the entity's profit or loss in the year in which the investment is acquired.

Costs associated with the acquisition of a joint venture are capitalised into the initial cost of investment.

Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Avincis Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Avincis Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Avincis Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate that will be disposed of, is classified as held for sale when the criteria described above are met, and the Avincis Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Avincis Group discontinues the use of the equity method at the time of disposal when the disposal results in the Avincis Group losing significant influence over the associate.

After the disposal takes place, the Avincis Group accounts for any retained interest in the associate in accordance with IAS 39 unless the retained interest continues to be an associate, in which case the Avincis Group uses the equity method (see the accounting policy regarding investments in associates above).

A discontinued operation is a component of an entity that has either been disposed of, or satisfies the criteria to be classified as held for sale or distribution, and represents a separate major line of business or geographic area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations, or is a subsidiary acquired exclusively with a view to disposal.

Revenue recognition

The Avincis Group measures revenue as the fair value of consideration received or receivable and such revenue represents amounts received for goods and services provided in the normal course of business, net of discounts, estimated customer returns, VAT and other sales-related taxes.

Revenue is recognised when the amount can be reliably estimated, collection is probable, the Avincis Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control of the goods sold, and the inherent risks and rewards of ownership of the goods have been transferred to the other party.

Where contracts include provisions for adjustments, including yearly increases based on external benchmarks, these are not taken into consideration until they are known.

Provision of services

Revenue from services is primarily derived from the provision of aircraft, a majority of these being helicopters for mission critical flights. Revenue includes fixed contract fees and variable fees such as revenue earned with reference to flying hours. The Avincis Group records revenue relating to services rendered using an accrual method and in accordance with the terms of the contracts pursuant to which such services are rendered. Revenue from helicopter services is recognised based on contractual rates as the related services are performed. The charges under these contracts are generally based on a two-tier rate structure consisting of a fixed monthly fee plus additional fees for each hour flown.

The Avincis Group also earns other revenues from the provision of training courses to external parties. These revenues are recognised at the point of service delivery. Where training courses are delivered across accounting periods, revenue is recognised in line with the proportion of the course completed. Revenues derived from design and completion activities are recognised in direct relation to the proportion of work completed if the final outcome can be assessed with reasonable certainty.

3 Accounting policies and critical accounting estimates and judgements (continued)

Dividend and interest revenue

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Avincis Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Avincis Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As a lessee

Assets held under finance leases are recognised as assets of the Avincis Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Avincis Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The historical financial information of each group company is presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the historical financial information, the results of each group company are translated into Euros, which is the functional currency of Avincis, and the presentation currency of the Avincis Group.

In preparing the historical financial information of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purposes of presenting the historical financial information, the assets and liabilities of the Avincis Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period.

3 Accounting policies and critical accounting estimates and judgements (continued)

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Avincis Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Avincis Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Avincis Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Avincis Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The Avincis Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as Euro-denominated assets and liabilities.

Government grants

Government grants are not recognised until there is reasonable assurance that the Avincis Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Avincis Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Avincis Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Avincis Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Exceptional items

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

Retirement benefits costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Avincis Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on the taxable result for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Avincis Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is

3 Accounting policies and critical accounting estimates and judgements (continued)

accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Avincis Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Avincis Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment is shown at cost less depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Properties are carried at cost, less any recognised impairment loss.

Assets under construction relate to advance payments for aircraft.

Freehold land and assets under construction are not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Buildings	3-7%
Aircraft	2-10%
Fixtures and fittings	10-25%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An element of the cost of new aircraft is attributed to key components which are subject to scheduled overhauls. Subsequent costs incurred which provide enhancements to future periods, such as long-term scheduled maintenance and major overhauls of aircraft, are capitalised and depreciated over the length of the period benefiting from these enhancements.

3 Accounting policies and critical accounting estimates and judgements (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets as there is reasonable certainty that the Avincis Group will obtain ownership of the financed asset by the end of the lease term.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Maintenance deposits

Where maintenance is provided by a third party under 'power by the hour' contracts which include a refundable element if the service is not used, these prepaid amounts are recorded as prepayments and included within 'other receivables' and 'trade and other receivables' in the consolidated statement of financial position.

Intangible assets

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated development cost intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated development cost intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on a straight-line basis over the useful lives, which is a maximum period of five years.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination, which are recognised separately from goodwill typically relate to acquired customer relationships within our sector. Acquired customer relationships comprise both acquired contractual orders and non-contractual orders which are represented by the risk adjusted value of future orders expected to arise from the relationships. Acquired customer relationships are initially recognised at their fair value at the acquisition date and are amortised on a straight-line basis over the remaining period of the orders that are in process, for contractual orders, and over the period in which the future orders are estimated to be fulfilled for non-contractual orders. Such amortisation periods are generally in the range of four to ten years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Patents and intellectual property

Patents and intellectual property relates to amounts paid for acquiring the ownership or usage rights to intellectual property, or for the expenses incurred in registering the intellectual property developed by the Avincis Group. They are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives of five years.

3 Accounting policies and critical accounting estimates and judgements (continued)

Software

Licenses for computer programs acquired from third parties are capitalised based on the costs that were incurred to acquire and prepare the software for its intended use and are amortised over the estimated useful lives of 4–5 years.

The expenses related to maintenance of computer programs are recognised as expense when they are incurred.

Other intangible assets

Other intangible assets primarily relates to initial costs incurred by the Avincis Group in relation to the obtainment of contracts for the provision of services to public authorities. These costs are recorded in profit or loss over the duration of the contract period in order to match these costs with the revenue recognised.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Avincis Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost or net realisable value and consist primarily of spare parts and other aircraft components. Commercial discounts, rebates obtained, and other similar items are deducted when the acquisition price is being determined.

The Avincis Group uses the weighted average cost method when determining the cost of inventory. The net realisable value represents the estimate of the sale price minus all estimated costs for completing their manufacturing and the costs that will be incurred in the processes of marketing, sale and distribution. If the net realisable value of inventories is less than the cost, the Avincis Group writes down the inventories and recognises an expense in cost of sales in the period.

Financial instruments

Financial assets and financial liabilities are recognised in the Avincis Group's balance sheet when the Avincis Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3 Accounting policies and critical accounting estimates and judgements (continued)

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Avincis Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Avincis Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

3 Accounting policies and critical accounting estimates and judgements (continued)

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Avincis Group assesses impairment of trade receivables on an individual basis and makes provisions for trade receivables that are between 90 and 120 days past due as appropriate. For trade accounts receivable that are more than 120 days past due, the Avincis Group generally provides for 100% of the balance due, except where the debtor is a public institution. In the case of public institutions, the Avincis Group does not provide for trade account receivable unless they are in dispute. Trade accounts receivable that are more than 365 days past due are written off as the Avincis Group considers that they are not recoverable. The Avincis Group takes into consideration the insured portion of trade accounts receivable and amounts estimated to be recoverable based on the Avincis Group's experience in prior years and its assessment of the current economic environment.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Avincis Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Avincis Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Avincis Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Avincis Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Avincis Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Avincis Group retains an option to repurchase part of a transferred asset), the Avincis Group allocates the previous carrying amount of the financial asset

3 Accounting policies and critical accounting estimates and judgements (continued)

between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Avincis Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Avincis Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Avincis Group's own equity instruments.

Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Avincis Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Avincis Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3 Accounting policies and critical accounting estimates and judgements (continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Avincis Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other losses' line item in the income statement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Avincis Group derecognises financial liabilities when, and only when, the Avincis Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Avincis Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps. Further details of derivative financial instruments are disclosed in note 25.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Avincis Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Provisions

Provisions are recognised when the Avincis Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Avincis Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3 Accounting policies and critical accounting estimates and judgements (continued)

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Avincis Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Critical judgements in applying the Avincis Group's accounting policies

The Avincis Group prepares its historical financial information in accordance with IFRS issued by the IASB and adopted by the European Union. In the application of the Avincis Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Avincis Group's accounting policies and that have the most significant effect on the amounts recognised in historical financial information:

Revenue recognition

Revenue recognition on contracts is a key judgement exercised by management on a contract-by-contract basis. In order to make such a judgement an estimate of contract outturn is made and for all significant contracts both local management and Avincis Group review and challenge estimates made.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Carrying value of the property, plant and equipment

Changes to the Avincis Group's estimation of useful lives, residual values and potential for impairment would have a material effect on the valuation of the Avincis Group's assets and on its operating loss. Useful lives and residual values are reviewed at the end of each reporting period. Estimates of useful lives of aircraft are based on judgements as to expected usage of the aircraft including fleet plans, and timing of maintenance events.

Estimates of residual value are based on current market values of aircraft in the same expected age and condition expected at the end of the asset's useful life to the Avincis Group. The carrying values of property, plant and equipment and intangible assets are reviewed for impairment at least annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that would indicate a potential impairment of aircraft would include a significant reduction in market values based on appraisers' data for the aircraft type, a significant change in the physical condition of the aircraft and a reduction in forecast cash flows arising from operating the asset. Carrying value is assessed based on the appraised data and forecast cash flows.

Impairment of goodwill

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate risk adjusted rate specific to the asset. An impairment loss is recognised if the recoverable amount is lower than the carrying amount. In calculating the net present value of the future cash flows, assumptions are required to be made in respect of highly uncertain matters that influence the calculation of the recoverable value including:

- discount rates to be applied reflecting the specific risks involved;
- future cash flows in which the primary variables include estimated revenue growth, related expenses, and projections of investments and working capital.

3 Accounting policies and critical accounting estimates and judgements (continued)

Management prepares and approves formal business plans for its operations, which are used in the value in use calculations. Business plans are based on past experience and consider the best estimates available for future expectations, including third party and external data.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Avincis Group's impairment evaluation and hence results. The Avincis Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in note 4.

Valuation of goodwill and intangible assets

The recognition of business combinations requires the excess of the purchase price over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. Judgements and estimates are involved in the determination of the fair value of assets and liabilities acquired and allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill and if negative, it is recognised in the income statement. Intangible assets acquired and recognised in the business combination include customer relationships. The fair value of these assets is determined by discounting estimated future net cash flows estimated to be generated by the customer relationships. Different assumptions used in determining the estimated future cash flows and discount rates would change the valuation of the intangible assets and resulting goodwill recognised.

Valuation of provisions and contingent liabilities

The Avincis Group makes a provision for pending or threatened disputes or legal proceedings when it is considered probable that there will be an outflow of funds and when the amount can be reasonably estimated. Judgement is necessary in assessing the likelihood that a liability will arise as a result of a pending dispute and to quantify the possible range of the financial settlement. If a liability is considered possible but the amount cannot be estimated, the matter is disclosed in the notes to the financial statements. Due to the uncertainty inherent in the evaluation of such matters, it is difficult to predict the outflow of funds, and is therefore possible that actual losses may be materially different from the originally estimated provision. Further details are provided in note 14.

Valuation of allowances for doubtful debts and inventory obsolescence

The Avincis Group assesses impairment of trade receivables and inventory on an individual basis and records a provision to reduce the assets to their net realisable value when future economic benefits are not expected.

Impairment of trade receivables is assessed on an individual basis and requires judgement in assessing whether the payment of amounts is considered unlikely to occur and a provision is required. In establishing these allowances, the Avincis Group considers a number of factors, including its historical experience, changes in its client's financial position as well as disputes with clients regarding the application of contract provisions to its services. The Avincis Group takes into consideration the insured portion of trade accounts receivable and amounts estimated to be recoverable based on the Avincis Group's experience in prior years and its assessment of the current economic environment. If the financial condition of our clients was to deteriorate, resulting in impairment of their ability to make the required payments, additional allowances may be required.

The Avincis Group records inventory at the lower of cost or net realisable value. At the end of each reporting period, or whenever there are indications of impairment, the Avincis Group tests its inventories to determine whether the recoverable amount has been reduced to below their carrying amount. Estimates and judgements are involved in determining the net realisable value of inventories, which is based on the most reliable evidence of the amount the Avincis Group expects to realise on future sales. If its valuation of these parts is significantly lower than the book value of the parts, an additional provision may be required.

Taxation

The Avincis Group recognises deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are reviewed regularly to assess potential realisation, and where the directors believe that realisation is not probable, that portion of the asset is not recorded. Estimates and assumptions used in this assessment include projected future taxable income, expected timing of the reversals of existing temporary differences and implementation of tax planning strategies. A change in these assumptions could cause an increase or decrease in the amount recognised resulting in an increase or decrease in the effective tax rate, which could materially impact the results of operations. Further details are provided in note 16.

4. Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The Avincis Group has determined that the relevant subsidiary to

4. Goodwill (continued)

which the goodwill relates represents the cash-generating unit to which goodwill is allocated and monitored for impairment. This reflects the fact that each subsidiary comprises the entire activities undertaken in that geographical area and is the level at which independent cash flows are generated. No impairment has been recorded to-date in respect of CGUs owned by the Avincis Group during the periods presented. The carrying amount of goodwill by CGU is as follows:

	€'000			
	Balance at 31 December 2012	Additions for the year	Exchange differences	Balance at 31 December 2013
Bond Aviation Group, Ltd	136,700	-	(2,886)	133,814
AUH Bid-Co Pty, Ltd	33,878	-	(5,959)	27,919
Inaer Helicopter Italia, S.p.A.	19,719	-	-	19,719
Avincis Mission Critical Services, S.A.U.	7,562	-	-	7,562
Inaer Aviones Anfibios, S.A.U.	5,740	-	-	5,740
Inaer Asset Management, S.A.U.	1,231	-	-	1,231
Inaer Euskadi, S.A.U.	174	-	-	174
Inaer Helicopter Chile, S.A.	81	-	-	81
Total cost	205,085	-	(8,845)	196,240

	€'000			
	Balance at 31 December 2011	Additions for the year	Exchange differences	Balance at 31 December 2012
Bond Aviation Group, Ltd	132,172	-	4,528	136,700
AUH Bid-Co Pty, Ltd	33,849	-	29	33,878
Inaer Helicopter Italia, S.p.A.	19,719	-	-	19,719
Avincis Mission Critical Services, S.A.U.	7,562	-	-	7,562
Inaer Aviones Anfibios, S.A.U.	5,740	-	-	5,740
Inaer Asset Management, S.A.U.	1,231	-	-	1,231
Inaer Euskadi, S.A.U.	174	-	-	174
Inaer Helicopter Chile, S.A.	81	-	-	81
Total cost	200,528	-	4,457	205,085

	€'000			
	Balance at 31 December 2010	Additions for the year	Exchange differences	Balance at 31 December 2011
Bond Aviation Group, Ltd	-	127,470	4,702	132,172
AUH Bid-Co Pty, Ltd	32,296	-	1,553	33,849
Inaer Helicopter Italia, S.p.A.	19,719	-	-	19,719
Avincis Mission Critical Services, S.A.U.	7,562	-	-	7,562
Inaer Aviones Anfibios, S.A.U.	5,740	-	-	5,740
Inaer Asset Management, S.A.U.	1,231	-	-	1,231
Inaer Euskadi, S.A.U.	174	-	-	174
Inaer Helicopter Chile, S.A.	81	-	-	81
Total cost	66,803	127,470	6,255	200,528

The Avincis Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. During the year, the goodwill was tested for impairment in accordance with IAS 36 Impairment of Assets. The recoverable amounts of the cash-generating units are determined from value in use calculations. In order to determine the recoverable amount of each cash-generating unit, the key significant assumptions used were the financial budgets, residual value growth rates and discount rates applied to each cash-generating unit.

The Avincis Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Board covering the next five years and showing estimated growth rates from 1% to 3% (2012: 1% to 3%; 2011: 1% to 3%), except for the Bond Aviation Group Ltd, for which a growth rate of approximately 4% per annum over the next five years is assumed as Bond Aviation Group Ltd operates within a high-growth segment. The key assumptions on which the cash flow projections are based relate mainly to bid process, existing backlog and cost forecasts. Data assumptions are based on past experience and reasonable projections approved by the Board and updated in accordance with the performance.

The cash flows for the years not considered in the projections are estimated to be perpetual, with growth of 0%. Projections beyond five years are subject to a 0% growth rate. This rate does not exceed the average long-term growth rate for the relevant markets.

4. Goodwill (continued)

In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGUs. In order to calculate the rate, the current time value of money and the risk premiums generally used by analysts for the business and geographical area are taken into account, giving rise to future discount rates of 9%-13% in 2011, 2012 and 2013.

No impairment has resulted from the impairment review in any period presented.

Management has considered whether reasonably possible changes during the next year in one or more of the key assumptions would result in impairment of any of the cash-generating units or groups of cash-generating units to which significant amounts of goodwill are allocated, and of the aggregate of all cash-generating units as a whole, and has concluded that no impairment would arise.

The goodwill allocated to Bond Aviation Group Ltd, AUH Bid-Co Pty Ltd and Inaer Helicopter Italia SpA. corresponds mainly to the acquisition of knowledge, market share, experience and the means required by the Avincis Group to promote the development of the off-shore business.

5. Other intangible assets

Other intangible assets can be described as follows:

	€'000			
	Balance at 31 December 2012	Additions or charge for the year	Disposals, transfer and exchange differences	Balance at 31 December 2013
Cost:				
Development costs	1,214	184	-	1,398
Patents and intellectual property	1,240	16	-	1,256
Software	4,189	995	1,160	6,344
Acquired customer relationships	20,744	-	(697)	20,047
Other	16,666	2,521	123	19,310
Total cost	44,053	3,716	586	48,355
Amortisation:				
Development costs	(779)	(244)	4	(1,019)
Patents and intellectual property	(718)	(90)	(2)	(810)
Software	(1,923)	(979)	(784)	(3,686)
Acquired customer relationships	(3,564)	(1,987)	117	(5,434)
Other	(3,459)	(1,838)	-	(5,297)
Accumulated amortisation	(10,443)	(5,138)	(665)	(16,246)
Net book value	33,610			32,109

	€'000			
	Balance at 31 December 2011	Additions or charge for the year	Disposals, transfer and exchange differences	Balance at 31 December 2012
Cost:				
Development costs	3,252	81	2,125	1,214
Patents and intellectual property	1,139	203	(108)	1,240
Software	2,663	1,607	(81)	4,189
Acquired customer relationships	20,112	-	632	20,744
Other	11,634	4,851	96	16,666
Total cost	38,800	6,839	1,586	44,053
Amortisation:				
Development costs	(552)	(220)	(7)	(779)
Patents and intellectual property	(652)	(75)	9	(718)
Software	(1,313)	(604)	(6)	(1,923)
Acquired customer relationships	(1,447)	(2,091)	(26)	(3,564)
Other	(1,684)	(1,775)	-	(3,459)
Accumulated amortisation	(5,648)	(4,765)	(30)	(10,443)
Net book value	33,152			33,610

5. Other intangible assets (continued)

	€'000			
	Balance at 31 December 2010	Additions or charge for the year	Disposals, transfer and exchange differences	Balance at 31 December 2011
Cost:				
Development costs	1,410	728	1,114	3,252
Patents and intellectual property	979	80	80	1,139
Software	1,988	793	(118)	2,663
Acquired customer relationships	1,654	18,458	-	20,112
Other	497	12,464	(1,327)	11,634
Total cost	6,528	32,523	(251)	38,800
Amortisation:				
Development costs	(444)	(213)	105	(552)
Patents and intellectual property	(612)	(46)	6	(652)
Software	(1,064)	(363)	114	(1,313)
Acquired customer relationships	(48)	(1,399)	-	(1,447)
Other	(95)	(1,607)	18	(1,684)
Accumulated amortisation	(2,263)	(3,628)	243	(5,648)
Net book value	4,265			33,152

The information above includes the amortisation charges in respect of discontinued operations for all periods.

Acquired customer relationships represent the estimated fair value of customer relationships acquired in business combinations. The value associated with such customer relationships is in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships. The carrying value of the acquired customer relationships is amortised on a straight-line basis over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. Such amortisation periods are generally in the range four years to ten years.

‘Other’ includes the start up costs incurred by the Avincis Group in relation to the obtainment of contracts for the provision of services to public authorities, predominantly in Italy. These costs are amortised to the consolidated statement of income based upon the length of the individual contract.

6. Property, plant and equipment

	€'000							
	Balance at 31 December 2012	Additions or charge for the year	Disposals	Transfers	Exchange differences	Impairment loss	Charge from discontinued operations	Balance at 31 December 2013
Cost:								
Land and buildings	27,521	4,048	(355)	497	(928)	-	-	30,783
Aircraft	837,141	61,285	(63,562)	(2,481)	(13,045)	-	-	819,338
Fixtures and fittings	133,318	24,965	(7,874)	529	(1,431)	-	-	149,507
Assets under construction	45,658	33,969	(50,203)	(1,022)	(1,163)	-	-	27,239
Total cost	1,043,638	124,267	(121,994)	(2,477)	(16,567)	-	-	1,026,867
Depreciation:								
Land and buildings	(7,511)	(1,528)	278	10	143	-	(27)	(8,635)
Aircraft	(180,756)	(27,485)	16,884	(425)	2,676	(4,994)	(107)	(194,207)
Fixtures and fittings	(59,581)	(12,538)	5,157	2,892	760	-	(351)	(63,661)
Accumulated depreciation and impairment	(247,848)	(41,551)	22,319	2,477	3,579	(4,994)	(485)	(266,503)
Net book value	795,790							760,364

6. Property, plant and equipment (continued)

	€'000							
	Balance at 31 December 2011	Additions or charge for the year	Disposals	Transfers	Exchange differences	Impairment loss	Charge from discontinued operations	Balance at 31 December 2012
Cost:								
Land and buildings	24,395	2,740	-	-	386	-	-	27,521
Aircraft	846,108	79,421	(93,904)	(1,889)	7,405	-	-	837,141
Fixtures and fittings	117,123	17,374	(2,510)	712	619	-	-	133,318
Assets under construction	27,729	28,124	(7,048)	(3,892)	745	-	-	45,658
Total cost	1,015,355	127,659	(103,462)	(5,069)	9,155	-	-	1,043,638
Depreciation:								
Land and buildings	(6,106)	(1,350)	-	58	(96)	-	(17)	(7,511)
Aircraft	(166,988)	(28,922)	17,171	6,071	(1,645)	(6,339)	(104)	(180,756)
Fixtures and fittings	(47,868)	(11,668)	1,784	(1,060)	(269)	-	(500)	(59,581)
Accumulated depreciation and impairment	(220,962)	(41,940)	18,955	5,069	(2,010)	(6,339)	(621)	(247,848)
Net book value	794,393							795,790

	€'000							
	Balance at 31 December 2010	*Additions or charge for the year	Disposals	Transfers	Exchange differences	Impairment loss	Charge from discontinued operations	Balance at 31 December 2011
Cost:								
Land and buildings	15,669	8,116	-	53	557	-	-	24,395
Aircraft	678,027	209,018	(45,168)	(5,792)	10,023	-	-	846,108
Fixtures and fittings	89,015	29,208	(4,470)	2,717	653	-	-	117,123
Assets under construction	11,537	29,412	(8,257)	(5,654)	691	-	-	27,729
Total cost	794,248	275,754	(57,895)	(8,676)	11,924	-	-	1,015,355
Depreciation:								
Land and buildings	(4,936)	(3,533)	-	(44)	(133)	-	-	(6,106)
Aircraft	(155,662)	(22,592)	11,112	9,137	(2,283)	(6,700)	-	(166,988)
Fixtures and fittings	(36,826)	(11,774)	1,508	(417)	(359)	-	-	(47,868)
Accumulated depreciation and impairment	(197,424)	(35,359)	12,630	(8,676)	(2,775)	(6,700)	-	(220,962)
Net book value	596,824							794,393

* Included within additions in 2011 is the fair value of assets acquired as a result of the acquisition of the Bond Group, amounting to €181,786,000 (see note 22c).

The information above includes the depreciation charges in respect of discontinued operations for all periods.

In 2013 the Avincis Group recognised an impairment amount of €4,994,000 primarily related to aircraft (2012: €6,339,000 and 2011: €6,700,000) and attributable to the rationalisation of certain operated fleet models.

Land and buildings are held at historical cost less impairment and depreciation.

The Avincis Group has the following assets, held under finance leases, in the statement of financial position:

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Aircraft	207,120	179,564	191,421
Fixtures & Fittings	5,862	2,534	2,975
Net book value	212,982	182,098	194,396

The fair value of the Avincis Group's finance lease obligations is equal to their carrying amount.

7. Leases

Operating lease arrangements

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Lease payments under operating leases recognised as an expense in the year	35,840	32,032	36,656

At the historical information date, the Avincis Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Minimum lease payments	€'000		
	31 December 2013	31 December 2012	31 December 2011
Within one year	47,610	33,600	25,781
Between two and five years (inclusive)	141,678	81,400	64,095
Greater than five years	33,849	16,800	10,871
Total	223,137	131,800	100,746

Operating leases relate to leases of sites and air bases, aircraft, vehicles and other assets with lease terms between four and 10 years. The leases have various terms, escalation clauses and renewal rights. The Avincis Group does not have an option to purchase the leased items at the expiry of the lease periods.

Finance lease arrangements

Finance lease obligations primarily relate to aircraft operated in France, Italy and Spain. These leases are predominantly on a variable repayment basis with variable interest rates based on EURIBOR. The average effective borrowing rate for the year ended 31 December 2013 is approximately 3.75% (2012: 2.24% - 3.94% and 2011: 2.95% - 3.85%). The leases have various terms with an average term of approximately 7.5 years.

Certain financial leases arranged by the Avincis Group contain mandatory terms and conditions, measured based upon financial ratios of the consolidated Avincis Group. The Board of Directors consider that all the terms and conditions established in the lease agreements are being met.

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Minimum lease payments			
Within one year	29,228	25,371	27,236
Between two and five years (inclusive)	108,040	90,130	103,171
Greater than five years	37,321	37,132	61,877
Total	174,589	152,633	192,284
Less: future finance charges	(29,945)	(19,090)	(32,209)
Present value of lease obligations	144,644	133,543	160,075
Present value of minimum lease payments			
Within one year	22,096	20,440	20,023
Between two and five years (inclusive)	89,772	77,675	83,707
Greater than five years	32,776	35,428	56,345
Total	144,644	133,543	160,075
Amounts due for settlement within 12 months (shown under current liabilities)	22,096	20,440	20,023
Amounts due for settlement after 12 months (shown under non-current liabilities)	122,548	113,103	140,052
Present value of lease obligations	144,644	133,543	160,075

The Avincis Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 6. The Avincis Group does not have any contingent rentals.

8. Subsidiaries and associates

Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is listed below:

Consolidated Companies	Company Purpose	Head Office	% Equity Interest		% Voting Rights		Method of consolidation
			Direct	Indirect	Direct	Indirect	
Avincis Mission Critical Services Ltd.	Holding company	London (UK)	100%	-	100%	-	Consolidation
Avincis Mission Critical Services Holdings S.L.U.	Holding company	Alicante (Spain)	-	100%	-	100%	Consolidation
Avincis Mission Critical Services Group, S.A.U.	Holding company	Alicante (Spain)	-	100%	-	100%	Consolidation
Avincis Mission Critical Services, S.A.U.	Holding company	Alicante (Spain)	-	100%	-	100%	Consolidation
Avincis Mission Critical Services, Scandinavia AB	Holding company	Sweden	-	93.96%	-	93.96%	Consolidation
Inaer Aviation International, S.A.U.	Holding company	Alicante (Spain)	-	100%	-	100%	Consolidation
Inaer Helicópteros, S.A.U.	Aircraft operator	Alicante (Spain)	-	100%	-	100%	Consolidation
Inaer Asset Management, S.A.U.	Leasing of aircraft	Alicante (Spain)	-	100%	-	100%	Consolidation
Inaer Galicia, S.L.	Aircraft operator	Santiago de Compostela (Spain)	-	91.11%	-	91.11%	Consolidation
Inaer Fleet Management, S.A.U.	Leasing of aircraft	Alicante (Spain)	-	100%	-	100%	Consolidation
Inaer Helicopter Chile, S.A.	Aircraft operator	Santiago de Chile (Chile)	-	100%	-	100%	Consolidation
Inaer Aviation Italia, S.p.A.	Aircraft operator	Milan (Italy)	-	100%	-	100%	Consolidation
Inaer Aviation Italia Fleet, S.p.A.	Leasing of aircraft	Milan (Italy)	-	100%	-	100%	Consolidation
Inaer Helicopter Portugal, LDA	Aircraft operator	Cascais (Portugal)	-	75%	-	75%	Consolidation
Inaer Helicopter France, S.A.	Aircraft operator	Le Cannet des Maures (France)	-	100%	-	100%	Consolidation
Inaer Ireland Finance Ltd	Holding company	Dublin (Ireland)	-	100%	-	100%	Consolidation
Inaer Helicopter Australia Pty Ltd	Holding company	Victoria (Australia)	-	100%	-	100%	Consolidation
AUH Bid-Co Pty Limited	Aircraft operator	Victoria (Australia)	-	100%	-	100%	Consolidation
Australian Helicopters Pty Ltd	Aircraft operator	Queensland (Australia)	-	100%	-	100%	Consolidation
Inaer Helicopter Perú, S.A.C.	Aircraft operator	Lima (Peru)	-	99.06%	-	70%	Consolidation
Bond Aviation Topco Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Aviation Group Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Mission Critical Services PLC	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation

8. Subsidiaries and associates (continued)

Consolidated Companies	Company Purpose	Head Office	% Equity Interest		% Voting Rights		Method of consolidation
			Direct	Indirect	Direct	Indirect	
Bond Aviation Holdings Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Aviation Holdings II Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Helicopters Europe Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Aviation Europe Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Air Services (Ireland) Ltd	Aircraft operator	Dublin (Ireland)	-	93.96%	-	93.96%	Consolidation
Bond Air Services Ltd	Aircraft operator	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Offshore Helicopters Ltd	Aircraft operator	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Aviation Leasing Ltd	Leasing of aircraft	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
International Aviation Leasing Ltd	Leasing of aircraft	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond European Aviation Leasing Ltd	Leasing of aircraft	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Dormant Ltd	Dormant	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Proiris Management Services, Ltd	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond SAR Holdings Limited	Holding company	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond SAR Ltd	Aircraft operator	Staverton (UK)	-	93.96%	-	93.96%	Consolidation
Bond Helicopters Australia Pty Ltd	Aircraft operator	Adelaide (Australia)	-	93.96%	-	93.96%	Consolidation
World Helicopters Norway Ltd	Holding company	Oslo (Norway)	-	93.96%	-	93.96%	Consolidation
Norsk Helicopterservice A.S.	Aircraft operator	Fjell (Norway)	-	79.08%	-	79.08%	Consolidation
European Air Crane, S.p.A.	Aircraft operator	Firenze (Italy)	-	49%	-	50%	Equity method
Helidax S.A.S.	Aircraft operator	Dax (France)	-	50%	-	50%	Equity method
Consorzio Elisoccorso San Raffaele in Liquidazione	Aircraft operator	Italy	-	50%	-	50%	Equity method

Interests in associates and joint ventures

	€'000			
	Balance at 31 December 2012	Share of profits	Dividends	Balance at 31 December 2013
Investments in joint ventures and associates				
Helidax, S.A.S.	8,957	1,781	(1,480)	9,258
European Air Crane, S.p.A.	974	55	(245)	784
Total	9,931	1,836	(1,725)	10,042

8. Subsidiaries and associates (continued)

	€'000			
	Balance at 31 December 2011	Share of profits	Dividends	Balance at 31 December 2012
Investments in joint ventures and associates				
Helidax, S.A.S.	7,322	2,235	(600)	8,957
European Air Crane, S.p.A.	884	315	(225)	974
Total	8,206	2,550	(825)	9,931

	€'000			
	Balance at 31 December 2010	Share of profits	Dividends	Balance at 31 December 2011
Investments in joint ventures and associates				
Helidax, S.A.S.	5,592	1,730	-	7,322
European Air Crane, S.p.A.	793	268	(177)	884
Total	6,385	1,998	(177)	8,206

Financial information of associates and joint ventures

2013	€'000						
	Assets	Liabilities	Revenue	Retained profit	Group's share of profit	% Interest held	% Voting rights
Helidax, S.A.S. (France)	74,702	(56,076)	22,185	3,561	1,781	50%	50%
European Air Crane, S.p.A. (Italy)	4,613	(3,125)	9,410	113	55	49%	50%

2012	€'000						
	Assets	Liabilities	Revenue	Retained profit	Group's share of profit	% Interest held	% Voting rights
Helidax, S.A.S. (France)	84,704	(66,789)	22,192	4,469	2,235	50%	50%
European Air Crane, S.p.A. (Italy)	7,065	(5,078)	20,120	643	315	49%	50%

2011	€'000						
	Assets	Liabilities	Revenue	Retained profit	Group's share of profit	% Interest held	% Voting rights
Helidax, S.A.S. (France)	82,515	(67,843)	21,278	3,461	1,731	50%	50%
European Air Crane, S.p.A. (Italy)	9,218	(7,414)	17,420	547	266	49%	50%

Helidax S.A.S, a company whose principal place of business is France, is dedicated mainly to the maintenance of helicopters and on-shore operations (including the sale of flight hours) and originates from an association between INAER Helicopter France and Défense Conseil International ("DCI") both 50% shareholders. DCI has the power to govern the financial and operating policies to obtain benefits from the company's activities. As a result, DCI controls Helidax S.A.S and the Avincis Group has significant influence. The Avincis Group therefore classifies its investment in Helidax S.A.S as an associate and applies the equity method of accounting.

The main activity of European Air Crane S.p.A, a company whose principal place of business is Italy, is the provision of aircrane services. From the distribution of the capital equity (49% owned by Erickson Air-Crane, Incorporated, 49% owned by the Avincis Group and 2% owned by others) and from the content of the Articles of Association of European Air Crane, the decisions that affect the financial and operating policies to obtain benefits from this company's activities require in practice the unanimous consensus between Erickson Air-Crane and Avincis (joint control). In accordance with one of the options under IAS 31, the Avincis Group accounts for the investment in European Air-Crane under the equity method.

9. Inventories

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Spare parts and other components	28,488	26,773	22,074
Impairment of inventories	(785)	(513)	(513)
Total	27,703	26,260	21,561

10. Trade and other receivables

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Trade receivables – gross	81,770	118,880	84,299
Allowance for doubtful debts	(1,904)	(2,030)	(3,082)
Trade receivables – net	79,866	116,850	81,217
Other debtors	21,493	22,620	24,525
Current tax assets	900	795	264
Amounts due from related parties	341	1,648	643
Prepayments and accrued income	17,814	11,980	5,373
Total current trade and other receivables	120,414	153,893	112,022
Other accounts receivable	850	35	35
Prepayments and accrued income	45,309	44,648	42,837
Total non-current trade and other receivables	46,159	44,683	42,872

Trade receivables are classified as loans and receivables and are therefore measured at amortised cost subsequent to initial recognition.

The average credit period taken is between 45 and 60 days, depending on the country and type of customer (for example, blue-chip oil and gas company or public central/regional government body). The Avincis Group assesses impairment of trade receivables on an individual basis and makes provisions for trade receivables that are between 90 and 120 days past due as appropriate. For trade accounts receivable that are more than 120 days past due, the Avincis Group generally provides for 100% of the balance due, except where the debtor is a public institution. In the case of public institutions, the Avincis Group does not provide for trade account receivable unless they are in dispute. Trade accounts receivable that are more than 365 days past due are written off as the Avincis Group considers that they are not recoverable. The Avincis Group takes into consideration the insured portion of trade accounts receivable and amounts estimated to be recoverable based on the Avincis Group's experience in prior years and its assessment of the current economic environment.

Past-due balances, net of provision for impairment, as of 31 December 2013, 2012 and 2011, by maturity, are as follows:

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Less than three months	15,029	22,573	15,865
Three to six months	1,976	4,162	1,363
Over six months	7,007	7,913	8,408
	24,012	34,648	25,636

At 31 December 2013, 2012 and 2011, the Avincis Group had de-recognised trade receivables amounting to €68.2million (€50.7million at 31 December 2012 and €112.9 million at 31 December 2011), respectively, as a result of the assignment of trade receivables in factoring transactions.

In the Directors' view, the carrying values of accounts receivable approximates their fair values.

11. Share capital and share premium

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Number of €1 ordinary shares	173,002	173,002	90,953,699
Share capital	173	173	90,954
Share premium	172,968	172,968	75,159
Total issued capital	173,141	173,141	166,113

12. Long and short term debts

The details of bank and other borrowings as 31 December 2013, 2012 and 2011 are as follows:

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Non-current liabilities			
Secured Senior Notes	453,298	449,643	446,354
Senior Secured Floating Rate Notes	231,060	-	-
Revolving Credit Facility	140,700	139,803	-
Other debts with credit institutions	17,425	180,416	177,407
Total non-current bank and other borrowings	842,483	769,862	623,761
Current liabilities			
Secured Senior Notes	18,604	18,605	18,604
Senior Secured Floating Rate Notes	2,347	-	-
Revolving Credit Facility	2,193	-	-
Other debts with credit institutions	3,776	19,066	14,208
Total current bank and other borrowings	26,920	37,671	32,812
Total bank and other borrowings	869,403	807,533	656,573

Generally, the amounts disclosed as current bank and other borrowings represent accrued interest.

The Avincis Group's secured debt facilities are detailed below. This includes Senior Secured Notes, Revolving Credit Facilities for each of the Inaer Credit Group and Bond Credit Group, a high yield bond and a facility with the National Australia Bank.

Senior Secured Notes

In the year ended 31 December 2010, Inaer Aviation Finance Limited, the issuer, issued €470,000,000 9.5% senior secured notes due 1 August 2017 (the "2017 Notes"). The 2017 Notes were issued pursuant to an indenture dated 23 July 2010. The issuer on-lent the proceeds to Avincis Mission Control Services Group S.A.U. pursuant to the Notes Proceeds Loan Agreement which has terms that are substantially the same terms as the 2017 Notes. Interest on the 2017 Notes is payable semi-annually in arrears on 1 February and 1 August of each year, at the rate of 9.5% of the principal amount.

Senior Secured Floating Rate Notes

In May 2013, one of the Avincis Group's subsidiaries, Bond Mission Critical Services plc issued £200.0 million (aggregate principal amount) of Senior Secured Floating Rate Notes (the "Bond Notes") due 1 May 2019 (the "2019 Notes"). The 2019 Notes are guaranteed Bond Aviation Group Limited ("Bond") and certain of its subsidiaries.

The net proceeds of the issuance were used to repay existing third party and intercompany debts, as well as for general corporate purposes and the payment of commissions, fees and other expenses associated with the issuance of the 2019 Notes. This resulted in £43.7 million of cash being paid to the Inaer Credit Group as a partial repayment of intercompany loans.

The Notes will mature on 1 May 2019 and interest is payable in arrears on 1 February, 1 May, 1 August and 1 November of each year at a rate equal to three month sterling LIBOR plus 5.750%, which is reset quarterly.

The 2019 Notes are senior secured obligations of the issuer and rank pari passu with and share security with certain other senior indebtedness of the issuer (including the Bond Revolving Facility) subject to the terms of the Bond Intercreditor Agreement. The 2019 Notes are guaranteed by the companies which are guarantors under the Bond

12. Long and short term debts (continued)

Revolving Facility, and are secured by the same security package as the Bond Revolving Facility. Such security is shared on a pari passu basis between the noteholders, the lenders under the Bond Revolving Facility and certain other indebtedness (subject to the terms of the Bond Intercreditor Agreement).

Revolving Credit Facility

On 23 July 2010, the Avincis Group executed a revolving facility agreement. Thereunder, the lenders made available to the Avincis Group as borrowers a €100.0 million multicurrency revolving credit facility for use in financing or refinancing general corporate purposes. This was expanded during 2013 to €145 million. The final maturity date of the facility is 23 July 2016. Loans advanced under the facility accrue interest at a market rate based upon 'Euribor' (or 'Libor', if the drawdown is not in euros), plus mandatory costs (if any) plus an applicable margin of between 3.75% and 2.75% per annum which is determined in accordance with the ratio of consolidated Net Indebtedness to Consolidated EBITDA (each as defined in the relevant agreement).

Concurrently with the issuance of the Senior Secured Floating Rate Notes, Bond also raised a £25.0 million Super Senior Revolving Credit Facility ("Bond RCF") inter alia with Royal Bank of Scotland plc, as facility and security agent, using Commerzbank Aktiengesellschaft and Royal Bank of Scotland plc, as arrangers.

The Bond RCF bears interest at per annum rates equal to LIBOR (with a floor of zero), adjusted periodically, plus a spread. The Bond RCF is secured (subject to Agreed Security Principles) by the same collateral as the Bond Notes. In addition, any Material Subsidiary or other member of the Bond Group (see note 22c) which becomes a guarantor of the Bond RCF is required (subject to Agreed Security Principles) to grant security over its material assets in favour of the security agent under the Bond RCF. As of 31 December 2013, the Bond RCF is wholly undrawn.

Other debts with credit institutions

Included in other debts is a Lombard Facility. On 8 April 2011, the Avincis Group reached an agreement with various financial institutions for the obtainment of a financing line for a total amount of approximately €202.0 million, of which €169.0 million formed Tranche A, to finance the acquisition of the Bond Aviation Group Ltd and its subsidiaries companies, and €33.0 million formed Tranche B, to periodically finance the acquisition of the aircrafts.

In 2013, these amounts were settled utilising financing raised from the Senior Secured Floating Rate Notes.

Other loans

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Non-current liabilities:			
Shareholder loan	117,526	106,386	96,274
Vendor loan note liabilities	12,594	18,380	18,068

The shareholder loan (€117.5 million, €106.4 million and €96.3 million at 31 December 2013, 2012 and 2011 respectively) relates to the outstanding principal amount and accrued interest payable by the Avincis Group as a result of the acquisition of Bond Aviation Group Limited and its subsidiaries to the seller of Bond Aviation Group Limited. The loan is accruing interest at a rate of 10% per annum and is repayable in 2019.

The entire non-current vendor loan note (€12.6 million, €18.4 million and €18.1 million at 31 December 2013, 2012 and 2011 respectively) relates to the outstanding principal amount and accrued interest payable by the Avincis Group as a result of the acquisition of Bond Aviation Group Limited, and its subsidiaries to the seller of Bond Aviation Group Limited. The balance matures in 2017.

The carrying amount of the Avincis Group's borrowings, including obligations under finance leases, is denominated in the following currencies (Euro equivalent numbers shown below):

31 December 2013	€'000		
	Floating rate	Fixed rate	Total
Euro	270,952	589,426	860,378
Pound sterling (GBP)	234,643	12,595	247,237
US dollar (USD)	16,715	-	16,715
Australian dollar (AUD)	21,143	-	21,143
Total	543,453	602,021	1,145,473

12. Long and short term debts (continued)

31 December 2012	€'000		
	Floating rate	Fixed rate	Total
Euro	276,991	574,634	851,625
Pound sterling (GBP)	168,843	18,380	187,223
Australian dollar (AUD)	30,208	-	30,208
Total	476,042	593,014	1,069,056

31 December 2011	€'000		
	Floating rate	Fixed rate	Total
Euro	159,904	561,232	719,868
Pound sterling (GBP)	162,393	18,048	180,441
Australian dollar (AUD)	34,734	-	34,734
Total	357,031	579,280	935,043

During the years 2013, 2012 and 2011, the Avincis Group has not breached any loan agreements.

As at 31 December 2013, the interests in certain companies of the Avincis Group are pledged as security for the financing obtained.

13. Financial Instruments

Capital risk management

The Avincis Group Finance Committee sets and regularly reviews treasury and capital policies in respect of the management of debt, interest rates, liquidity, and currency.

The Committee aims to maintain a balance between equity and debt capital which optimises the Avincis Group's cost of capital whilst allowing access to debt capital markets at optimum pricing when appropriate as well as maximising the amount of liquidity available in the short to medium-term horizon.

The Avincis Group is aiming to maximise the flexibility of its debt structure to support the expected growth in all the regions and markets in which it operates.

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount			Fair value		
	2013 €'000	2012 €'000	2011 €'000	2013 €'000	2012 €'000	2011 €'000
Financial liabilities						
Financial liabilities held at amortised cost:						
- Senior Secured Facility	453,298	449,643	446,400	485,029	488,600	355,100
- Senior Secured Floating Rate Note	231,060	-	-	228,749	-	-

Fair value measurements

The information set out below provides information about how the Avincis Group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

13. Financial Instruments (continued)

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Avincis Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

The Avincis Group's derivative financial instruments, financial instruments, and interests in associates are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	(€'000) Fair value as at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31/12/2013	31/12/2012	31/12/2011				
1) Fuel price swaps	Assets – €108 Liabilities – €Nil	Assets – €80 Liabilities – €315	Assets – €48 Liabilities – €Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on swap curves constructed based on expected prices of the underlying commodities discounted using interest rates corresponding to the underlying contract maturities.	N/A	N/A
2) Interest rate swaps	Assets – €376 Liabilities – €1,273	Assets – €159 Liabilities – €2,852	Assets – €230 Liabilities – €4,013	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
3) Exchange rate hedge	Assets – €Nil Liabilities – €Nil	Assets – €Nil Liabilities – €Nil	Assets – €Nil Liabilities – €34	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
4) Listed equity investment	Listed equity securities – €52	Listed equity securities – €86	Listed equity securities – €82	Level 1	Quoted prices in an active market.	N/A	N/A

13. Financial Instruments (continued)

Categories of financial instruments

	2013 €'000	2012 €'000	2011 €'000
Financial assets			
Cash and bank balances (including cash and bank balances in a disposal group held for sale)	172,585	80,943	44,181
Fair value through profits and loss (FVTPL) derivatives	72	-	160
Loans and receivables			
Trade receivables and other < 1 year	120,414	153,893	112,022
Trade receivables and other > 1 year	46,159	44,683	42,872
Financial liabilities			
Fair value through profit and loss (FVTPL) derivatives	1,273	3,167	4,047
Amortised cost			
Trade payables and other < 1 year	134,009	104,408	113,250
Borrowings	869,403	807,533	656,573
Shareholder's Loan	117,526	106,386	96,274
Vendor Loan Note	12,594	18,380	18,068
Finance Leases	144,644	133,543	160,075

At the end of the reporting period, there are no significant concentrations of credit risk for loans and receivables designated as FVTPL. The carrying amount reflected above represents the Avincis Group's maximum exposure to credit risk for such loans and receivables.

Financial risk management policy

Credit risk

Credit risk is the risk that a debtor may become insolvent with respect to its contractual obligations, which might give rise to a loss for the Avincis Group. The Avincis Group's main financial assets are cash held at banks, on-call deposits, trade and other receivables. The Avincis Group seeks to minimise credit risk by maintaining cash and cash equivalents with financial institutions with high credit standards. The Avincis Group trades mainly with central and regional governments as well as blue-chip oil and gas corporations. Concentration of credit risk with respect to accounts receivable is limited, as although a significant portion of The Avincis Group's customers are public institutions, no single public institution makes up a significant portion of its trade receivables balance. The Avincis Group's exposure to credit risk at 31 December 2013, 2012 and 2011 is €339.1 million, €279.5 million and €199.1 million, respectively and is comprised of cash and cash equivalents, trade and other receivables, and other receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

The key objectives are to ensure that the Avincis Group has an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Avincis Group's contracts and commitments and its risk profile.

The Avincis Group holds cash with leading banks as well as maintaining availability of committed revolving credit facility (see note 12).

The principal source of liquidity is operating cash flows and The Avincis Group's ability to obtain financing if required. The ability to generate cash from The Avincis Group's operations and obtain financing depends on its future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond its control.

13. Financial Instruments (continued)

The following tables detail the Avincis Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	€'000			
		1-2 year	2-5 year	5+ years	Total
31 December 2013:					
Secured credit facility	9.5%-5.75%+LIBOR	-	453,298	231,060	684,358
Revolving credit facility	3.75%	-	140,700	-	140,700
Other financial liabilities	1.2%-2.4%	17,405	-	20	17,425
Obligations under finance leases	3.75%	22,096	67,676	32,776	122,548
Derivative financial instruments	4%	264	515	-	779
Shareholder loan	10%	-	-	117,526	117,526
Vendor loan note	10%	-	-	12,594	12,594
Total		39,765	662,189	393,976	1,095,930

	Weighted average effective interest rate	€'000			
		1-2 year	2-5 year	5+ years	Total
31 December 2012:					
Secured credit facility	9.5%	-	-	449,643	449,643
Revolving credit facility	3.75%	-	139,803	-	139,803
Other financial liabilities	3.5%	4,612	21,130	154,674	180,416
Obligations under finance leases	3.75%	18,892	58,783	35,428	113,103
Derivative financial instruments	4%	1,188	1,384	-	2,572
Shareholder loan	10%	-	-	106,386	106,386
Vendor loan note	10%	-	-	18,380	18,380
Total		24,692	221,100	764,511	1,010,303

	Weighted average effective interest rate	€'000			
		1-2 year	2-5 year	5+ years	Total
31 December 2011:					
Secured credit facility	9.5%	-	-	446,354	446,354
Revolving credit facility	-	-	-	-	-
Other financial liabilities	1.2-2.4%	16,363	61,226	99,818	177,407
Obligations under finance leases	3.75%	20,599	62,721	56,732	140,052
Derivative financial instruments	4%	650	3,359	-	4,009
Shareholder loan	10%	-	-	96,274	96,274
Vendor loan note	10%	-	-	18,068	18,068
Total		37,612	127,306	717,246	882,164

Interest rate risk:

Interest rate fluctuations change the fair value of assets and liabilities that bear interest at a fixed rate and the future cash flows from assets and liabilities tied to a floating interest rate. The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced volatility in the income statement.

Borrowings are arranged nominally at a floating rate tied mainly to Euribor including capping the maximum interest rate, using as indicated in note 25 derivative instruments to minimise the risk of that long-term financing. Derivatives, which are specifically assigned to debt instruments and are limited to the same nominal values and the same maturity dates as the hedged items, are basically interest rate "swaps" and "caps", the aim of which is to make fixed or variable rate options structured loans originally contracted at variable rates. The maturity of most derivative instruments held at 31 December 2013, 2012 and 2011 will occur in between 3 and 5 years time.

The Avincis Group has elected not to apply hedge accounting and as a result has used derivatives to economically hedge the underlying risks based on its risk management strategy.

13. Financial Instruments (continued)

At 31 December 2013, 2012 and 2011 the financial risk structure, making a distinction between risk tied to fixed interest rates and risk tied to floating rates and disregarding the derivatives arranged by the Avincis Group before preparation of these annual consolidated financial statements, is as follows:

	2013 €'000	2012 €'000	2011 €'000
At fixed interest rate	602,021	593,014	578,012
At floating interest rate	543,453	476,042	357,031
Total debt	1,145,473	1,069,056	935,043
% Fixed rate/Total debt	53%	55%	62%

Taking into account the contractual conditions of the financing existing and the portfolio of derivative instruments at 31 December 2013, 2012 and 2011 the Avincis Group Financial Department performed a sensitivity analysis of interest rates. The changes in the fair value of the interest rate derivatives arranged by the Avincis Group depend on changes in the Euribor interest rate curve and long-term swaps.

The Avincis Group considers that a fluctuation in the Euribor interest rate curve in +/-0.5% would not significantly affect the valuation of the fair value of derivatives.

The sensitivity analysis indicates that interest rate derivatives increase when interest rates rise since they relate to an option structure in which the interest rate paid by the Avincis Group is capped and, therefore, the Avincis Group is covered against interest rate rises. When interest rates fall, the fair value of the aforementioned derivatives decrease.

Additionally, the Avincis Group estimates that a general 0.5% increase in Euribor would increase the interest expense of our variable rate indebtedness by approximately €0.8 million. Likewise, a general 0.5% decrease in Euribor would also decrease the interest expense of our variable rate indebtedness by the same amount.

Foreign exchange risk:

The Avincis Group's activities expose to the financial risk of changes in foreign currency exchange rates.

The carrying amounts of the Avincis Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities			Assets		
	2013 €'000	2012 €'000	2011 €'000	2013 €'000	2012 €'000	2011 €'000
Pounds Sterling	34,597	22,512	1,299	20,983	22,355	7,535
US Dollars	26,938	1,875	20,967	320	1,954	18,599
Norwegian Krone	316	246	-	-	1,341	603
Australian Dollar	1,232	2,746	5,686	5,077	3,363	3,238
Peruvian Soles	668	787	316	669	26	490
Chilean Pesos	341	761	1,011	838	838	1,183

The Avincis Group manages its cash flow exposure to movements in foreign exchange by matching contract income and costs in its underlying currency wherever possible. This provides a natural hedge for its cash flows on each contract. The Avincis Group's principal exchange rate exposure relates to future commercial transactions, recognised assets and liabilities, contracts to purchase aircrafts and spare parts and net investments in foreign operations documented in U.S. dollars, Pounds Sterling, Australian dollars, Norwegian Krone, Peruvian Soles and Chilean Pesos.

The Avincis Group has historically not hedged its exchange rate currency exposure in the ordinary course of business due to its relatively small materiality in The Avincis Group's operations.

At 31 December 2013, the maximum exposure to foreign currency risk was linked to the monetary assets and liabilities noted above denominated in foreign currency at those dates, which amounted to €27.9 million and €64.1 million respectively (€ 29.9 million and € 28.9 million, respectively at 31 December 2012, and €31.6 million and €29.3 million, respectively at 31 December 2011).

13. Financial Instruments (continued)

Commodity price risk:

The Avincis Group is exposed to commodity price risk primarily because the price of fuel for its aircraft is strongly correlated to international oil prices and refining margins. For the 12-month period ended 31 December 2013, fuel costs represented approximately 7.3% of all costs and The Avincis Group estimates that a 5% increase in the weighted average price of fuel would have increased its operating expenses by approximately €1.6 million.

The following table details the fair values of fuel price swaps outstanding at each balance sheet date:

	2013 €'000	2012 €'000	2011 €'000
Fair value of contracts to buy fuel expiring:			
In less than 3 months	(15)	(209)	48
Between 3 and 6 months	(21)	-	-
Between 6 and 12 months	108	(26)	-

Interest Rate Swaps and Caps

Expiry	Average contract fixed interest rate			Notional principal value			Fair value		
	2013 %	2012 %	2011 %	2013 €'000	2012 €'000	2011 €'000	2013 €'000	2012 €'000	2011 €'000
Less than 1 year	4.00%	2.70%	2.75%	20,376	37,018	10,175	(458)	(280)	112
1 to 2 years	4.00%	2.70%	4.00%	5,717	22,699	37,106	(265)	(1,187)	(650)
2 to 5 years	4.00%	4.00%	4.00%	84,358	162,428	105,523	(137)	(1,226)	(3,278)
				110,451	222,145	152,804	(860)	(2,693)	(3,816)

The interest rate caps settle on a quarterly basis. The floating rate on the interest rate caps is three months Libor. The Avincis Group will settle the difference between the fixed and floating interest rate on a net basis. The interest rate caps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

14. Provisions

The movement in provisions for 2013, 2012 and 2011 is as follows:

	€'000					
	Opening balance	Charge to income statement	Exchange differences	Utilised in the year	On disposal of subsidiary	Closing balance
2013						
Personnel benefits liabilities	3,067	483	(97)	(1,062)	(5)	2,386
Provisions for claims	394	-	(19)	-	(38)	337
Other provisions for risks and expenses	3,849	4,073	30	(820)	-	7,132
Total	7,310	4,556	86	(1,882)	(43)	9,855

	€'000				
	Opening balance	On acquisition of subsidiaries	Charge to income statement	Utilised in the year	Closing balance
2012					
Personnel benefits liabilities	2,915	670	16	(534)	3,067
Provisions for claims	249	165	-	(20)	394
Other provisions for risks and expenses	4,047	82	5	(285)	3,849
Total	7,211	917	21	(839)	7,310

14. Provisions (continued)

	€'000				
	Opening balance	On acquisition of subsidiaries	Charge to income statement	Utilised in the year	Closing balance
2011					
Personnel benefits liabilities	2,409	536	970	(1,000)	2,915
Provisions for claims	229	-	20	-	249
Other provisions for risks and expenses	3,030	-	1,139	(122)	4,047
Total	5,668	536	2,129	(1,122)	7,211

Classification of provisions

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Non-current liabilities:			
Current	2,222	-	-
Non-current	7,633	7,310	7,211
Total	9,855	7,310	7,211

Long-term personnel benefits liabilities

The personnel benefits liabilities provision relates to an Italian contract termination indemnity arrangement.

Up until 31 December 2006, in accordance with Italian law, the Avincis Group retains personnel benefits contributions until the employee's termination; at which time the amounts are released. Subsequent to this date, contributions are predominantly made into external pension funds (on a defined contribution basis). However, employees that 'opt out' of this scheme have their contributions retained by the employer until their termination, similar to the process pre-2006. The provision relates to the amounts that have been paid to the company that will be released on the employees' termination.

Other

This refers to the estimated amounts to cover certain future expenses where the quantum and/or timing is not known and other Group guarantees.

Included within this balance is an amount of €2.9 million at 31 December 2013 (2012: €3.7 million, 2011: €3.9 million) to cover estimated personnel liabilities. Such future liabilities are derived from probable additional personnel expenses which are likely arise as a result of the retrospective impact of the renewal of the Italian National Pilots Labour Agreement, which has not yet been renewed since its expiry in December 2004.

15. Trade and other payables

	€'000		
	31 December 2013	31 December 2012	31 December 2011
Trade payables	80,773	66,059	71,614
Amounts owed to related parties	4,201	2,271	2,238
Other payables	13,243	3,248	38
Accrued wages and salaries	15,306	12,627	12,039
Other taxes and social security	20,486	20,203	27,321
Deferred income	24,257	14,938	10,232
Total	158,266	119,346	123,482

The approximate average credit period on purchases for the year ended 31 December 2013, 2012 and 2011 is 88, 71 and 97 days respectively.

The directors consider that the carrying amount of trade payables approximates their fair value.

16. Tax

	€'000								
	Continuing operations			Discontinued operations			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Corporation tax:									
Current year	(508)	(4,560)	(6,503)	-	-	(114)	(508)	(4,560)	(6,617)
Deferred tax	5,923	13,194	8,483	(2,252)	1,465	746	3,671	14,659	9,229
	5,415	8,634	1,980	(2,252)	1,465	632	3,163	10,099	2,612

UK corporation tax is calculated at 23.25% (2012: 23.75% and 2011: 26.5%) of the estimated taxable result for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax on the Avincis Group's loss before tax differs from the theoretical amount that would arise using the UK corporation tax rate as follows:

	€'000		
	2013	2012	2011
Loss before tax on continuing operations	(68,803)	(35,111)	(11,432)
Tax at the UK corporation tax rate of 23.25% (2012: 23.75 % and 2011: 26.5%)	15,997	8,339	3,030
Tax effect of expenses that are not deductible in determining taxable profit	(11,533)	(4,060)	(3,005)
Tax effect of income not taxable in determining taxable profit	2,834	2,905	690
Tax losses for which no deferred tax asset has been recognised	(2,792)	(467)	(558)
Other	115	31	1,159
Effect of different tax rates of subsidiaries operating in other jurisdictions	794	1,886	664
Tax credit for the year	5,415	8,634	1,980

Deferred tax assets

The movement in deferred tax assets for the year ended December 2013, 2012 and 2011 is as follows:

	€'000					
	Tax Losses	Derivatives	Tax depreciation limit	Financial expenses limit	Other	Total
Balance at 31 December 2010	21,676	252	-	-	4,465	26,393
Credit to profit or loss	4,196	-	-	-	-	4,196
Credit to other comprehensive income	-	330	-	-	572	902
Transfers	531	629	-	-	90	1,250
Exchange differences	219	-	-	-	167	386
Balance at 31 December 2011	26,622	1,211	-	-	5,294	33,127
Credit to profit or loss	1,133	-	-	10,879	833	12,845
(Charge) to other comprehensive income	-	(803)	-	-	-	(803)
Transfers	609	(308)	-	-	553	854
Exchange differences	76	72	-	-	(16)	132
Balance at 31 December 2012	28,440	172	-	10,879	6,664	46,155
Credit / (Charge) to profit or loss	(278)	-	1,597	-	1,587	2,906
(Charge) to other comprehensive income	-	(162)	-	-	-	(162)
Transfers	13	-	-	-	(12)	1
Exchange differences	(1,274)	-	-	-	(903)	(2,177)
Balance at 31 December 2013	26,901	10	1,597	10,879	7,336	46,723

16. Tax (continued)

Deferred tax liabilities

The movement in deferred tax liabilities during the periods 2013, 2012 and 2011 is as follows:

	€'000					
	Aircraft surplus	Derivatives	Maintenance Contracts	Leases and Other	Customer contracts	Total
Balance at 31 December 2010	(10,022)	(1,096)	(6,832)	(16,947)	(482)	(35,379)
Credit/(charge) to profit or loss	1,013	-	560	2,714	-	4,287
Credit to other comprehensive income	-	997	-	-	-	997
Acquisition of subsidiary	(4,050)	-	-	(17,731)	(4,055)	(25,836)
Exchange differences	(716)	-	-	(322)	(203)	(1,241)
Balance at 31 December 2011	(13,775)	(99)	(6,272)	(32,286)	(4,740)	(57,172)
Credit/(charge) to profit or loss	1,312	-	491	(841)	851	1,813
Credit to other comprehensive income	-	73	-	-	-	73
Transfers	(393)	-	105	(582)	-	(870)
Exchange differences	(176)	-	-	(578)	(155)	(909)
Balance at 31 December 2012	(13,032)	(26)	(5,676)	(34,287)	(4,044)	(57,065)
Credit/(charge) to profit or loss	(3,142)	-	(1,325)	4,454	777	764
Credit to other comprehensive income	-	(6)	-	-	-	(6)
Transfers	1,094	-	-	1,861	-	2,955
Exchange differences	18	-	-	987	291	1,296
Balance at 31 December 2013	(15,062)	(32)	(7,001)	(26,985)	(2,976)	(52,056)

Deferred tax assets are recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets only when it is probable that these assets will be recovered. The Avincis Group's most significant deferred tax assets relate to Spain and Australia.

In Spain, the Avincis Group's deferred tax asset is the result of significant interest expense incurred in recent years. The Avincis Group intends to refinance this debt, resulting in reduced interest expenses in future periods. If the Avincis Group's Spanish income in recent years were adjusted for this revised level of interest, the Avincis Group would have generated sustained positive income. Based on this evidence, management have determined that future income is probable and therefore a portion of the potential deferred tax assets for these losses have been recognised in Spain. Further losses from interest expense in recent years have not been recognised.

In Australia, the Avincis Group's deferred tax asset has arisen from historical trading losses. This business is now profitable and is utilising these losses to relieve taxable profits. Based on this evidence, management have determined that future income is probable and therefore the deferred tax assets have been recognised in Australia.

Recognition of deferred tax assets is highly judgmental and is subject to management projections of future income levels. If profit forecasts change or future levels of income are significantly different than forecasted, the deferred tax asset may be reduced or eliminated, which may have a material impact on future financial statements.

17. Income and expenses

Avincis Group revenue

Revenue is comprised of income from the provision of air services to public organisations and private institutions. More precisely this consists of the provision of health and emergency medical services, search and rescue and maritime surveillance, as well as firefighting, civil protection, oil and gas services and helicopter maintenance services.

No one customer represents more than 10% of Avincis Group revenue.

Segment Information

Information reported to the Avincis Group's Chief Executive Officer (the "CEO"), the Chief Operating Decision Maker of the Avincis Group, for the purposes of resource allocation and assessment of segment performance is focused on geographical areas (Spain, Italy, the United Kingdom, Australia, France, and other countries). All reportable segments derive their revenue primarily from the provision of mission critical flight services. The CEO uses operating profit before amortisation of acquired intangibles and exceptional items (hereinafter referred to as ('Underlying operating profit')) to measure the profitability of each segment.

17. Income and expenses (continued)

Unless otherwise indicated the segment information reported on the following pages does not include any amounts for discontinued operations, which are described in more detail in note 20. The accounting policies of the reportable segments are the same as the Avincis Group's accounting policies described in Note 3. Sales between segments are carried out at arm's length.

2013	€'000							
	Continuing operations							
	Spain	Italy	United Kingdom	Australia	France	Other Countries	Intersegment eliminations	Total continuing operations
Total revenue	213,071	144,667	184,679	37,570	39,090	15,870	(52,755)	582,192
Less: joint ventures and associates revenue	-	(4,611)	-	-	(11,093)	-	-	(15,704)
Group revenue	213,071	140,056	184,679	37,570	27,997	15,870	(52,755)	566,488
Depreciation	(22,080)	(9,130)	(8,783)	(3,097)	(2,022)	(122)	3,683	(41,551)
Underlying operating profit	16,027	16,731	24,664	9,475	5,541	(2,610)	2,135	71,963
Joint ventures and associates finance costs								(1,759)
Joint ventures and associates income tax expense								(1,270)
Amortisation of acquired intangibles								(1,987)
Exceptional items								(30,185)
Group operating profit plus share of joint ventures and associates								36,762
Currency translation differences								(3,468)
Finance costs								(104,117)
Finance income								2,020
Group loss before tax								(68,803)
Tax								5,415
Loss for the year from continuing operations								(63,388)

2012	€'000							
	Continuing operations							
	Spain	Italy	United Kingdom	Australia	France	Other Countries	Intersegment eliminations	Total continuing operations
Total revenue	219,843	147,838	163,675	37,192	40,248	30,014	(65,292)	573,518
Less: joint ventures and associates revenue	-	(9,859)	-	-	(11,102)	-	-	(20,961)
Group revenue	219,843	137,979	163,675	37,192	29,146	30,014	(65,292)	552,557
Depreciation	(24,373)	(6,462)	(6,757)	(3,606)	(1,623)	(750)	1,631	(41,940)
Underlying operating profit	23,451	18,389	33,028	3,461	5,540	(4,000)	1,196	81,065
Joint ventures and associates finance costs								(1,101)
Joint ventures and associates income tax expense								(1,007)
Amortisation of acquired intangibles								(2,091)
Exceptional items								(26,169)
Group operating profit plus share of joint ventures and associates								50,697
Currency translation differences								(496)
Finance costs								(86,964)
Finance income								1,652
Group loss before tax								(35,111)
Tax								8,634
Loss for the year from continuing operations								(26,477)

17. Income and expenses (continued)

2011	€'000							
	Continuing operations							
	Spain	Italy	United Kingdom	Australia	France	Other Countries	Intersegment eliminations	Total continuing operations
Total revenue	227,271	147,696	112,166	33,730	38,036	14,451	(57,819)	515,531
Less: joint ventures and associates revenue	-	(8,539)	-	-	(10,636)	-	-	(19,175)
Group revenue	227,271	139,157	112,166	33,730	27,400	14,451	(57,819)	496,356
Depreciation	(20,603)	(8,389)	(5,038)	(1,960)	(1,140)	(26)	1,797	(35,359)
Underlying operating profit	24,665	19,920	22,896	7,946	6,650	2,905	(5,414)	79,568
Joint ventures and associates finance costs								(1,754)
Joint ventures and associates income tax expense								(327)
Amortisation of acquired intangibles								(1,399)
Exceptional items								(19,004)
Group operating profit plus share of joint ventures and associates								57,084
Currency translation differences								6,763
Finance costs								(76,071)
Finance income								792
Group loss before tax								(11,432)
Tax								1,980
Loss for the year from continuing operations								(9,452)

Assets and liabilities by segment

The breakdown of the Avincis Group's assets and liabilities by business segment at the end of the years 2013, 2012 and 2011 is as follows:

	€'000					
	2013		2012		2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Spain	666,549	(753,929)	667,806	(710,033)	480,676	(449,734)
Italy	186,286	(163,592)	176,000	(157,331)	229,964	(168,046)
Australia	66,259	(68,383)	79,302	(77,462)	105,915	(71,772)
France	51,087	(45,716)	45,706	(41,457)	41,406	(36,155)
United Kingdom	730,995	(591,164)	682,485	(514,212)	378,896	(359,680)
Other countries	90,641	(109,157)	128,106	(128,271)	62,045	(37,757)
Subtotal	1,791,817	(1,731,941)	1,779,405	(1,628,766)	1,298,902	(1,123,144)
Intersegment eliminations	(365,997)	365,005	(375,505)	374,703	(1,536)	(1,114)
Total	1,425,820	(1,366,936)	1,403,900	(1,254,063)	1,297,366	(1,124,258)

Operating expenses

	€'000		
	2013	2012	2011
Cost of sales	323,039	318,732	264,941
Administration expenses	176,351	157,418	155,926
Total	499,390	476,150	420,867

17. Income and expenses (continued)

Personnel expenses

The composition of Personnel Expenses in the consolidated statement of income, is as follows:

	€'000		
	2013	2012	2011
Wages and salaries	158,671	154,907	131,717
Social security costs	25,000	23,004	22,294
Pension costs	5,015	2,379	2,193
Other personnel costs	6,997	8,598	7,626
Total	195,683	188,888	163,830

The "Pension costs" account relates to the contributions to defined contribution pension plans which were made by the Avincis Group companies in Italy and the United Kingdom (see Note 14, "Long-term Personnel Benefits Liabilities").

Exceptional items

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

	€'000		
	2013	2012	2011
Reorganisation	14,377	9,557	-
Onerous contract	4,273	10,203	10,584
Acquisitions	-	-	8,420
New country set-up	10,461	4,000	-
Bid costs	1,074	2,409	-
Exceptional items	30,185	26,169	19,004

Reorganisation costs relate to various projects to enhance the Avincis Group's efficiency and to improve operational safety as well as costs associated with the change in the Avincis Group's head office from Spain to the United Kingdom.

Approximately half of the onerous contract costs in 2013 and 2012 related to costs associated with the suspension of the customer contract following the EC225 aircraft incident in the UK. In addition, onerous contract expenses in 2012 included a significant charge relating to an onerous contract in Italy.

Acquisition costs relate to those costs associated with the acquisition of the Bond Group (see note 22c).

New country set-up costs principally comprise licensing and certification costs and costs associated with establishment of operational infrastructure in new countries of operation. In 2013 and 2012, these costs related to new operations in Norway and Australia. In 2013, these costs also included costs associated with the introduction of a new heavy aircraft model.

Exceptional bid costs in 2013 and 2012 relate to Avincis Group's unsuccessful bid for a large life and rescue contract in the UK.

Financial costs

The breakdown of financial expenses by type of indebtedness is as follows:

	€'000		
	2013	2012	2011
Interest on bank overdrafts and loans	85,998	70,772	64,167
Interest on shareholder loan	11,140	10,112	6,207
Financial leases	6,979	6,080	5,697
Total	104,117	86,964	76,071

18. Related parties

During the year, Avincis Group companies entered into the following transactions with related parties which are not members of the Avincis Group, and the following amounts were outstanding at the end of the reporting periods.

Year end 31 December 2013	€'000			
	Amounts owed by related parties	Amounts owed to related parties	Sale of goods	Purchase of goods
Associates	91	(80)	-	-
Other related parties	250	(4,660)	4,924	4,119
Total	341	(4,740)	4,924	4,119

Year end 31 December 2012	€'000			
	Amounts owed by related parties	Amounts owed to related parties	Sale of goods	Purchase of goods
Associates	90	(45)	-	-
Other related parties	1,558	(2,226)	4,737	2,226
Total	1,648	(2,271)	4,737	(2,226)

Year end 31 December 2011	€'000			
	Amounts owed by related parties	Amounts owed to related parties	Sale of goods	Purchase of goods
Associates	95	(27)	1,996	(22)
Other related parties	548	(2,342)	3,879	(5,001)
Total	643	(2,369)	5,875	(5,023)

Other related parties are treated as such due to relationships held with key management personnel.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Key management personnel

Avincis Group companies paid the following remuneration to key management personnel:

Year	(€'000)
	Short term employee benefits
2013	1,080
2012	714
2011	230

An Irish subsidiary company of the Avincis Group has paid a loan to a key management personnel at rates comparable to a commercial rate of interest. Total loan amounts of €118,000 (2012: €106,000, 2011: €121,000) are outstanding.

19. Contingent liabilities and guarantees and commitments to third parties

Contingent liabilities

Under the terms of the Avincis Group's acquisition of Helitalia, SpA., an intra-group loan was left outstanding between Helitalia, SpA. and the seller for an amount of €4 million, repayable in four tranches. Following repayment of the second tranche, the Avincis Group discovered an error in the balance sheet of Helitalia, SpA. which had not be disclosed at the time of the acquisition. The Avincis Group therefore ceased repayment of further tranches pending resolution of the dispute. The seller brought a claim against Avincis for the outstanding amount payable under the loan (€2 million) and Avincis has brought a counterclaim for an amount of €4.5 million. Avincis has made a provision in its accounts for an amount of €2 million in connection with this matter.

The Avincis Group issues performance bonds for guarantees under customer contracts with public authorities in the event of non-compliance with certain contract conditions. Such performance bonds amounted to €84.8 million as at 31 December 2013 (31 December 2012: €71.9 million, 31 December 2011: €68.1 million).

Other

On 29 November 2013, an accident occurred in Glasgow involving a Eurocopter EC135 helicopter that was owned by a subsidiary, Bond Aviation Leasing Limited, and operated by another subsidiary, Bond Air Services Limited, under a contract with Police Scotland, resulting in ten fatalities, several persons injured and significant property damage. A full

19. Contingent liabilities and guarantees and commitments to third parties (continued)

investigation by the Air Accident Branch is underway, together with a separate investigation by Police Scotland Investigation Branch under the direction of the Procurator Fiscal. The Avincis Group are cooperating with the Air Accident Investigation Branch, Police Scotland and other authorities are investigating the causes of the accident and are waiting for the outcome of these investigations. The Avincis Group has aircraft, employer and aviation liability insurance policies and life insurance policies for employees in place that are consistent with market practice and in compliance with the requirements set forth in the contract the Avincis Group has with Police Scotland.

20. Discontinued operations

In 2013, following the completion of a strategic review, the Avincis Group decided to discontinue its activities in Peru and Chile with a view to exiting these non-core markets. The strategic review determined that the nature of these markets and the customer base currently available in these countries did not support an appropriate scale of operations necessary to permit the Avincis Group to deliver the highest standards of operational excellence which it requires of all its subsidiaries. The operations were classified as discontinued at the date the decision was taken by the Board to close the operations.

In 2012, the Board decided to exit private customer markets in order to focus on the core activities of the Avincis Group. As a result of this the decision was taken to exit the Ceuta passenger services in Spain, and private maintenance activities in the United Kingdom. Both of these activities are classified as discontinued in 2012 and 2013 with the private maintenance business in the UK being sold in October 2013.

The revenues, expenses and profit and loss, associated with the discontinued operations were as follows:

	€'000		
	2013	2012	2011
Revenue	6,926	15,184	16,570
Expenses	(18,766)	(17,649)	(17,133)
Loss for the year from discontinued operations before tax	(11,840)	(2,465)	(563)
Expense/income taxes associated	(2,252)	1,465	632
(Loss)/profit for the year from discontinued operations attributable to owners of the Parent	(14,092)	(1,000)	69

21. Retirement benefit schemes

Defined contribution schemes

The Avincis group operates defined contribution retirement benefit schemes for all qualifying employees of its subsidiary in Italy.

Up until 31 December 2006, in accordance with Italian law, the Avincis Group retained personnel benefits contributions until the employee's termination, at which time the amounts were released. Subsequent to this date, contributions are predominantly made into external pension funds (on a defined contribution basis). However, employees that 'opt out' of this scheme have their contributions retained by the employer until their termination, similar to the process pre-2006. The provision relates to the amounts that have been paid to the company that will be released on the employees' termination. The only obligation of the Avincis Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of €5.0 million in 2013 (2012: €2.4 million, 2011: €2.2 million) represents contributions payable to these schemes by the Avincis Group at rates specified in the rules of the schemes. As at 31 December 2013, 2012 and 2011, the Avincis Group had no outstanding contributions due in relation to the respective reporting period.

22. Other information

a) Reconciliation of operating profit to cash generated from operations

	€'000		
	2013	2012	2011
Loss for the year from continuing operations	(63,388)	(26,477)	(9,452)
Adjustments for:			
Income tax credit	(5,415)	(8,634)	(1,980)
Share of results of associates	(1,836)	(2,550)	(1,998)
Financial income	(2,020)	(1,652)	(792)
Finance costs	104,117	86,964	76,071
(Loss)/profit contributed from discontinued operations	(14,092)	(1,000)	69
Depreciation of property, plant and equipment and intangible assets	46,689	44,810	36,903
Increase/(decrease) in provisions	2,545	83	(1,942)
(Increase)/decrease in other non current assets	(9,796)	4,632	-
Increase/(decrease) in other non current liabilities	(1,793)	-	-
Exchange differences	2,616	496	(6,763)
Loss on disposal of fixed assets	12,391	7,420	12,341
Loss on disposal of investment in subsidiaries	852	-	-
Impairment	4,994	6,339	6,700
Operating cash flows before movements in working capital			
(Increase)/decrease in inventories	(1,443)	(4,467)	1,197
(Increase)/decrease in receivables	33,374	(37,562)	(10,206)
(Increase)/decrease in other current assets	2,389	(6,579)	(24)
Increase/(decrease) in payables	33,944	(6,062)	14,678
Cash generated by operations	144,128	55,761	114,802
Interest received	2,020	1,652	792
Income taxes paid	(1,442)	(3,572)	(8,268)
Interest paid	(78,036)	(73,988)	(69,084)
Net cash from operating activities	66,670	(20,147)	38,242

b) Cash and cash equivalents

	€'000		
	2013	2012	2011
Cash at bank and in hand	172,585	80,943	44,181
Total	172,585	80,943	44,181

c) Acquisitions

Acquisition of the Bond Group

On 28 April 2011, the acquisition of 93.96% of the shares of Bond Aviation Group Ltd and subsidiaries ("the Bond Group") was completed through the corporate vehicle Bruno Aviation Holding III, Ltd, a subsidiary of Bruno Aviation Holding I, Ltd, both of which were formed in 2011 by the Inaer Group.

Bond Aviation Group Ltd is the operating parent of a group of companies operating principally in the United Kingdom and engaged primarily in the provision of emergency medical air services, civil protection, off-shore activities (defined as over-water flight operations, usually including carriage of passengers) for North Sea oil and gas rigs, as well as aircraft maintenance work for third parties.

The Bond Group was included in the scope of consolidation on 28 April 2011 and the revenue and profit contributed to the consolidated Avincis Group from that date until 31 December 2011 amounted to €107,036,000 and €212,000, respectively. If the business combination had taken place at the beginning of 2011, the amount of total revenue would have increased by €46,108,000 to €561,639,000 and the loss for the year would have been €6,308,000.

Acquisition-related costs amounting to €6,776,000 were recognised as an expense in profit or loss in the year ended 31 December 2011, within operating expenses.

22. Other information (continued)

The fair value of the assets and liabilities recognised at the acquisition date, of the significative acquired companies, was as follows:

Bond Group

	€'000
Current asset:	42,822
Inventories	5,005
Commercial debtors and other accounts receivable	22,713
Short term accruals	1,548
Cash and cash equivalent	13,556
Non-current asset:	201,432
Customer contract intangible assets	17,420
Tangible Fixed Assets	181,786
Other financial assets	1,512
Deferred tax	714
Current liabilities:	(32,898)
Short-term debt	(172)
Commercial creditors and other accounts payable	(12,492)
Short term accruals	(20,234)
Non-current liabilities:	(154,197)
Long-term provisions	(3,324)
Long-term debt	(123,702)
Deferred tax	(27,171)
Total fair value of identifiable net assets acquired	57,159
Goodwill arising on acquisition	127,470
Fair value of purchase consideration	184,629

d) Disposals

On 13 October 2013 the Avincis Group disposed of its interest in Inaer Maintenance UK Ltd.

The net assets of Inaer Maintenance UK Ltd at the date of disposal were as follows:

	€'000
Property, plant and equipment	225
Inventories	1,516
Trade receivables	1,903
Bank balances and cash	87
Deferred tax liability	(25)
Provisions	(57)
Trade payables	(1,814)
Bank overdraft	(325)
Total	1,510
Loss on disposal (note 24)	(852)
Total consideration	658
Satisfied by:	
Cash and cash equivalents	658

23. Subsequent events

On 27 January 2014, one of Avincis Group's subsidiaries, Bond Mission Critical Services plc, issued £60 million Senior Secured Floating Rate Notes due 2019. The net proceeds of the issuance of the notes will be used for capital expenditure and general corporate purposes, cash overfunding and to pay commissions, fees and other expenses associated with the issuance of the notes.

The notes are additional notes under the indenture governing the existing £200 million of Senior Secured Floating Rate Notes due 2019 and have the same terms as the existing notes. Bond Aviation Group Limited ("Bond") and certain of its subsidiaries guarantee the notes and the notes are secured by a first-ranking fixed and floating charge over the shares and over substantially all the material assets of certain subsidiaries of Bond.

23. Subsequent events (continued)

On 1 March 2014, Avincis Mission Critical Services Scandinavia AB entered into a conditional agreement to acquire an indirect interest of approximately 85 per cent. of Scandinavian AirAmbulance for an initial cash consideration of SEK206.5 million with a further SEK4.2 million (subject to a completion adjustment) payable in two years' time. Completion of the acquisition remains subject to the satisfaction or waiver of a number of conditions, and there is no guarantee as to when or whether those conditions will be satisfied.

24. Other losses

	€'000		
	2013	2012	2011
Disposal of subsidiaries	(852)	-	-
Currency translation difference	(2,616)	(496)	6,783
	(3,468)	(496)	6,763

25. Derivative financial instruments

	Current			Non-current		
	2013	2012	2011	2013	2012	2011
	€'000	€'000	€'000	€'000	€'000	€'000
Derivatives carried at fair value through profit or loss (FVTPL)						
Interest rate swaps	(458)	(280)	112	(402)	(2,413)	(3,928)
Fuel price swap	72	(235)	48	-	-	-
Exchange rate hedge	(36)	(80)	(38)	(377)	(159)	(81)
Total	(422)	(595)	122	(779)	(2,572)	(4,009)

Further details of derivative financial instruments are provided in note 13.

SECTION B1: ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF
BOND AVIATION GROUP LIMITED

Deloitte.

Deloitte LLP
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Abbey Street
Reading
RG1 3BD

The Board of Directors
on behalf of Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

27 March 2014

Dear Sirs

Bond Aviation Group Limited (“Bond Aviation” and, with its subsidiaries, the “Bond Group”)

We report on the financial information of the Bond Group for the year ended 31 March 2011 and the period from 1 April 2011 to 27 April 2011 set out in Section B2 of Part X of the prospectus and Class 1 circular relating to the issue of ordinary shares by Babcock International Group PLC (the “**Company**”) and the acquisition of Avincis Mission Critical Services Topco Limited (the “**Prospectus**”). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”) and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Bond Group as at 31 March 2011 and 27 April 2011 and of its profits, cash flows and changes in equity for the year ended 31 March 2011 and period ended 27 April 2011 in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP

Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

SECTION B2: HISTORICAL FINANCIAL INFORMATION OF BOND AVIATION GROUP LIMITED

Bond Aviation Group Limited Consolidated statements of comprehensive income

		Year ended 31/03/11 £000	Period from 01/04/11 to 27/04/11 £000
	Note		
Revenue	2	118,638	10,459
Cost of sales		(84,832)	(7,770)
Gross profit		33,806	2,689
Administrative expenses		(11,346)	(968)
Operating profit	3	22,768	1,721
Investment revenues	4	46	11
Finance (costs)/income, net	5	(2,686)	170
Profit before tax		20,128	1,902
Tax	6	(4,729)	(472)
Profit for the period		15,399	1,430
Other comprehensive income:			
Exchange differences on translation of foreign operations		(1)	-
Total comprehensive income for the period		15,398	1,430

Revenues and total comprehensive income for all periods are attributable to continuing operations.

Bond Aviation Group Limited

Consolidated statement of financial position

	Note	31/03/11 £000	27/04/11 £000
Non-current assets			
Property, plant and equipment	8	136,349	135,574
Current assets			
Inventories	10	4,422	4,415
Trade and other receivables	11	37,615	39,178
Cash and cash equivalents		9,433	11,966
		<u>51,470</u>	<u>55,559</u>
Total assets		<u>187,819</u>	<u>191,133</u>
Equity			
Share capital	16	1,556	1,556
Share premium		210	210
Other reserves	17	(11,009)	(11,009)
Retained earnings	17	32,798	34,228
Total equity		<u>23,555</u>	<u>24,985</u>
Non-current liabilities			
Bank and other borrowings	12	88,525	87,915
Deferred tax	13	11,916	12,043
Obligations under finance leases	14	3,157	3,161
Derivative financial instruments	23	2,042	2,221
Other payables		606	613
		<u>106,246</u>	<u>105,953</u>
Current liabilities			
Trade and other payables	15	29,736	31,603
Current tax		1,749	1,668
Obligations under finance leases	14	1,946	1,881
Bank and other borrowings	12	13,995	13,982
Deferred revenue		10,592	11,061
		<u>58,018</u>	<u>60,195</u>
Total equity & liabilities		<u>187,819</u>	<u>191,133</u>

Bond Aviation Group Limited

Consolidated statements of changes in equity

Equity attributable to equity holders of Bond Aviation

	Share Capital £000	Share Premium £000	Other Reserves £000	Retained Earnings £000	Total £000
Balance at 31 March 2010	1,563	-	(11,090)	17,149	7,622
Profit for the year	-	-	-	15,399	15,399
Other comprehensive income for the period	-	-	-	(1)	(1)
Total comprehensive income for the period	-	-	-	15,398	15,398
Issue of share capital	74	210	-	-	284
Redemption of shares	(81)	-	81	-	-
Share based payments	-	-	-	251	251
Balance at 31 March 2011	1,556	210	(11,009)	32,798	23,555
Profit for the period	-	-	-	1,430	1,430
Total comprehensive income for the period	-	-	-	1,430	1,430
Balance at 27 April 2011	1,556	210	(11,009)	34,228	24,985

Bond Aviation Group Limited

Consolidated cash flow statements

	Note	Year ended 31/03/11 £000	Period from 01/04/11 to 27/04/11 £000
Net cash from operating activities	18	25,187	2,811
Investing activities			
Interest received		46	11
Proceeds on disposal of property, plant and equipment		3,290	-
Purchases of property, plant and equipment		(12,215)	(117)
Acquisition of subsidiary		(6)	-
Net cash used in investing activities		(8,885)	(106)
Financing activities			
Dividends paid		(3,500)	-
Repayment of borrowings		(10,574)	(108)
Repayments of obligations under finance leases		(967)	(64)
Redemption of Equity Share Capital		(6)	-
Net cash used in financing activities		(15,047)	(172)
Net increase in cash and cash equivalents		1,255	2,533
Cash and cash equivalents at beginning of year/period		8,178	9,433
Cash and cash equivalents at end of year/period		9,433	11,966

1. Significant accounting policies

General information

Bond Aviation Group Limited (“Bond Aviation”) is a company incorporated in the United Kingdom under the Companies Act. Bond Aviation together with its subsidiaries (the “Bond Group”) is a provider of helicopter and fixed wing services for mission critical operations. The Bond Group’s operations are primarily conducted in the United Kingdom.

Adoption of new and revised Standards

The following Standards and Interpretations which have not been applied in this financial information were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 7 (amended)	<i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>
Annual Improvements to IFRSs	<i>(2009 – 2011) Cycle</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 10, IFRS 12 and IAS 27 (amended)	<i>Investment entities</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 27 (revised)	<i>Separate Financial Statements</i>
IAS 28 (revised)	<i>Investments in Associates and Joint Ventures</i>
IAS 32 (amended)	<i>Offsetting Financial Assets and Financial Liabilities</i>

Basis of accounting

The financial information has been prepared in accordance with IFRSs adopted by the European Union.

The preparation of this historical financial information of the Bond Group has been performed solely for the inclusion by Babcock in its Class 1 Circular prepared in accordance with the Listing Rules made by the Financial Conduct Authority for the purposes of Part VI of the Financial Services and Markets Act.

Accordingly, this historical financial information has been prepared in compliance with the requirements of the Listing Rules of the United Kingdom Listing Authority and with IFRS as adopted by the European Union. Where there are options present in IFRS as adopted by the European Union, the historical financial information applies the accounting policies of Babcock.

The financial information has been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial information incorporates the financial information of Bond Aviation and entities controlled by Bond Aviation (its subsidiaries) made up to 31 March 2011 and 27 April 2011. Control is achieved where Bond Aviation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Bond Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue

Revenue represents amounts receivable for provision and use of aircraft, and is measured at the fair value of the consideration received or receivable, net of discounts, VAT and other sales-related taxes.

Revenue from helicopter services is recognised based on contractual rates as the related services are performed. The charges under these contracts are generally based on a two-tier rate structure consisting of a fixed monthly fee plus additional fees for each hour flown. Airport charges and other sundry costs which are recharged to customers are recognised as revenue in the period in which the charges are incurred.

1. Significant accounting policies (continued)

Income derived from the provision of training courses to external parties is recognised at the point of delivery. Where a training course is delivered across a number of accounting periods, income is recognised in line with the proportion of the course completed.

Miscellaneous income is recognised at the point of delivery of the service or sale of product.

Income invoiced in advance of provision of service is deferred and recognised at the point at which the service is provided.

Dividend and interest revenue

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Bond Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Bond Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. The cost includes all expenses that are directly attributable to bringing the asset into condition for use, including finance costs. Interest capitalised is calculated by reference to the rate of interest payable on borrowings drawn to finance the related asset.

Depreciation is calculated so as to write off the cost or revaluation of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold property	- 50 years straight line
Leasehold property	- Period of the lease
Plant and machinery	- 10-25% straight line
Aircraft and components	- 10-15 years straight line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Pre-delivery deposits on aircraft orders are classified as assets under construction and are not depreciated.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Impairment of tangible assets

At each balance sheet date, the Bond Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bond Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

1. Significant accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories comprise aircraft spares. Inventories are valued at the lower of cost and net realisable value.

Finance Leases

Assets held under finance leases are capitalised and disclosed under property, plant and equipment at the present value of the future minimum lease payments. The capital element of the future payments is treated as a liability and the interest is charged to the Bond Group income statement on a straight line basis.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bond Group as lessee

Assets held under finance leases are recognised as assets of the Bond Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bond Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefit costs

Bond Aviation operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of Bond Aviation. The annual contributions payable are charged to the Bond Group income statement as they fall due.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bond Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1. Significant accounting policies (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bond Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bond Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

The individual financial statements of each Bond Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Bond Group company are expressed in pounds sterling, which is the functional currency of Bond Aviation, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

1. Significant accounting policies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Bond Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the income statement. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

The Bond Group uses derivative financial instruments to mitigate exposure to interest rate fluctuations (see note 23). The fair value of these derivatives is initially recognised at fair value as at the date a derivative is entered into and is subsequently remeasured as their fair value changes.

Derivatives that do not qualify are not designated as hedging instruments and any movement in their fair value is recognised in the income statement immediately.

Provisions

Provisions are recognised when the Bond Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bond Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 21.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bond Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Bond Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

2. Segmental analysis

Products and services from which reportable segments derive their revenues

Information reported to the Bond Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is focussed on the category of customer for each type of activity. The Bond Group's reportable segments under IFRS 8 are therefore as follows:

- Off-shore operations - Twin engined helicopter, Oil and Gas Crewchange and Search and Rescue activity.
- On-shore operations - Twin engined helicopter operations in Air Ambulance, Police and Marine and associated training.

Segment revenues and results

The following is an analysis of the Bond Group's revenue and results by reportable segment for the year ended 31 March 2011:

	On-shore operations £000	Off-shore operations £000	Eliminations £000	Consolidated £000
Revenue				
External sales	32,098	86,540	-	118,638
Intersegment sales	90	370	(460)	-
Total Revenue	32,188	86,910	(460)	118,638
Results				
Segment result	8,562	14,195	-	22,757
Profit on disposal of property, plant and equipment				154
Central administration costs				(143)
Operating profit				22,768
Investment revenues				46
Finance (costs)/income, net				(2,686)
Profit before tax				20,128

The following is an analysis of the Bond Group's revenue and results by reportable segment for the period ended 27 April 2011:

	On-shore operations £000	Off-shore operations £000	Eliminations £000	Consolidated £000
Revenue				
External sales	2,937	7,522	-	10,459
Total Revenue	2,937	7,522	-	10,459
Results				
Segment result	770	929	-	1,699
Loss on disposal of property, plant and equipment				(31)
Central administration costs				53
Operating profit				1,721
Investment revenues				11
Finance (costs)/income, net				170
Profit before tax				1,902

The accounting policies of the reportable segments are the same as the Bond Group's accounting policies described in note 1. Segment profit represents the operating profit earned by each segment before profit/loss on disposal of property, plant and equipment and central administration costs. This is the measure reported to the Bond Group's management team for the purpose of resource allocation and assessment of segment performance.

2. Segmental analysis (continued)

Segment assets

	31/03/11 £000	27/04/11 £000
On-shore operations	64,202	62,382
Off-shore operations	122,903	128,143
Total segment assets	187,105	190,525
Unallocated assets	714	608
Consolidated total assets	187,819	191,133

For the purposes of monitoring segment performance and allocating resources between segments the Bond Group's management team monitors the tangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of certain head office assets and tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Other segment information - Depreciation

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
On-shore operations	3,356	271
Off shore operations	4,768	401
Unallocated assets	19	2
	8,143	674

Revenues from major products and services

The Bond Group's revenues from its major products and services were as follows:

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Crewchange	75,436	6,439
Search and rescue	14,694	1,286
Ambulance	21,545	1,996
Police	3,987	363
Marine	2,860	278
Other	116	97
Consolidated revenue	118,638	10,459

Geographical information

The Bond Group's revenue from external customers by geographical location is detailed below:

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
United Kingdom	116,092	10,256
Rest of Europe	2,546	203
	118,638	10,459

2. Segmental analysis (continued)

Information about major customers

Included in revenues arising from UK Crewchange operations are revenues of approximately £3.6 million in the period to 27 April 2011 and £41.6 million in the year ended 31 March 2011 which arose from sales to the Bond Group's largest customer.

3. Operating profit for the year/period

Operating profit for the year/period has been arrived at after charging/(crediting):

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Net foreign exchange losses	-	25
Cost of inventories recognised as an expense	4,856	501
Depreciation of property, plant and equipment		
- owned assets	7,561	737
- leased assets	582	122
Staff costs	28,314	2,437
Gain/(loss) on disposal of property, plant and equipment	154	(31)
Operating lease costs		
- Plant and equipment	5,012	583
- Other	506	30

4. Investment revenues

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Bank deposits	46	11
Total investment revenues	46	11

5. Other finance costs/(income), net

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Interest on bank loans	4,395	281
Interest on obligations under finance leases	311	22
Other similar charges	98	62
Foreign exchange	(1,982)	(714)
Total finance expense/(income)	2,822	(349)
(Loss)/gains on revaluation of interest rate swaps	(136)	179
Other finance (costs)/income, net	2,686	(170)

6. Tax

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Corporation tax:		
Current year/period	1,660	337
Adjustments in respect of prior years	850	-
Foreign tax	99	8
Total current tax	2,609	345
Deferred tax		
Origination and reversal of timing differences	3,923	127
Effect of tax rate changes	(618)	-
Adjustment in respect of prior periods	(1,185)	-
	4,729	472

Corporation tax is calculated by applying the standard rate of corporation tax of 28% to the estimated taxable profit for the year/period.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year/period can be reconciled to the profit in the income statement as follows:

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Profit before tax on continuing operations	20,128	1,902
Tax at the UK corporation tax rate of 28%	5,636	494
Expenses not deductible for tax purposes	305	4
Capital allowances for the period in excess of depreciation	(3,901)	(146)
Adjustment in respect of prior years	850	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	(128)	-
Other timing differences	(153)	(7)
Current tax for the year/period	2,609	345

7. Dividends

	Year ended 31/03/11 £000	Period ended 27/04/11 £000
Dividends on shares classified as equity		
Declared at the year-end (recognised as a liability):	-	-
Dividends on shares classified as financial liabilities		
Paid during the year		
Variable sub-ordinated cumulative redeemable non-voting preference shares.	89	-

8. Property, plant and equipment

	Freehold & Leasehold property £000	Plant & Machinery £000	Aircraft & components £000	Assets in the course of construction £000	Total £000
Cost or valuation					
At 31 March 2010	8,936	6,668	155,844	3,064	174,512
Additions	96	1,174	3,245	7,699	12,214
Disposals	(142)	-	(641)	(2,867)	(3,650)
At 31 March 2011	8,890	7,842	158,448	7,896	183,076
Additions	4	105	6	-	115
Disposals	-	-	(93)	-	(93)
At 27 April 2011	8,894	7,947	158,361	7,896	183,098
Accumulated depreciation and impairment					
At 31 March 2010	1,747	2,941	34,410	-	39,098
Charge for the year	448	758	6,937	-	8,143
Disposals	(33)	-	(481)	-	(514)
At 31 March 2011	2,162	3,699	40,866	-	46,727
Charge for the period	38	66	755	-	859
Disposals	-	-	(62)	-	(62)
At 27 April 2011	2,200	3,765	41,559	-	47,524
Carrying amount					
At 31 March 2010	7,189	3,727	121,434	3,064	135,414
At 31 March 2011	6,728	4,143	117,582	7,896	136,349
At 27 April 2011	6,694	4,182	116,802	7,896	135,574

No interest was capitalised in the period to 27 April 2011 or in the year ended 31 March 2011.

Include in the net book value of assets disclosed above are the following amounts relating to assets held under finance leases

	Net book value £000	Depreciation charged in period £000
At 31 March 2011	7,577	582
At 27 April 2011	7,454	122

9. Subsidiaries

Bond Aviation owns 100% of the issued ordinary share capital of the companies listed below.

Company Name	Country of incorporation	Principal activity
Bond Air Services Ltd	United Kingdom	Provision and operation of helicopters
Bond Offshore Helicopters Ltd	United Kingdom	Provision and operation of helicopters
Bond Aviation Leasing Ltd	United Kingdom	Provision of helicopter leasing services
International Aviation Leasing Ltd	United Kingdom	Provision of helicopter leasing services
Bond Dormant Limited	United Kingdom	Dormant
Bond European Aviation Leasing Ltd	United Kingdom	Provision of helicopter leasing services
Bond Air Services (Ireland) Limited	Ireland	Provision and operation of helicopters
Bond Helicopters Australia Pty Ltd	Australia	Provision and operation of helicopters

10. Inventories

	31/03/11 £000	27/04/11 £000
Aircraft components	4,422	4,415

11. Trade and other receivables

	31/03/11 £000	27/04/11 £000
Amount receivable for the sale of goods	13,343	14,149
	13,343	14,149
Other debtors	2,426	2,432
Amounts recoverable from insurers (see note 15)	15,000	15,000
Prepayments	6,846	7,597
	37,615	39,178

Included within other debtors are the following amounts which are due after more than one year

	31/03/11 £000	27/04/11 £000
Other debtors	1,836	1,327

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 30 days. No allowance for doubtful debts has been recognised in any period as the Bond Group believes all amounts to be recoverable.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Bond Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is over 30 days outstanding) are still considered recoverable.

Ageing of past due receivables

	31/03/11 £000	27/04/11 £000
0 - 30 days overdue	503	3,566
30 - 60 days overdue	100	43
Over 60 days overdue	62	163
Total	665	3,772

12. Borrowings

	31/03/11 £000	27/04/11 £000
Unsecured borrowing at amortised cost		
Directors' loan accounts	1,045	1,121
Redeemable cumulative preference shares	1,592	1,608
Other loans	700	704
	3,337	3,433
Secured borrowing at amortised cost		
Bank loans	99,183	98,464
	102,520	101,897
Total borrowings		
Amount due for settlement within 12 months	13,995	13,982
Amount due for settlement after 12 months	88,525	87,915

12. Borrowings (continued)

Analysis of borrowings by currency:

	Sterling £000	Euros £000	US Dollars £000	Total £000
31 March 2011				
Redeemable cumulative preference shares	1,592	-	-	1,592
Bank loans	40,551	27,598	31,734	99,883
Directors' loan accounts	1,045	-	-	1,045
	<u>43,188</u>	<u>27,598</u>	<u>31,734</u>	<u>102,520</u>
27 April 2011				
Redeemable cumulative preference shares	1,608	-	-	1,608
Bank loans	40,100	32,026	27,042	99,168
Directors' loan accounts	1,121	-	-	1,121
	<u>42,829</u>	<u>32,026</u>	<u>27,042</u>	<u>101,897</u>

The principal features of the Bond Group's borrowings are as follows:

- (i) The redeemable cumulative preference shares are redeemable on 31 March 2012. These attract interest rates of LIBOR + 5%.
- (ii) The Bond Group has a number of bank loans secured by fixed and floating charge over the Bond Group's assets. These loans attract interest between 1.48% and 7.23% and the Bond Group uses a mixture of interest rate swaps and caps to hedge a portion of these loans.
- (iii) The directors' loan accounts attracts interest at 5% per annum and is unsecured.

The weighted average interest rates paid during the period to 27 April 2011 on bank loans was 3.92% and in the period to 31 March 2011 was 4.08%.

13. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Bond Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £000	Tax losses £000	Other £000	Total £000
At 31 March 2010	10,688	(1,301)	409	9,796
Charge to income statement	<u>1,509</u>	<u>590</u>	<u>21</u>	<u>2,120</u>
At 31 March 2011	12,197	(711)	430	11,916
Charge to income statement	<u>127</u>	<u>-</u>	<u>-</u>	<u>127</u>
At 27 April 2011	<u>12,324</u>	<u>(711)</u>	<u>430</u>	<u>12,043</u>

Deferred tax assets and liabilities are offset where the Bond Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	31/03/11 £000	27/04/11 £000
Deferred tax liabilities	12,627	12,754
Deferred tax assets	<u>(711)</u>	<u>(711)</u>
	<u>11,916</u>	<u>12,043</u>

13. Deferred tax (continued)

At the balance sheet date, the Bond Group has unused tax losses of £2.6 million as at 27 April 2011 and £2.6m as at 31 March 2011 available for offset against future profits. A deferred tax asset has been recognised in respect of these losses as it is considered probable that there will be future taxable profits available.

14. Obligations under finance leases

	Minimum lease payments	
	31/03/11 £000	27/04/11 £000
Amounts payable under finance leases:		
Within one year	2,197	2,124
In the second to fifth years inclusive	3,259	3,202
After five years	-	-
	<hr/> 5,456	<hr/> 5,326
Less: future finance charges	(353)	(284)
Present value of lease obligations	<hr/> 5,103	<hr/> 5,042
	<hr/> <hr/>	<hr/> <hr/>
	Present value of minimum lease payments	
	31/03/11 £000	27/04/11 £000
Amounts payable under finance leases:		
Within one year	1,946	1,881
In the second to fifth years inclusive	3,157	3,161
After five years	-	-
	<hr/> 5,103	<hr/> 5,042
Present value of lease obligations	<hr/> 5,103	<hr/> 5,042
	<hr/> <hr/>	<hr/> <hr/>
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1,946	1,881
Amounts due for settlement after 12 months	3,157	3,161
	<hr/> 5,103	<hr/> 5,042
	<hr/> <hr/>	<hr/> <hr/>

The average effective interest rate on finance leases was 6.0% for the period ended 27 April 2011 and 6.1% for the year ended 31 March 2011. All finance leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Bond Group's obligations under finance leases are secured by the lessors' rights over the leased assets are all denominated in sterling.

15. Trade and other payables

	31/03/11 £000	27/04/11 £000
Trade payables	4,780	8,456
Accruals	8,516	6,589
Other payables	16,133	16,275
Other taxes and social security	307	283
	<hr/> 29,736	<hr/> 31,603
	<hr/> <hr/>	<hr/> <hr/>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The standard credit period taken for trade purchases is 30 days. The Bond Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

15. Trade and other payables (continued)

The directors consider that the carrying amount of trade payables approximates to their fair value.

Claims

As a consequence of the AS332 L2 Super Puma accident on 1 April 2009, Bond Offshore Helicopters Limited has received a number of claims in respect of passengers and crew on board the Helicopter at the time of the accident. 'Other payables' includes an amount of £15 million provided in respect of these claims. These liabilities are fully insured and accordingly the financial information includes a corresponding insurance debtor to reflect that these liabilities will be met by Bond Group insurers (see note 11).

16. Share capital

	31/03/11		27/04/11	
	No.	£000	No.	£000
Authorised, issued and fully paid:				
A Ordinary shares £1 each	1,399,662	1,400	1,399,662	1,400
B Ordinary shares £1 each	82,338	82	82,338	82
C Ordinary shares £1 each	18,525	18	18,525	18
D Ordinary shares £1 each	55,575	56	55,575	56
Preference shares of £1 each	1,600,000	1,600	1,600,000	1,600
	<u>3,156,100</u>	<u>3,156</u>	<u>3,156,100</u>	<u>3,156</u>

Amounts presented in equity

	31/03/11 £000	27/04/11 £000
A Ordinary shares £1 each	1,400	1,400
B Ordinary shares £1 each	82	82
C Ordinary shares £1 each	18	18
D Ordinary shares £1 each	56	56
	<u>1,556</u>	<u>1,556</u>

Amounts presented in liabilities

	31/03/11 £000	27/04/11 £000
1,600,000 Preference shares	1,592	1,608

On 13 August 2010, with the full agreement of the shareholders, Bond Aviation resolved to reduce its issued share capital from 1,562,632 Ordinary shares of £1 each to 1,482,000 ordinary shares of £1 each. Immediately following the share reduction, the issued shares were redesignated as 1,399,662 "A" Ordinary shares of £1 each and 82,338 "B" ordinary shares of £1 each.

On 18 August 2010 Bond Aviation issued a further 18,525 "C" Ordinary shares of £1 each and 55,575 "D" ordinary shares of £1 each for a value of £3.84 per share, which was the estimated market value at that date. The issued shares were fully paid up as at 31 March 2011.

All classes of ordinary share rank equally with regards to voting rights and distributions. Preference shares are non-voting but rank equally with ordinary shares in all other respects. The preference shares incur dividends at LIBOR plus 5% and these are payable on 1 April each year. The preference shares are redeemable on 31 March 2012.

17. Reserves

	Other Reserves		
	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000
At 31 March 2010	167	(11,257)	17,149
Total comprehensive income	81	-	15,398
Share based payments	-	-	251
At 31 March 2011	248	(11,257)	32,798
Total comprehensive income	-	-	1,430
At 27 April 2011	248	(11,257)	34,228

For the purposes of the balance sheet, Capital redemption reserve and the merger reserve are shown net and reported as “Other reserves”.

18. Notes to the cash flow statement

	31/03/11 £000	27/04/11 £000
Profit for the year/period	15,399	1,430
Adjustments for:		
Finance costs/(income), net	2,640	(180)
Tax	4,729	472
Depreciation of property, plant and equipment	8,143	859
(Gain)/loss on disposal of property, plant and equipment	(154)	31
Operating cash flows before movements in working capital	30,757	2,612
(Increase)/decrease in inventories	(447)	7
Increase in receivables	(7,161)	(1,564)
(Decrease)/increase in payables	7,712	2,456
Cash generated by operations	30,861	3,511
Income taxes paid	(870)	(425)
Interest paid	(4,804)	(275)
Net cash from operating activities	25,187	2,811
Cash and cash equivalents		
	31/03/11 £000	27/04/11 £000
Cash and bank balances	9,433	11,966
	9,433	11,966

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

19. Capital commitments and Contingent Liabilities

At 27 April 2011 and 31 March 2011, there existed a guarantee for £0.2 million in respect of HM Revenue and Customs regarding VAT deferment.

Performance bonds that have been issued by the Bond Group in its normal course of business as at 27 April 2011 and 31 March 2011 totalled £0.6 million.

20. Operating lease arrangements

At the balance sheet date, the Bond Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31/03/11 £000	27/04/11 £000
Within one year	7,854	7,313
In the second to fifth years inclusive	22,998	22,176
After five years	10,700	10,820
	<u>41,522</u>	<u>40,309</u>

21. Share based payments

Equity-settled share option scheme

Bond Aviation issued 3,900 share options to employees in the year to 31 March 2011. The market value of the options granted was determined by an independent valuation expert and vest over a 2 year period. These were issued at an exercise price of £3.84 and remained outstanding but not exercisable at the end of 31 March 2011 and 27 April 2011. No share options were issued in the period to 27 April 2011.

The Bond Group recognised total expenses of £0.2m in the year ended 31 March 2011 related to equity-settled share based payment transactions. There was no charge in the period ended 27 April 2011.

22. Retirement benefit schemes

Defined contribution schemes

The Bond Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Bond Group in funds under the control of trustees.

The total cost charged to income of £0.1 million in the period to 27 April 2011 and £1.3 million in the year and to 31 March 2011, represents contributions payable to these schemes by the Bond Group at rates specified in the rules of the schemes.

23. Financial Instruments

Capital risk management

The Bond Group manages its capital to ensure that entities in the Bond Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Bond Group's overall strategy remains unchanged during the period.

The capital structure of the Bond Group consists of net debt, which includes the borrowings disclosed in note 12 after deducting cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Bond Group is not subject to any externally imposed capital requirements.

Categories of financial instruments

	31/03/11 £000	27/04/11 £000
Financial assets		
Cash and bank balances	9,433	11,966
Trade and other receivables	37,615	39,178
Financial liabilities		
Trade and other payables	30,082	32,142
Interest rate swap derivatives	2,042	2,221
Obligations under finance leases	5,103	5,155
Borrowings	102,520	101,856

23. Financial Instruments (continued)

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 1. Borrowings are stated at amortised cost.

Financial risk management objectives

The Bond Group's activities and debt financing expose it to a variety of financial risks, the most significant of which are foreign currency exchange risk, interest rate risk, price risk, credit risk and liquidity risk. The Bond Group's overall risk management strategy seeks to minimise the potential adverse effects of such risks.

Foreign currency currency risk management

The Bond Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Bond Group's cash flow exposure to movements in foreign exchange is managed by matching contract income and costs in their underlying currency wherever possible. This provides a natural hedge for cash flows on each contract. The main activities of the Bond Group are in the UK so there are no material foreign exchange fluctuations upon consolidation. The main exposure of the Bond Group to foreign currency risk arises as a result of Euro and Dollar denominated loans held by the Bond Group which are revalued at each balance sheet date.

The carrying amounts of the Bond Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	<u>Liabilities £000</u>		<u>Assets £000</u>	
	<u>31/03/11</u>	<u>27/04/11</u>	<u>31/03/11</u>	<u>27/04/11</u>
Euro	33,877	38,279	6,491	7,452
US Dollars	27,778	27,228	558	2,593
	<u>61,655</u>	<u>65,507</u>	<u>7,049</u>	<u>10,045</u>

The pre-tax effect on profit and equity, increase or (decrease), if the exchanges rates for these currencies moved up or down 5%, assuming all other variables remained constant would a total of £2.8 million in the period to 27 April 2011 and £2.8 million in the year to 31 March 2011. This is mainly attributable to the exposure of the Bond Group to external loans denominated in US Dollars and Euros.

Interest rate risk management

The majority of the Bond Group's debt incurs interest on a floating rate basis (GBP LIBOR) which exposes it to interest rate risk. Interest rate swap contracts and interest rate caps are used to partially hedge this interest rate exposure.

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Bond Group's profit for the period ended 27 April 2011 would decrease/increase by £0.1 million and by £0.7 million for the year ended 31 March 2011. This is mainly attributable to the Bond Group's exposure to interest rates on its variable rate borrowings.

A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates.

23. Financial Instruments (continued)

Interest rate swap contracts

Under interest rate swap contracts, the Bond Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Bond Group to mitigate the risk of changes in interest rates. The fair value of interest rate swaps at is disclosed below along with the average interest rate which is based on the outstanding balances at the end of the financial year/period:

Outstanding receive floating pay fixed contracts	Average contract fixed interest rate		Notional Value £000		Fair Value £000	
	31/03/11	27/04/11	31/03/11	27/04/11	31/03/11	27/04/11
	%	%				
Less than 1 year	1.0	1.0	58,057	57,210	13	18
1-2 years	3.8	3.8	3,648	3,623	154	165
2 to 5 years	4.4	4.4	29,580	29,470	1,619	1,619
5 years +	3.6	3.6	5,902	5,876	256	419
			97,187	96,179	2,042	2,221

The fair value of interest rate swaps is in liability position representing sums due to counterparties.

The interest rate swaps settle on a monthly basis. The floating rate on the interest rate swaps is three months LIBOR. The change in fair value that arises on revaluation of the interest rate swaps is charged to the income statement.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bond Group. The Bond Group is subject to credit risk from deposits with banks and other credit institutions, as well as from trade debtors with customers. The Bond Group seeks to minimize credit risk by maintaining cash and cash equivalents with financial institutions with high credit standards.

The Bond Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Bond Group's credit risk related to trade receivables is low as the largest balances are spread across a number of blue chip clients with excellent credit records.

The carrying amount of financial assets recorded in the financial information, which is net of impairment losses, represents the Bond Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bond Group's short, medium and long-term funding and liquidity management requirements.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Bond Group uses a mixture of long-term and short-term debt finance. Cash flow forecasts are reviewed on a regular basis to ensure sufficient liquidity is available and there are credit facilities to provide flexibility should they be required.

23. Financial Instruments (continued)

The following tables detail the Bond Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods:

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	5+ years	Total
	£000	£000	£000	£000	£000
31 March 2011					
Trade and other payables	29,736	606	-	-	30,342
Obligations under finance leases	1,946	3,157	-	-	5,103
Borrowings	13,995	10,249	51,211	27,065	102,520
	<u>45,677</u>	<u>14,012</u>	<u>51,211</u>	<u>27,065</u>	<u>137,965</u>
27 April 2011					
Trade and other payables	31,603	613	-	-	32,216
Obligations under finance leases	1,881	3,161	-	-	5,042
Borrowings	13,982	10,249	51,211	26,455	101,897
	<u>47,466</u>	<u>14,023</u>	<u>51,211</u>	<u>26,455</u>	<u>139,155</u>

Fair value of financial instruments carried at amortised cost

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial information approximate to their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The fair value are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

	31/03/11 £000	27/04/11 £000
Financial liabilities		
Interest rate swaps	2,042	2,221
Total	<u>2,042</u>	<u>2,221</u>

24. Related party transactions

Details of the directors' loan accounts are disclosed in note 12. In addition, the Bond Group paid fees totalling £Nil in the period to 27 April 2011 and £10,000 in the year ended 31 March 2011 for the provision of services from Loganair Limited, a company of which S W Bond is a director. Included within other debtors is a balance as at 27 April 2011 of £284,544 and £284,544 as at 31 March 2011 relating to loans made to shareholders and directors in the period. Loans are interest free and repayable under certain specified circumstances. Included within trade creditors as at 27 April 2011 are amounts due to P J Bond of £11,891 and £11,981 as at 31 March 2011 and to S Bond of £22,550 as at 27 April 2011 and £2,397 as at 31 March 2011 relating to expenses incurred during the period. Other Creditors as at 27 April 2011 includes £350,000 and £350,000 as at 31 March 2011 payable to G Bond and £350,000 as at 27 April 2011 and £350,000 as at 31 March 2011 payable to M Bond who are related to S Bond and P J Bond. These loans attract interest at 10% per annum and are unsecured.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Bond Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	31/02/11 £000	27/04/11 £000
Short-term employee benefits	502	36
Post-employment benefits	32	2
	<u>534</u>	<u>38</u>

25. Transition to IFRS

Transition to International Financial Reporting Standards (IFRS)

The consolidated financial information presented herein is the first consolidated financial information of the Bond Group that has been prepared according to IFRS. The Bond Group has decided that the date of transition to IFRS is 1 April 2010 for the purposes of preparing the financial information.

The consolidated financial information for the Bond Group for the year ended 31 March 2011 had previously been prepared in accordance with UK GAAP and under the Companies Act 2006.

In accordance with the provisions of IFRS 1 “first time adoption of IFRS” the Bond Group is required to prepare the following reconciliations

- A reconciliation between the Bond Group’s consolidated equity on the transition date (1 April 2010) and the date of the end of the period in which the Bond Group presented annual consolidated financial statements under UK GAAP (31 March 2011) and the consolidated equity that results from applying IFRS.
- The reconciliations between the Bond Group’s overall statement of comprehensive income according to IFRS for the year ended 31 March 2011, and the consolidated profit and loss statement according to UK GAAP for the mentioned accounting years.
- An explanation of the significant adjustments to the cash flow statement that have been prepared under local regulations.

Effects on equity at 31 March 2010

	£000
Equity at 31 March 2010 (*)	7,709
Effects of transition to IFRS:	
Fair value of derivative financial instruments (i)	(2,178)
Tax impact of derivative financial instruments (i)	610
Effects of correction of accounting treatment:	
Power by the Hour maintenance accounting adjustment (ii)	2,057
Tax impact of maintenance accounting adjustment	(576)
Equity at 31 March 2010 under IFRS	7,622

(*) *Obtained from the consolidated financial statements at 31 March 2010 prepared in accordance with UK GAAP.*

Effects on the profit/(loss) for the year ended 31 March 2011

	£000
Profit/(loss) for 2011 (*)	14,753
Effects of transition to IFRS:	
Fair value of derivative financial instruments (i)	136
Tax impact of derivative financial instruments (i)	(38)
Effects of correction of accounting treatment:	
Power by the Hour maintenance accounting adjustment (ii)	760
Tax impact of maintenance accounting adjustment	(213)
Profit/(Loss) for 2011 under IFRS	15,398

(*) *Obtained from the consolidated financial statements at 31 March 2011 prepared in accordance with UK GAAP.*

25. Transition to IFRS (continued)

Effects on equity at 31 March 2011

	£000
Equity at 31 March 2011 (*)	22,995
Effects of transition to IFRS:	
Fair value of derivative financial instruments (i)	(2,042)
Tax impact of derivative financial instruments (i)	572
Effects of correction of accounting treatment:	
Power by the Hour maintenance accounting adjustment (ii)	2,817
Tax impact of maintenance accounting adjustment	(789)
Equity at 31 March 2011 under IFRS	23,555

(*) Obtained from the consolidated financial statements at 31 March 2011 prepared in accordance with UK GAAP.

IFRS Adjustments

This adjustment relates to derivative financial instruments which are recorded on the balance sheet at their fair value under IFRS. These derivatives are revalued at each balance sheet date with the change in value included in the income statement, net of tax, in each period presented.

Correction of accounting treatment

Following a correction of accounting treatment in 2011 the Bond Group no longer expenses prepayments made on 'power by the hour' maintenance contracts and instead recognises the cost of maintenance events as a prepayment when they are incurred. This creates an increase in prepayments reported at the balance sheet date and a decrease in cost of sales reported in the income statement.

Cash flow Statement

There are no significant adjustments in the Cash Flow Statement in any period.

26. Subsequent events

On 28 April 2011 Bond Aviation was acquired by Avincis. Subsequent to this date the results of the Bond Group are included within the consolidated financial information of Avincis.

PART XI
UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE ENLARGED GROUP
SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE ENLARGED GROUP

The unaudited *pro forma* statement of net assets and pro forma income statement of the Enlarged Group set out below have been prepared on the basis set out in the notes below to illustrate the impact of (i) the Rights Issue and (ii) the Acquisition of the Avincis Group on the net assets of the Babcock Group as at 30 September 2013 as if they had taken place at that date, and on the income statement of the Babcock Group for the year ended 31 March 2013 as if they had taken place at the beginning of that financial year.

The unaudited pro forma information has been prepared for illustrative purposes only and, by their nature, address a hypothetical situation and do not, therefore, represent the Enlarged Group's actual financial position or results.

The unaudited pro forma information does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006. Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part XI (*Unaudited Pro Forma Financial Information for the Enlarged Group*). PricewaterhouseCoopers LLP's report on the unaudited pro forma statement of net assets is set out on Section B of this Part XI (*Unaudited Pro Forma Financial Information for the Enlarged Group*).

The unaudited pro forma financial information has not been prepared, or shall not be construed as having been prepared, in accordance with Regulation S-X under the Securities Act. In addition, the unaudited pro forma financial information does not purport to represent what the Enlarged Group's financial position and results of operations actually would have been if the Acquisition had been completed on the dates indicated nor do they purport to represent the results of operations for any future period or the financial condition at any future date.

In addition to the matters noted above, the unaudited pro forma financial information does not reflect the effect of anticipated synergies and efficiencies associated with the Acquisition.

Unaudited Pro Forma net assets statement

	Babcock as at 30 September 2013 £m	Adjustments				Total £m
		Rights Issue £m	Subtotal £m	Avincis as at 31 December 2013 £m	Acquisition Adjustment £m	
	(Note 1)	(Note 2)		(Note 3)	(Note 4)	
Non-current assets						
Goodwill	1,576.8	-	1,576.8	163.3	773.3	2,513.4
Other intangible assets	284.3	-	284.3	26.7	-	311.0
Plant and equipment	249.1	-	249.1	632.6	-	881.7
Investment in joint ventures and associates	44.4	-	44.4	8.4	-	52.8
Loans to joint ventures and associates	51.0	-	51.0	-	-	51.0
Retirement benefits	12.4	-	12.4	-	-	12.4
Trade and other receivables	1.1	-	1.1	38.4	-	39.5
IFRIC 12 financial assets	21.6	-	21.6	-	-	21.6
Other financial assets	9.4	-	9.4	10.8	-	20.2
Deferred tax	59.9	-	59.9	38.9	-	98.8
	2,310.0	-	2,310.0	919.1	773.3	4,002.4
Current assets						
Inventories	97.9	-	97.9	23.0	-	120.9
Trade and other receivables	527.2	-	527.2	100.2	-	627.4
Income tax recoverable	22.2	-	22.2	-	-	22.2
Other financial assets	6.2	-	6.2	0.4	-	6.6
Cash and cash equivalents	105.3	1,076.1	1,181.4	143.6	(940.7)	384.3
	758.8	1,076.1	1,834.9	267.2	(940.7)	1,161.4
Total assets	3,068.8	1,076.1	4,144.9	1,186.3	(167.4)	5,163.8
Non-current liabilities						
Bank and other borrowings	674.2	-	674.2	802.9	-	1,477.1
Trade and other payables	8.1	-	8.1	97.8	(97.8)	8.1
Deferred tax liabilities	-	-	-	43.3	-	43.3
Other financial liabilities	8.9	-	8.9	12.2	-	21.1
Retirement liabilities	394.6	-	394.6	-	-	394.6
Provisions for other liabilities	103.8	-	103.8	6.4	-	110.2
	1,189.6	-	1,189.6	962.6	(97.8)	2,054.4
Current Liabilities						
Bank and other borrowings	12.7	-	12.7	40.8	-	53.5
Trade and other payables	924.6	-	924.6	131.7	-	1,056.3
Income tax payable	-	-	-	-	-	-
Other financial liabilities	9.7	-	9.7	0.4	-	10.1
Provision for other liabilities	35.3	-	35.3	1.8	-	37.1
	982.3	-	982.3	174.7	-	1,157.0
Total Liabilities	2,171.9	-	2,171.9	1,137.3	(97.8)	3,211.4
Net Assets	896.9	1,076.1	1,973.0	49.0	(69.6)	1,952.4

Notes

- (1) The Babcock financial information has been extracted, without material adjustment, from the unaudited 2013/14 Half Year Financial Statements of the Babcock Group for the six months ended 30 September 2013.
- (2) The net proceeds of the Rights Issue of £1,076.1 million are calculated on the basis that the Company issues 139,259,204 New Ordinary Shares at a price of 790 pence per share, net of estimated expenses in connection with the Rights Issue of approximately £24.0 million, which have been capitalised.
- (3) The financial information on the Avincis Group has been extracted, without material adjustment, from the historical financial information of Avincis set out in Part X (*Historical Financial Information Relating to the Avincis Group*) of this document using the closing exchange rate at 31 December 2013 (€1.202: £1).
- (4) The adjustments arising as a result of the Acquisition are set out below:
 - a. The adjustment to current assets of £940.7 million represents the aggregate of the £920.1 million cash consideration payable for the Acquisition of (€1,100 million translated at the exchange rate of €1.1955: £1 being the closing exchange rate as at 25 March 2014) and £20.6 million of estimated transaction costs.
 - b. The adjustment to non-current trade and other payables of £97.8 million represents the removal of the Avincis shareholder loan which will be repaid at Acquisition.

- c. The adjustment to goodwill has be calculated as follows:

	£m
Consideration	£ 920.1m
Net assets acquired	(£49.0m)
Shareholder loans	<u>(£97.8m)</u>
Pro forma goodwill adjustment	<u>£ 773.3m</u>

The Acquisition has been accounted for using the acquisition method of accounting. The excess of consideration over the book value of the net assets acquired has been reflected as goodwill. A fair value exercise will be completed post Acquisition. Therefore, no account has been taken of any fair value adjustments that may arise on Acquisition.

- (5) No adjustment has been made to reflect the trading results of the Babcock Group since 30 September 2013 or of the Avincis Group since 31 December 2013.

Unaudited Pro Forma Income Statement

		Adjustments				
	Babcock for the year ended 31 March 2013 £m	Rights Issue £m	Subtotal £m	Avincis for the year ended 31 December 2013 £m	Acquisition Adjustments £m	Total £m
	(Note 1)	(Note 2)		(Note 3)	(Note 4)	
Total Revenue	3,243.5	-	3,243.5	494.5	-	3,738.0
Less: joint venture and associates revenue	214.1	-	214.1	13.3	-	227.4
Group revenue	3,029.4	-	3,029.4	481.2	-	3,510.6
Group						
Operating profit before amortisation of acquired intangibles and exceptional items	284.2	-	284.2	57.0	-	341.2
Amortisation of acquired intangibles	(66.4)	-	(66.4)	(1.7)	-	(68.1)
Exceptional items	(14.3)	-	(14.3)	(25.6)	(20.6)	(60.5)
Group operating profit	203.5	-	203.5	29.7	(20.6)	212.6
Joint ventures and associates						
Share of operating profit	21.2	-	21.2	4.1	-	25.3
Investment income	38.5	-	38.5	-	-	38.5
Amortisation of acquired intangibles	(6.2)	-	(6.2)	-	-	(6.2)
Finance costs	(29.2)	-	(29.2)	(1.5)	-	(30.7)
Income tax expense	(6.3)	-	(6.3)	(1.1)	-	(7.4)
Share of results of joint ventures and associates	18.0	-	18.0	1.5	-	19.5
Group and joint ventures and associates						
Operating profit before amortisation of acquired intangibles and exceptional items	305.4	-	305.4	61.1	-	366.5
Investment income	40.2	-	40.2	-	-	40.2
Underlying operating profit	345.6	-	345.6	61.1	-	406.7
Amortisation of acquired intangibles	(72.6)	-	(72.6)	(1.7)	-	(74.3)
Exceptional items	(14.3)	-	(14.3)	(25.6)	(20.6)	(60.5)
Group investment income	(1.7)	-	(1.7)	-	-	(1.7)
Joint ventures and associate finance costs	(29.2)	-	(29.2)	(1.5)	-	(30.7)
Joint ventures and associates income tax expense	(6.3)	-	(6.3)	(1.1)	-	(7.4)
Group operating profit plus share of joint ventures and associates	221.5	-	221.5	31.2	(20.6)	232.1
Finance costs	-	-	-	-	-	-
Investment income	1.7	-	1.7	-	-	1.7
Retirement benefits interest	(11.8)	-	(11.8)	-	-	(11.8)
Finance costs	(38.7)	-	(38.7)	(91.4)	9.5	(120.6)
Finance income	9.1	-	9.1	1.7	-	10.8
Profit before tax	181.8	-	181.8	(58.5)	(11.1)	112.2
Income tax expense	(18.0)	-	(18.0)	4.6	2.0	(11.4)
Profit for the year from continuing obligations	163.8	-	163.8	(53.9)	(9.1)	100.8
Discontinued operations						
Loss for the year from discontinued operations attributable to owners of the parent	(15.2)	-	(15.2)	(12.0)	-	(27.2)
Profit for the year	148.6	-	148.6	(65.9)	(9.1)	73.6
Attributable to:						
Owners of the parent	142.7	-	142.7	(64.4)	(9.1)	69.2
Non-controlling interest	5.9	-	5.9	(1.5)	-	4.4

Notes

- (1) The Babcock financial information has been extracted, without material adjustment, from the 2013 Financial Statements of the Babcock Group, as restated in the unaudited 2013/14 Half Year Financial Statements of the Babcock Group for the six months ended 30 September 2013.
- (2) No adjustment has been made to reduce the finance costs for the year on the basis that the proceeds of the Rights Issue would not have been used to repay debt.
- (3) The financial information of the Avincis Group has been extracted, without material adjustment, from the historical financial information of the Avincis Group set out in Part X (*Historical Financial Information Relating to the Avincis Group*) of this document using the average exchange rate for the year to 31 December 2013 (€1.177: £1).

- (4) The adjustments arising as a result of the Acquisition are set out below:
- a. The adjustment represents an exceptional item of (£20.6 million) reflecting estimated transaction costs payable in respect of the Acquisition.
 - b. The credit to finance costs of £9.5 million represents the interest payable on the Avincis shareholder loan which will be repaid at Acquisition.
 - c. The tax adjustment of £2.0 million represents the combined tax impact of the adjustments to exceptional items and finance costs calculated at 18.12%, Babcock's effective tax rate for the year to 31 March 2013.
- (5) No adjustment has been made to reflect the trading results of the Babcock Group since 31 March 2013 or of the Avincis Group since 31 December 2013.

SECTION B: ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION ON THE ENLARGED GROUP



The Directors
Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

27 March 2014

Dear Sirs

Babcock International Group PLC (the “Company”)

We report on the pro forma net assets statement and the pro forma income statement (together the “**Pro Forma Financial Information**”) set out in Part XI of the Company’s prospectus dated 27 March 2014 (the “**Prospectus**”) which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed Rights Issue and Acquisition of Avincis might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 March 2013 and the unaudited interim financial statements for the period ended 30 September 2013. This report is required by item 20.2 of Annex I to the PD Regulation and item 13.3.3R of the Listing Rules and is given for the purpose of complying with that PD Regulation and Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 20.2 of Annex I to the PD Regulation and item 13.3.3R of the Listing Rules of the UK Listing Authority (the “**Listing Rules**”).

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation and item 13.3.3R of the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the PD Regulation, consenting to its inclusion in the Prospectus.

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3 R(2)(f), we are responsible for this report as part of the Prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Item 1.2 of Annex I to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART XII TAXATION

1. GENERAL

The comments below are of a general and non-exhaustive nature based on the Directors' understanding of current tax law and published practice in the United Kingdom and the United States, which is subject to change, possibly with retrospective effect. The acquisition of Ordinary Shares in the Company involves a number of complex tax considerations. Changes in tax legislation in any of the countries in which the Company has assets, in the United Kingdom (or in any other country in which a subsidiary of the Company through which acquisitions are made is located), or in the United States or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Company to investors or increase the tax liabilities of Qualifying Shareholders.

Shareholders who are in any doubt as to their taxation position should consult their own independent professional advisers on the potential tax consequences regarding the acquisition, holding or disposal of New Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.

2. UK TAXATION

The following statements do not constitute tax advice and are intended to apply only as a general guide to current UK tax law and to the current published practice of HMRC, both of which are subject to change possibly with retrospective effect. They are intended to apply only to Qualifying Shareholders who (unless the position of non-UK resident shareholders is expressly referred to) are resident and domiciled in the United Kingdom for UK tax purposes (and not in any other territory), who hold their Ordinary Shares directly as investments and who are the absolute beneficial owners of their Ordinary Shares and who have not acquired (or been deemed to have acquired) their Ordinary Shares through any form of option arrangements or by reason of their or another person's employment. The statements may not apply to certain classes of shareholders such as dealers in securities or Qualifying Shareholders who are trustees or who hold their Ordinary Shares through any form of investment vehicle.

Qualifying Shareholders who are in any doubt as to their tax position regarding the acquisition, ownership and disposal of the New Ordinary Shares or who are subject to tax in a jurisdiction other than the United Kingdom should consult their own tax advisers.

2.1 Taxation of chargeable gains

(a) *Rights Issue*

The issue of the New Ordinary Shares by the Company to Qualifying Shareholders by way of a rights issue should constitute a reorganisation of the Company's share capital for the purposes of UK taxation of chargeable gains. Accordingly, a Qualifying Shareholder should not be treated as making a disposal, for the purposes of the taxation of chargeable gains, of any part of its Existing Ordinary Shares by reason of taking up its rights to New Ordinary Shares. No liability to taxation on chargeable gains should arise in respect of the issue of New Ordinary Shares.

For the purposes of the taxation of chargeable gains, if a Qualifying Shareholder takes up all or any of its rights to the New Ordinary Shares its holding of Existing Ordinary Shares and its New Ordinary Shares should be treated as the same asset, acquired at the same time as the Existing Ordinary Shares were acquired. The amount paid for the New Ordinary Shares should be added to the acquisition cost of its Existing Ordinary Shares.

(b) *Sale of Nil Paid Rights or lapse of rights to New Ordinary Share*

If a Qualifying Shareholder sells all or any of its rights to New Ordinary Shares, or if a Qualifying Shareholder allows its rights to lapse and receives a cash payment in respect of them that shareholder may, depending on its circumstances (including the availability of exemptions, reliefs and/or allowable losses), incur a liability to taxation on chargeable gains or realise an allowable loss.

If the proceeds resulting from a lapse or disposal of the rights are 'small' compared with the market value (on the date of lapse or disposal) of the Existing Ordinary Shares and the proceeds

do not exceed the total acquisition cost of the Existing Ordinary Shares owned, a Qualifying Shareholder can be treated as not having made a disposal for the purposes of tax on chargeable gains and instead the proceeds can be deducted from the acquisition cost of the Existing Ordinary Shares for the purposes of computing any chargeable gain or allowable loss on a subsequent disposal. HMRC's current practice is that "small" for these purposes means either (i) the proceeds of the disposal or lapse of rights do not exceed five per cent. of the market value (at the date of the disposal or lapse) of the shares in respect of which the rights arose or (ii) the amount of the proceeds is £3,000 or less, regardless of whether the five per cent. test is satisfied.

Where the proceeds are not "small" or the proceeds exceed the total acquisition cost of the Existing Ordinary Shares owned, a part disposal is deemed to have occurred and the Qualifying Shareholder may, depending on his circumstances (including the availability of exemptions, reliefs and/or allowable losses), incur a liability to taxation on chargeable gains or realise an allowable loss.

Where the proceeds exceed the total acquisition cost of the Existing Ordinary Shares owned, the taxpayer may be able to elect to deduct that acquisition cost from the proceeds, reducing to nil the amount of such costs which shall be allowable as a deduction in computing a gain for subsequent disposals. Where such a shareholder does not elect for this approach, the normal part disposal rules apply and the acquisition cost used in the calculation of any resulting gain or loss as a result of the part disposal is apportioned by reference to the proceeds receivable and the market value of the shares retained.

(c) ***Subsequent sale of New Ordinary Shares by individuals***

Following an acquisition of New Ordinary Shares, a subsequent disposal or deemed disposal of any such shares by a Qualifying Shareholder who is an individual within the charge to UK capital gains tax may, depending upon the Qualifying Shareholder's circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals or other applicable reliefs), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

Individuals who are temporarily non-UK resident may, in certain circumstances, be subject to tax on their return to the United Kingdom in respect of gains realised whilst they are not resident in the United Kingdom.

(d) ***Subsequent sale of New Ordinary Shares by companies***

Following an acquisition of New Ordinary Shares, a subsequent disposal or deemed disposal of any such shares by a Qualifying Shareholder who is a company within the charge to UK corporation tax may, depending upon the Qualifying Shareholder's circumstances and subject to any available exemption or relief (such as indexation), give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax.

In calculating any such chargeable gain Qualifying Shareholders may claim an indexation allowance in respect of the subscription monies and acquisition costs paid for their Existing Ordinary Shares and New Ordinary Shares. Where shares have been purchased on different dates, consideration will need to be given to the "pooling" rules to determine the correct indexed acquisition cost available to set off against the consideration proceeds to calculate the chargeable gain arising. The indexation allowance will generally only apply from the date the shareholder became liable to make or made payment of the subscription monies. It may not be used to create or increase an allowable loss.

These statements assume that the Rights Issue is, as anticipated, treated as a reorganisation of the Company's share capital as defined for the purposes of UK taxation of chargeable gains. In the event that the Rights Issue fails to meet the requirements of the reorganisation definition, and subject to certain "share identification" rules, for individual Qualifying Shareholders who are resident in the UK, the subscription for New Ordinary Shares would be treated as the acquisition of shares which are pooled with their Existing Ordinary Shares and any subscription monies for the New Ordinary Shares will be added to the cost of the pool to compute the allowable expenditure in respect of disposals or deemed disposals of shares disposed of in the future from that pool. For Qualifying Shareholders within the charge to corporation tax, the approach required to calculate any chargeable gain or allowable loss on a subsequent disposal of Ordinary Shares will be as indicated in paragraph 2.1(d) above.

2.2 Taxation of dividends

Under current UK tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

(a) *Individuals*

An individual Qualifying Shareholder who is resident in the United Kingdom for tax purposes and who receives a dividend from the Company will be entitled to a tax credit which may be set off against his total income tax liability on the dividend. Such an individual Qualifying Shareholder's liability to income tax is calculated on the aggregate of the cash dividend received and the tax credit (the "**gross dividend**") which will be regarded as the top slice of the individual's income. The tax credit will be equal to 10 per cent. of the gross dividend (i.e., the tax credit will be one-ninth of the amount of the cash dividend received).

A UK resident individual Qualifying Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to any repayment from HMRC in respect of any part of the tax credit.

A UK resident individual Qualifying Shareholder who is liable to income tax at a rate not exceeding the basic rate will be subject to income tax on the dividend at the rate of 10 per cent. (for the 2013/14 tax year) of the gross dividend so that the tax credit will satisfy in full such Qualifying Shareholder's liability to income tax on the dividend.

A UK resident individual Qualifying Shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent. (for the 2013/14 tax year) to the extent that such sum, when treated as the top slice of such Qualifying Shareholder's income, falls above the threshold for higher rate income tax. However, such a Qualifying Shareholder will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such a Qualifying Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received).

A UK resident individual Qualifying Shareholder liable to income tax at the additional rate will be subject to tax on the gross dividend at the rate of 37.5 per cent. (for the 2013/14 tax year) to the extent that such sum, when treated as the top slice of such Qualifying Shareholder's income, falls above the threshold for the additional rate of income tax. However, such a Qualifying Shareholder will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such a Qualifying Shareholder will have to account for additional tax equal to 27.5 per cent. of the gross dividend, to the extent that the gross dividend fell above the threshold for the additional rate of income tax. This is equivalent to approximately 30.6 per cent. of the cash dividend received.

Subject to confirmation in the Finance Act 2014, the dividend rates are expected to remain the same for the 2014/15 tax year.

In all circumstances, the dividend tax credit is notional only and non-refundable.

(b) *Companies*

Qualifying Shareholders within the charge to UK corporation tax which are "small companies" (for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 ("**CTA 2009**")) will not generally be subject to UK corporation tax on any dividend received from the Company.

Qualifying Shareholders within the charge to UK corporation tax that are not "small companies" will not be subject to UK tax on dividends received from the Company so long as the dividends fall within an exempt class under Chapter 3 of Part 9A CTA 2009 and certain conditions are met. Examples of dividends that fall within exempt classes include dividends paid on shares that are non-redeemable ordinary shares and dividends paid to a person holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital in respect of which the distribution is made). The exemptions are not comprehensive and are subject to anti-avoidance rules. If the conditions for exemption are not or cease to be satisfied, or such a shareholder

elects for an otherwise exempt dividend to be taxable, the shareholder will be subject to UK corporation tax on dividends received from the Company. Corporation tax would be charged on such dividends at the rate applicable to that company.

(c) ***Other UK Qualifying Shareholders***

Other Qualifying Shareholders in the UK which are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to any payment from HMRC in respect of the tax credit attaching to any dividend paid by the Company.

2.3 **Stamp duty and SDRT**

(a) ***Rights Issue***

No stamp duty or SDRT will generally be payable on: the issue of Provisional Allotment Letters or definitive share certificates; the registration of the original holders of Provisional Allotment Letters or their renounees; the crediting of the Nil Paid Rights or Fully Paid Rights to stock accounts in CREST; or issue in uncertificated form of the New Ordinary Shares.

The transfer of Nil Paid Rights or Fully Paid Rights represented by a Provisional Allotment Letter or held in CREST (other than a transfer to a depositary or clearance service or their nominees or agents) on or before the latest time for registration or renunciation or transfer, will not generally be liable to stamp duty but will normally be liable to SDRT at the rate of 0.5 per cent. of the actual consideration paid. In the case of transfers within CREST, any SDRT due will be collected through CREST in accordance with the CREST rules.

Where such a purchase is effected through a stockbroker or other financial intermediary, that person will normally account to HMRC for the SDRT and should indicate that this has been done in any contract note issued to the purchaser. In other cases, the acquirer of the rights to the New Ordinary Shares represented by the Provisional Allotment Letters is liable to pay the SDRT and must account for it to HMRC. Any SDRT arising on the transfer of Nil Paid Rights or Fully Paid Rights held in CREST should be collected and accounted for to HMRC by CREST.

(b) ***Subsequent Transfers***

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring New Ordinary Shares. A charge to SDRT will also arise on an unconditional agreement to transfer New Ordinary Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional, an instrument of transfer is executed pursuant to the agreement, and that instrument is either duly stamped or is not chargeable with stamp duty or otherwise required to be stamped, any SDRT already paid will be refunded (generally, where the tax repaid is not less than £25, with interest at the relevant prevailing rate from the date on which the payment was made until the order for repayment is issued) **provided that** a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee. An exemption from stamp duty is available on an instrument transferring New Ordinary Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

Paperless transfers of New Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. Under the CREST system, no stamp duty or SDRT will arise on a transfer of New Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

(c) *New Ordinary Shares held through clearance services or depositary receipt schemes*

Under current UK law, but subject to the comments which follow, where New Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the New Ordinary Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be for the account of the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt scheme. Transfers within the clearance service, and transfers of depositary receipts, are then generally made free of SDRT or stamp duty. Clearance services may opt, provided certain conditions are satisfied, for the normal rates of stamp duty or SDRT to apply to issues or transfers of New Ordinary Shares into, and to transactions within, such services instead of the 1.5 per cent. charge generally applying to an issue or transfer of New Ordinary Shares into the clearance service and instead of the exemption from SDRT on transfers of New Ordinary Shares whilst in the clearance service.

Following litigation, HMRC have confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on an issue of shares to a clearance service or depositary receipts arrangement on the basis that the charge is not compatible with EU law. HMRC's view is that the 1.5 per cent. stamp duty or SDRT charge will continue to apply to transfers of shares into a clearance service or depositary receipts arrangement unless they are an integral part of an issue of share capital. This view is currently being challenged in further litigation. Accordingly specific professional advice should be sought before incurring the cost of 1.5 per cent. stamp duty or SDRT charge in any circumstances.

The above statements are intended only as a general guide to the current UK stamp duty and SDRT position. Transfers to certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for SDRT, be required to notify and account for it.

3. **US FEDERAL INCOME TAX CONSIDERATIONS**

The discussion in this offering circular is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding US federal, state or local penalties, and was written to support the promotion or marketing of the offering. Each taxpayer should seek advice based on such person's particular circumstances from an independent tax adviser.

The following is a discussion of certain US federal income tax consequences of the receipt, exercise and disposition of Nil Paid Rights pursuant to the Rights Issue, as well as the acquisition, ownership and disposition of New Ordinary Shares. This summary addresses only US Holders (as defined below) that receive Nil Paid Rights with respect to Existing Ordinary Shares in the Rights Issue, hold Nil Paid Rights and, if applicable, New Ordinary Shares as capital assets (generally, property held for investment) and use the US dollar as their functional currency. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a US Holder. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws such as banks and other financial institutions, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, persons that own (or are deemed to own) 10 per cent. or more (by voting power) of the shares of Babcock, persons who have ceased to be US citizens or to be taxed as US lawful permanent residents, and investors that will hold the New Ordinary Shares as part of straddles, hedging or conversion transactions, or as part of a synthetic security for US federal income tax purposes. This summary also does not address the application of the alternative minimum tax, the Medicare contribution tax, state, local or non-US or other tax laws.

For the purposes of this summary, a "US Holder" is a beneficial owner of Nil Paid Rights or New Ordinary Shares that is, for US federal income tax purposes, (a) a citizen of or an individual resident in the United States, (b) a corporation created in or organised under the laws of the United States or any

state thereof or the District of Columbia, (c) an estate, the income of which is subject to US federal income taxation regardless of its source or (d) a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more US Persons (as defined in the US Internal Revenue Code of 1986 (the “Code”)) have the authority to control all of the substantial decisions of such trust.

This summary does not address US Holders that are partnerships (or any other entity treated as fiscally transparent for US federal income tax purposes) or holders of equity interests in a US Holder. If a partnership (or any other fiscally transparent entity) holds Nil Paid Rights or New Ordinary Shares, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisers as to the US federal income tax consequences to them of the partnership’s receipt, exercise and disposition of Nil Paid Rights as well as the partnership’s acquisition, ownership and disposition of New Ordinary Shares.

This summary is based upon current US federal income tax law, including the Code, its legislative history, existing, temporary and proposed regulations thereunder, published rulings and court decisions, all of which are subject to change, possibly with retroactive effect

Babcock expects, and this discussion assumes, that it will not be a passive foreign investment company (a “PFIC”). See below at paragraph 3.4 of this Part XII (*Taxation*).

3.1 **Taxation of Nil Paid Rights**

(a) ***Receipt of Nil Paid Rights***

The proper US federal income tax characterisation of the issuance of Nil Paid Rights is uncertain because (i) the proper characterisation of any subsequent sale by the Underwriters of such Nil Paid Rights and the remittance of the proceeds from that sale to US Holders whose Nil Paid Rights were sold is unclear and (ii) it is not at present certain what, if any, adjustments will be made to the conversion ratios for options issued under the Share Schemes following the Rights Issue. Under US federal income tax principles, the issuance and subsequent sale of Nil Paid Rights could be treated either as a distribution of property by Babcock or as a distribution of Nil Paid Rights by Babcock and a subsequent sale of Nil Paid Rights by the relevant US Holders. US Holders should consult their tax advisers as to the proper characterisation of the issuance of Nil Paid Rights for US federal income tax purposes.

If the issuance of Nil Paid Rights is not a distribution of property for US federal income tax purposes, a US Holder should not be required to include any amount in income for US federal income tax purposes as a result of the Rights Issue. In such a case, if, on the date Nil Paid Rights are issued, the fair market value of the Nil Paid Rights allocable to a US Holder is less than 15 per cent. of the fair market value of the Existing Ordinary Shares with respect to which such Nil Paid Rights are issued, the Nil Paid Rights will generally have a zero basis for US federal income tax purposes. However, such US Holder may affirmatively elect to allocate basis in proportion to the relative fair market value of such US Holder’s Existing Ordinary Shares and the Nil Paid Rights, determined on the date of issuance. This election must be made in the tax return of the US Holder for the taxable year in which the Nil Paid Rights are issued, and is irrevocable once made.

If, on the date Nil Paid Rights are issued, the fair market value of the Nil Paid Rights attributable to a US Holder is at least 15 per cent. of the fair market value of the Existing Ordinary Shares with respect to which the Nil Paid Rights are issued, then the basis in such US Holder’s Existing Ordinary Shares must be allocated between such Existing Ordinary Shares and the Nil Paid Rights issued in proportion to their fair market values determined on the date the Nil Paid Rights are issued. This general rule will apply with respect to Nil Paid Rights only if the Nil Paid Rights are exercised or sold.

If a taxable distribution of property is considered to be made by Babcock, the issuance of Nil Paid Rights to a US Holder generally should be taxable as foreign source dividend income in an amount equal to the fair market value of the Nil Paid Rights. In such a case, a US Holder would have a tax basis in the Nil Paid Rights equal to the amount treated as a dividend, and a US Holder’s holding period in the Nil Paid Rights would begin on the date the Nil Paid Rights are received. For the US federal income taxation of dividends paid by Babcock, refer to the discussion below at paragraph 3.3(a) of this Part XII (*Taxation*).

(b) ***Sale, exchange or other disposition of Nil Paid Rights***

A US Holder will recognise capital gain or loss on the sale, exchange or other disposition of Nil Paid Rights (including a sale of Nil Paid Rights on its behalf) in an amount equal to the difference between such US Holder's tax basis in the Nil Paid Rights and the US dollar value of the amount realised (as determined for US federal income tax purposes) from the sale, exchange or other disposition. Capital gains of individuals and certain other non-corporate US Holders derived from capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to significant limitations. Any gain or loss generally will be treated as arising from US sources.

If the issuance of Nil Paid Rights is treated as a non-taxable distribution of Nil Paid Rights, the holding period of the US Holder in the Nil Paid Rights should include its holding period in the Existing Ordinary Shares with respect to which the Nil Paid Rights were distributed. If the issuance of Nil Paid Rights is treated as a taxable distribution of property, however, the holding period of the US Holder in the Nil Paid Rights would begin on the date the Nil Paid Rights are received.

US Holders should consult own tax advisers about how to account for payments that are not received in US dollars under their methods of accounting for US federal income tax purposes.

(c) ***Exercise of Nil Paid Rights and Receipt of Fully Paid Rights***

A US Holder will not recognise taxable income upon the receipt of Fully Paid Rights pursuant to the exercise of Nil Paid Rights. Such a US Holder will have a tax basis in the Fully Paid Rights equal to the sum of such US Holder's tax basis in the Nil Paid Rights exercised to obtain the Fully Paid Rights and the US dollar value of the subscription price on the exercise date. Such a US Holder's holding period in the Fully Paid Rights received generally will begin on the date the Nil Paid Rights are exercised.

(d) ***Expiration of Nil Paid Rights***

If the issuance of Nil Paid Rights is treated as a non-taxable distribution of Nil Paid Rights, and a US Holder who receives Nil Paid Rights allows the Nil Paid Rights to expire without selling or exercising them (and such US Holder does not receive any proceeds), such US Holder should not recognise any loss upon the expiration of the Nil Paid Rights. In addition, such US Holder's basis in its Existing Ordinary Shares will not be affected by the Rights Issue or such US Holder's decision to allow its Nil Paid Rights to expire and will remain the same as before this offering.

If the issuance of Nil Paid Rights is treated as a taxable distribution of property, however, and a US Holder who receives Nil Paid Rights allows the Nil Paid Rights to expire without selling or exercising them (and such US Holder does not receive any proceeds from the sale of Nil Paid Rights on its behalf), such US Holder should recognise a capital loss treated as arising from US sources upon the expiration of the Nil Paid Rights. The deductibility of capital losses is subject to significant limitations.

3.2 Taxation of Fully Paid Rights

(a) ***Exercise of Fully Paid Rights***

A US Holder will not recognise taxable income upon the receipt of New Ordinary Shares pursuant to the exercise of Fully Paid Rights. A US Holder will have a tax basis in the New Ordinary Shares equal to such US Holder's tax basis in the Fully Paid Rights and a holding period starting on the date the Nil Paid Rights were exercised.

(b) ***Sale, exchange or other disposition of Fully Paid Rights***

A US Holder will recognise capital gain or loss on the sale, exchange or other disposition of Fully Paid Rights in an amount equal to the difference between such US Holder's adjusted tax basis in the Fully Paid Rights and the US dollar value of the amount realised (as determined for US federal income tax purposes) from the sale, exchange or other disposition. Any gain or loss generally will be treated as arising from US sources.

US Holders should consult their tax advisers about how to account for payments made or received in non-US dollars under their methods of accounting for US federal income tax purposes.

3.3 **Taxation of New Ordinary Shares**

(a) *Dividends*

The gross amount of any distributions paid by Babcock to a US Holder that are actually or constructively received by the US Holder generally will be subject to US federal income tax as foreign source ordinary dividend income to the extent paid out of Babcock's current or accumulated earnings and profits (as determined under US federal income tax principles). Because Babcock does not expect to maintain calculations of its earnings and profits in accordance with US federal income tax principles, US Holders should expect that a distribution will generally be treated as a dividend for US federal income tax purposes. The amount of any distribution of property other than cash will be the fair market value of the property on the date of the distribution. Such distributions will not be eligible for the dividends received deduction allowed to certain corporations.

Subject to applicable limitations, dividends received by individual and certain other non-corporate US Holders will be subject to reduced rates of taxation if Babcock is eligible for the benefits of the Convention Between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital Gains (the "**Treaty**") and certain holding period rules are met. Babcock expects to be eligible for the benefits of the Treaty so long as its shares are regularly traded on the London stock exchange.

US Holders should consult own tax advisers about how to account for payments that are not received in US dollars under their methods of accounting for US federal income tax purposes.

(b) *Sale, exchange or other disposition*

A US Holder generally will recognise gain or loss for US federal income tax purposes upon a sale or other disposition of its New Ordinary Shares in an amount equal to the difference between the US dollar amount realised from such sale or disposition and the US Holder's adjusted tax basis in such New Ordinary Shares, as determined in US dollars. Such gain or loss will be capital gain or loss and will be long-term capital gain (taxable at a reduced rate for non-corporate US Holders, such as individuals) or loss if, on the date of sale or disposition, such New Ordinary Shares were held by such US Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Such gain or loss realised generally will be treated as derived from US sources.

US Holders should consult their tax advisers about how to account for payments made or received in non-US dollars under their methods of accounting for US federal income tax purposes.

3.4 **Passive Foreign Investment Company Status**

A non-US corporation is classified as a PFIC for US federal income tax purposes for each taxable year in which (a) 75 per cent. or more of its gross income is passive income (as defined for US federal income tax purposes) or (b) on average for such taxable year, 50 per cent. or more (by value) of its gross assets either produce or are held for the production of passive income. For purposes of the PFIC provisions, passive income generally includes dividends, interest, royalties, rents and gains from some securities transactions.

Babcock believes that it is not a PFIC, and based on the present nature of its activities (including the Rights Issue) and the present composition of its assets and sources of income (with or without the Acquisition), it does not expect to become a PFIC in the future. There can be no assurances, however, that Babcock will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. If Babcock is classified as a PFIC in any year that a US Holder is a shareholder, Babcock

generally will continue to be treated as a PFIC for that US Holder in all succeeding years, regardless of whether Babcock continues to meet the income or asset test described above. If Babcock were a PFIC in any taxable year, materially adverse US federal income tax consequences could result for US Holders, including being subject to greater amounts of US tax and being subject to additional US tax form filing requirements. US Holders should consult their tax advisers about the application of the PFIC rules.

3.5 US Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with distributions on the New Ordinary Shares and the proceeds from the sale, exchange or other disposition of the Nil Paid Rights, Fully Paid Rights or New Ordinary Shares unless a US Holder establishes that it is exempt from the information reporting rules. A US Holder that does not establish this may be subject to backup withholding on these payments if the US Holder fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are available to be credited against a US Holder's US federal income tax liability and may be refunded to the extent they exceed such liability, provided the required information is timely provided to the IRS.

US Holders should consult their tax advisers regarding any additional tax reporting or filing requirements they may have as a result of acquiring, owning or disposing of the Nil Paid Rights, the Fully Paid Rights, or the New Ordinary Shares. Failure to comply with applicable reporting obligations could result in the imposition of substantial penalties.

PART XIII
DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

1. DIRECTORS

1.1 Current Directors

The current Directors of Babcock and their functions are as follows:

Name	Age	Position	Date appointed to the Board
Michael Turner, CBE	65	Director, Chairman	1 June 2008
Peter Rogers, CBE	66	Director, Chief Executive	13 June 2002
William Tame	59	Director, Group Finance Director	25 January 2002
Kevin Thomas	60	Director, Chief Executive - Support Services	1 May 2010
Archibald Bethel, CBE	61	Director, Chief Executive - Marine & Technology	1 May 2010
John Davies	50	Director, Chief Executive - Defence & Security	1 January 2013
Sir David Omand, GCB	66	Senior Independent Director	1 April 2009
Justin Crookenden	50	Non-Executive Director (Independent)	1 December 2005
Ian Duncan	53	Non-Executive Director (Independent)	10 November 2010
Kate Swann	49	Non-Executive Director (Independent)	1 June 2011
Anna Stewart	49	Non-Executive Director (Independent)	1 November 2012

The business address of each of the Directors (in such capacity) is 33 Wigmore Street, London, W1U 1QX.

No changes will be made to the Board as a result of the Acquisition.

1.2 Profiles of the Directors

The business experience and principal business activities outside of Babcock of each of the Directors are as follows:

(a) *Michael Turner, CBE, Chairman*

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

(b) *Peter Rogers, CBE, Chief Executive Officer*

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

Peter Rogers has committed to continue as the Chief Executive until at least the summer of 2016.

(c) *William Tame, Group Finance Director*

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

(d) *Kevin Thomas, Chief Executive – Support Services*

Kevin Thomas became a Director on 1 May 2010. He joined the Group in June 2002. Before joining Babcock, he spent 12 years in facilities management, including seven years with Serco

Group PLC and fifteen years in local government with Merton, Surrey and Southwark Councils. Kevin is a Fellow of the Royal Institute of Chartered Surveyors and a Freeman of the City of London. On 1 May 2014 he will become an independent non-executive director of Harvey Nash PLC.

(e) ***Archibald Bethel, CBE, Chief Executive – Marine & Technology***

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

(f) ***John Davies, Chief Executive – Defence & Security***

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

(g) ***Sir David Omand, GCB, Senior Independent Director***

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

(h) ***Justin Crookenden, Independent Non-Executive Director***

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

After nine years on the Board and in accordance with corporate governance best practice for independent non-executive directors, Justin Crookenden intends to retire from the Board on 30 November 2014. He will also step down from his Chairmanship of the Remuneration Committee with effect from the Company's next AGM to be held in July 2014.

(i) ***Ian Duncan, Independent Non-Executive Director***

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

(j) ***Kate Swann, Independent Non-Executive Director***

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

(k) ***Anna Stewart, Independent Non-Executive Director***

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

A list of the companies and partnerships (other than Babcock and its subsidiaries) of which the Babcock Directors are or have been a director or partner within the past five years is set out in paragraph 8 of this Part XIII (*Directors, Senior Managers and Corporate Governance*).

1.3 Proposed Director

On 6 December 2013, Babcock announced the appointment of Jeff Randall as an Independent Non-Executive Director, with effect from 1 April 2014. He will also serve as a member of the Remuneration, Nominations and Audit & Risk Committees of the Board and, after the Company's AGM in July 2014, assume Justin Crookenden's role as the Chairman of the Remuneration Committee.

Jeff Randall is 59 years old and is a journalist and broadcaster. He is currently a presenter for Sky News, a position from which he will be stepping down on 31 March 2014. He was also editor-at-large of The Daily Telegraph between November 2005 and 31 December 2013, business editor of the BBC between 2001 and 2005, the launch editor of Sunday Business and, for six years, was City Editor of the Sunday Times. He is a former director of Times Newspapers. Jeff is also a Visiting Fellow of Oxford University's Said Business School where he specialises in corporate reputation, and is an honorary professor at Nottingham University's business school.

Jeff Randall will be subject to election at Babcock's AGM in July 2014.

A list of the companies and partnerships (other than Babcock and its subsidiaries) of which Jeff Randall is or has been a director or partner within the past five years is set out in paragraph 8 of this Part XIII (*Directors, Senior Managers and Corporate Governance*).

2. SENIOR MANAGERS

2.1 Senior Managers

The Senior Managers of the Babcock Group are:

Name	Age	Position
Kevin Goodman	62	Group Director of Organisation & Development
Albert Dungate	57	Group Company Secretary and General Counsel

2.2 Profiles of the Senior Managers

The business experience and principal business activities of each of the Senior Managers are as follows:

(a) *Kevin Goodman, Group Director of Organisation & Development*

Kevin Goodman joined Babcock in 2001. He was a Director of both Babcock's Defence & Security and Marine & Technology Divisions prior to his appointment to the Executive. In his present role he is responsible for Remuneration, Talent Management, Executive Development and Diversity. He is a Trustee of Babcock's pension schemes.

(b) *Albert Dungate, Group Company Secretary and General Counsel*

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

A list of the companies and partnerships (other than Babcock and its subsidiaries) of which the Babcock Senior Managers are or have been a director or partner within the past five years is set out in paragraph 8 of this Part XIII (*Directors, Senior Managers and Corporate Governance*).

3. INTERESTS OF THE DIRECTORS AND SENIOR MANAGERS

3.1 Interests of Directors and Senior Managers in Ordinary Shares

As at the Latest Practicable Date, the interests (all of which are beneficial) of the Directors, the Proposed Director and Senior Managers, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) their connected persons (within the meaning of section 96B

of FSMA) in Ordinary Shares, including: (i) those arising pursuant to transactions notified to Babcock pursuant to DTR 3.1.2R; or (ii) those of connected persons of the Directors, the Proposed Director and Senior Managers, which would, if such connected person were a Director, a Proposed Director or a Senior Manager, be required to be disclosed under (i) above, together with such interests would subsist immediately following Admission of the New Ordinary Shares based on the assumptions below, are set out below:

Director	Ordinary Shares held prior to the Rights Issue ⁽¹⁾	Percentage of issued Ordinary Share capital prior to the Rights Issue ⁽¹⁾ (%)	Ordinary Shares held after the Rights Issue ⁽²⁾	Percentage of issued Ordinary Shares capital after the Rights Issue ⁽²⁾ (%)
Chairman and Executive Directors				
Michael Turner	40,000	0.011	55,384	0.011
Peter Rogers	889,639	0.246	1,231,807	0.246
William Tame	451,645	0.125	625,354	0.125
Archibald Bethel	194,197	0.054	268,888	0.054
Kevin Thomas	168,150	0.046	232,823	0.046
John Davies	18,962	0.005	26,255	0.005
Non-Executive Directors				
Justin Crookenden	11,647	0.003	16,126	0.003
David Omand	-	-	-	-
Ian Duncan	-	-	-	-
Kate Swann	5,000	0.001	6,923	0.001
Anna Stewart	-	-	-	-
Proposed Director				
Jeff Randall	-	-	-	-
Senior Managers				
Kevin Goodman	377	0.000	522	0.000
Albert Dungate	251,411	0.069	348,107	0.069

Notes:

⁽¹⁾ Details of the options over Ordinary Shares and interests in the long-term incentive plan held by the Directors are set out in paragraph 3.2 of this Part XIII (*Directors, Senior Managers and Corporate Governance*). They are not included in the interests of the Directors shown in the table above.

⁽²⁾ Assuming that no share options are exercised between the Latest Practicable Date and Admission and that the Directors and Senior Managers (and their immediate families and connected persons) take up their rights to New Ordinary Shares in full. Note that certain Directors intend to sell a sufficient number of their Nil Paid Rights during the nil paid dealing period to meet the costs of taking up the balance of their entitlements to New Ordinary Shares.

Taken together, the combined percentage interest of the Directors, the Proposed Director and the Senior Managers (and their immediate families and connected persons) in the issued share capital expected to subsist immediately following the Rights Issue is approximately 0.56 per cent., assuming that the Directors, the Proposed Director and the Senior Managers (and their immediate families and connected persons) take up their rights in full.

3.2 Interests of Directors and the Senior Managers in Ordinary Shares pursuant to the Share Schemes

As at the Latest Practicable Date, the following options over Ordinary Shares have been granted to the Directors and Senior Managers under the Share Schemes:

Babcock Director /Senior Manager	Scheme and year of award ⁽¹⁾	Number of Ordinary Shares subject to award	Exercise price (pence) ⁽²⁾	Exercisable from ⁽³⁾	Expiry date ⁽⁴⁾
Peter Rogers	PSP 2011	157,971		June 2014	June 2015
	PSP 2012	32,454		July 2015	July 2016
	PSP 2012	95,975		June 2015	June 2016
	DBMP 2012 (basic award)	37,433		July 2015	July 2016
	DBMP 2012 (basic matching award)	74,866		July 2015	July 2016
	DBMP 2012 (voluntary deferral award)	25,963		July 2015	July 2016
	DBMP 2012 (voluntary deferral matching award)	51,926		July 2015	July 2016
	PSP 2013	104,059		June 2016	June 2017
	DBMP 2013 (basic award)	28,353		June 2016	June 2017
	DBMP 2013 (basic matching award)	56,707		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	19,093		June 2016	June 2017
	DBMP 2013 (voluntary deferral matching award)	38,187		June 2016	June 2017
William Tame	PSP (A) 2011 ⁽⁵⁾⁽⁶⁾	71,782		June 2014	June 2015
	PSP (B) 2011 ⁽⁵⁾⁽⁶⁾	3,217		June 2014	June 2015
	CSOP 2011 ⁽⁵⁾	3,217	690.00	June 2014	June 2021
	PSP 2012	60,755		June 2015	June 2016
	DBMP 2012 (basic award)	23,696		July 2015	July 2016
	DBMP 2012 (basic matching award)	47,392		July 2015	July 2016
	PSP 2013	49,404		June 2016	June 2017
	DBMP 2013 (basic award)	17,948		June 2016	June 2017
	DBMP 2013 (basic matching award)	35,897		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	6,802		June 2016	June 2017
	DBMP 2013 (voluntary deferral matching award)	13,605		June 2016	June 2017
Archibald Bethel	PSP 2011	65,217		June 2014	June 2015
	PSP 2012	52,831		June 2015	June 2016
	DBMP 2012 (basic award)	17,344		July 2015	July 2016

Babcock Director /Senior Manager	Scheme and year of award ⁽¹⁾	Number of Ordinary Shares subject to award	Exercise price (pence) ⁽²⁾	Exercisable from ⁽³⁾	Expiry date ⁽⁴⁾
Kevin Thomas	DBMP 2012 (basic matching award)	34,688		July 2015	July 2016
	DBMP 2012 (voluntary deferral award)	14,292		July 2015	July 2016
	DBMP 2012 (voluntary deferral matching award)	28,584		July 2015	July 2016
	PSP 2013	42,960		June 2016	June 2017
	DBMP 2013 (basic award)	13,006		June 2016	June 2017
	DBMP 2013 (basic matching award)	26,012		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	10,510		June 2016	June 2017
	DBMP 2013 (voluntary deferral matching award)	21,020		June 2016	June 2017
	PSP 2011	65,217		June 2014	June 2015
	PSP (A) 2012 ^{(5) (6)}	50,881		June 2015	June 2016
	PSP (B) 2012 ^{(5) (6)}	1,949		June 2015	June 2016
	CSOP 2012 ⁽⁵⁾	1,949	877.33	June 2015	June 2022
	DBMP 2012 (basic award)	17,344		July 2015	July 2016
	DBMP 2012 (basic matching award)	34,688		July 2015	July 2016
	DBMP 2012 (voluntary deferral award)	14,292		July 2015	July 2016
	DBMP 2012 (voluntary deferral matching award)	28,584		July 2015	July 2016
John Davies ⁽⁷⁾	PSP 2013	42,960		June 2016	June 2017
	DBMP 2013 (basic award)	13,006		June 2016	June 2017
	DBMP 2013 (basic matching award)	26,012		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	10,510		June 2016	June 2017
	DBMP 2013 (voluntary deferral matching award)	21,020		June 2016	June 2017
	PSP (A) 2010 ^{(5) (6)}	35,002		July 2013	July 2014
	PSP (B) 2010 ^{(5) (6)}	4,840		July 2013	July 2014
	CSOP 2010 ⁽⁵⁾	4,840	619.83	July 2013	July 2020
	PSP 2011	48,913		June 2014	June 2015
	DBP 2011	14,463		June 2013	June 2014
	PSP 2012	42,743		June 2015	June 2016
	DBMP 2012 (basic award)	13,008		July 2015	July 2016

Babcock Director /Senior Manager	Scheme and year of award ⁽¹⁾	Number of Ordinary Shares subject to award	Exercise price (pence) ⁽²⁾	Exercisable from ⁽³⁾	Expiry date ⁽⁴⁾
	DBMP 2012 (basic matching award)	26,016		July 2015	July 2016
	PSP 2013	41,047		June 2016	June 2017
	DBMP 2013 (basic award)	12,753		June 2016	June 2017
	DBMP 2013 (basic matching award)	25,507		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	10,306		June 2016	June 2017
	DBMP 2013 (voluntary deferral matching award)	20,612		June 2016	June 2017
Kevin Goodman	PSP 2009 A ^{(5) (6)}	1,656		July 2012	July 2014
	PSP 2009 ^{(5) (6)}	5,507		July 2012	July 2014
	CSOP 2009	5507	544.67	Sep 2012	Sep 2019
	PSP 2010	26,125		July 2013	July 2014
	DBP 2011	7,399		June 2013	June 2014
	PSP 2011	33,043		June 2014	June 2015
	PSP 2012	27,356		June 2015	June 2016
	DBP 2012	6,237		June 2014	June 2015
	PSP 2013	22,959		June 2016	June 2017
	DBMP 2013 (basic award)	4,848		June 2016	June 2017
	DBMP 2013 (basic matching award)	9,697		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	4,251		June 2016	June 2017
	DBMP 2013 (voluntary matching award)	8,503		June 2016	June 2017
Albert Dungate	PSP 2011	51,087		June 2014	June 2015
	PSP 2012	41,888		June 2015	June 2016
	DBP 2012	9,643		June 2014	June 2015
	PSP 2013	32,142		June 2016	June 2017
	DBMP 2013 (basic award)	7,425		June 2016	June 2017
	DBMP 2013 (basic matching award)	14,850		June 2016	June 2017
	DBMP 2013 (voluntary deferral award)	4,251		June 2016	June 2017
	DBMP 2013 (voluntary matching award)	8,503		June 2016	June 2017

Notes:

(1) Details of the Share Schemes are set out in paragraph 7 of Part XIV (*Additional Information*).

- (2) The PSP, DBP and DBMP awards are structured as nil priced options. DBP awards and DBMP basic awards represent the amount of the annual bonus mandatorily deferred and DBMP voluntary deferral awards represent the amount voluntarily deferred by the Director, in each case converted into shares at their value at the award date.
- (3) Subject to the rules of the scheme concerned, including as to meeting performance targets for PSP, CSOP and DBMP Matching Awards.
- (4) Where this date is less than ten years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
- (5) The vesting of the CSOP award is subject to performance measures that are identical to those for the PSP award granted on the same date. When a CSOP award is granted at the same time as a PSP award, the PSP award has two parts. The CSOP and PSP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of the two awards is limited to that number of shares that had a market value on the date of the awards (and after deducting any exercise price payable on exercise of the CSOP award) equal to the relevant grant multiple of the Director's base salary at the date of the awards (the "Limit"). This is achieved by making the level of vesting of Part B of the PSP Award accord to the level of vesting of the linked CSOP award; the actual number of vested Part B award shares that can be exercised is then limited according to the exercise price on the day of exercise such that the total value of Part B PSP award shares so exercisable does not then exceed the exercise price payable on exercise of the vested CSOP award. If there is less than full vesting, it is possible for the Director to choose to exercise the CSOP to its fullest extent within the Limit and then to exercise the PSP award to the extent of any balance left within the Limit.
- (6) The actual number of shares capable of being exercised under Part B of the PSP award can only be determined on the exercise date as explained in note (5) above.
- (7) Save for those awards granted in 2013, all awards shown in the table for John Davies were made prior to his appointment as a Director, which took effect on 1 January 2013.

4. REMUNERATION AND BENEFITS

Executive Directors' base salaries and benefits are reviewed each year with any changes usually taking effect from 1 April. The fees for the Chairman and Non-Executive Directors are reviewed against market practice from time to time and were last reviewed as of 1 April 2013.

For the 2013 Financial Year, the aggregate total remuneration paid (including contingent or deferred consideration) and benefits in kind granted (under any description whatsoever) to each of the current Directors by members of the Babcock Group was £6.8 million. Remuneration was paid as follows:

Director ⁽¹⁾	Salary or fee ⁽²⁾	Pension ⁽³⁾	Other cash allowances ⁽⁴⁾	Annual bonus ⁽⁵⁾	Benefits in kind ⁽⁶⁾	Other ⁽⁷⁾	Total ⁽²⁾
(£'000)							
Chairman and Executive Directors							
Michael Turner	255						255
Peter Rogers	561	140		834	20	746	2,301
William Tame	355	89	23	528	13	316	1,324
Archibald Bethel	309	77	4	382	5	340	1,117
Kevin Thomas	309	77		382	1	340	1,109
John Davies (appointed 1 January 2013)	76	38		97	3	201	415
Non-Executive Directors							
Justin Crookenden ⁽⁸⁾	58						58
David Omand ⁽⁸⁾	60						60
Ian Duncan ⁽⁸⁾	63						63
Kate Swann	50						50
Anna Stewart (appointed 1 November 2012)	21						21
Total	2,117	421	27	2,223	42	1,943	6,773

Notes:

(1) This table does not include Nigel Essenhigh, who retired on 31 December 2012.

(2) Emoluments for John Davies and Anna Stewart are for the period from their appointment as Directors, save that for John Davies the amount under "Other" (in respect of share awards) has not been apportioned.

(3) For Peter Rogers, William Tame, Archibald Bethel and Kevin Thomas the amount was the cash allowance paid in lieu of all pension benefits for the entire year. For Messrs Tame, Thomas and Bethel, the amount of the increase over the year to 31 March 2012 in the transfer value of the accrued pension entitlement built up prior to leaving the defined benefit pension scheme, which arises as a result of deferred revaluation, has not been included. For John Davies the amount represents (i) the allowance paid in lieu of pension benefits on that part of his salary as exceeded the earnings cap applicable to him under the defined benefits pension scheme of which he is member plus (ii) in respect of that scheme membership the actual increase between 31 March 2012 and 31 March 2013 in the transfer value of his accrued pension entitlement under that scheme, in both cases apportioned in respect of the period for which he was a director.

(4) For William Tame, allowance in respect of costs connected with accommodation and home to work travel benefits and for Archibald Bethel costs connected with accommodation benefits.

(5) This is the gross bonus number paid in respect of the year to 31 March 2013. Of this amount 40 per cent. was compulsorily deferred into Company shares under the DBMP. In addition, the Directors opted to take more of the bonus by way of a voluntary deferral award under the DBMP of an extra amount not exceeding 40 per cent. of basic salary.

(6) For William Tame, benefits comprised medical insurance, home to work travel expenses and accommodation benefits. For Peter Rogers they comprised medical insurance and home to work travel benefits incurred at the request of the Company. For Kevin Thomas, they comprised medical insurance. For Archibald Bethel, they comprised medical insurance, car fuel benefit and accommodation benefits. For John Davies they comprised car and fuel benefits.

(7) "Other": the figures shown under this column are the aggregate "value at award" of share awards made to the executive, in the financial year, to 31 March 2013 under the PSP and/or the CSOP (less for the CSOP any exercise price payable) and matching awards made under the DBMP. For the purposes of assessing the "value at award" (taking account of the range of possible outcomes as the level of vesting of awards are subject to performance conditions) a value of one third of the maximum value of the award, assuming no share price movement, has been used.

(8) The fees for Sir David Omand reflected his role as Senior Independent Director. The fees for Justin Crookenden reflected his additional duties as Chairman of the Remuneration Committee. The fees for Ian Duncan reflected his role as Audit and Risk Committee Chairman.

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

For the 2013 Financial Year, the aggregate total remuneration paid (including contingent or deferred consideration) and benefits in kind granted (under any description whatsoever) to the Babcock Senior Managers was £1.781 million in their capacity as Babcock Senior Managers during the 2013 Financial Year.

The total amount set aside or accrued by the Babcock Group to provide pension, retirement or similar benefits to the current Babcock Directors and the Senior Managers for the 2013 Financial Year was £1.146 million (which includes the Pension numbers in the table above).

In arriving at the totals referred to in the immediately preceding two paragraphs (i) John Davies was treated as a Senior Manager for the part of the year to 31 March 2013 prior to his appointment as a Director on 1 January 2013 and the value of this share arrivals was taken at the value shown in the table above (ii) the value on award of contingent share awards under the PSP, CSOP and matching awards under the DBMP was calculated as set out in note 7 to the above table and (iii) the amounts set aside for pension, retirement or similar benefits were the employer contribution rates for those executives who were active members of a defined benefit pension scheme, the increase in the actual transfer value of any accrued pension benefits in any such scheme for such active members plus amounts paid to executives by way of a salary supplement in lieu, wholly or partly of any such benefits.

5. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

5.1 Executive Directors

The following table summarises the key terms of the Executive Directors' service contracts or terms of appointment:

Director	Date of service contract	Notice period	Base salary for the 2014 Financial Year (£)	Annual bonus potential for the 2014 Financial Year (% of salary)
Peter Rogers	31 July 2003 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company 6 months from Director	611,871	150%
William Tame	1 October 2001 (amended by letters dated 5 May 2004 and 3 April 2006)	12 months from Company 6 months from Director	387,331	150%
Archibald Bethel	21 April 2010	12 months from Company 6 months from Director	336,810	125%
Kevin Thomas	20 April 2010	12 months from Company 6 months from Director	336,810	125%
John Davies (appointed 1 January 2013)	20 December 2012	12 months from Company 12 months from Director	321,810	125%

The Company follows best practice under the Corporate Governance Code with regard to annual re-election of its Directors. The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. Each of the Executive Directors' service contracts entitles the Company to terminate their employment by making a payment of pay in lieu of notice. In the case of Executive Directors other than John Davies such a payment, if this right is exercised by the Company, would be by way of a lump sum payment on termination. In the case of John Davies, his contract allows the Company in these circumstances to choose to make the payment in lieu by monthly instalments. If it does, he would be obliged to seek alternative sources of income in a comparable role during what would have been his notice period. If he fails to use, in the Committee's reasonable opinion, reasonable efforts to secure such an alternative source of income, the Committee may decide to reduce or discontinue further instalments. If he does secure such alternative remuneration the Committee may reduce the instalments by the amount of the alternative income being received.

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

The agreements for Peter Rogers and William Tame (but not the agreements for Archibald Bethel, Kevin Thomas and John Davies) contain provisions which provide that within 90 days of the occurrence of the change of control, each may terminate his employment forthwith. If he exercises this right, he is entitled, for a 12-month period, to be paid (on a monthly basis) his base salary plus 40 per cent. (compared to a maximum entitlement under the annual bonus scheme of 150 per cent.) in lieu of bonus and all other contractual entitlements. From this there is to be deducted any amount that the Executive Director receives by way of income, if it exceeds 10 per cent. 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 William Tame (but not the agreements for Kevin Thomas, Archibald Bethel and John Davies) also provide that if the Company terminates their appointment within 12 months of a change of control, they would be entitled to a termination payment equal to 100 per cent. of annual salary (plus 40 per cent. in lieu of bonus and all other benefits).

5.2 Chairman and Current Non-Executive Directors

The following table summarises the key terms of the current Non-Executive Directors' letters of appointment:

Director	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment (subject to annual re-election)	Fees for the 2014 Financial Year (£)
Michael Turner (Chairman)	1 June 2008	20 March 2014	AGM for 2017	295,000
David Omand	1 April 2009	31 May 2012	AGM for 2015	65,000 ⁽¹⁾
Justin Crookenden	1 December 2005	20 March 2014	30 November 2014	67,500 ⁽¹⁾
Ian Duncan	10 November 2010	5 March 2013	AGM for 2016	67,500 ⁽¹⁾
Kate Swann	1 June 2011	20 March 2014	AGM for 2017	55,000
Anna Stewart	1 November 2012	19 June 2012	AGM for 2015	55,000

(1) Fees for David Omand reflect his role as Senior Independent Director. Fees for Justin Crookenden include fees for his role as the Chairman of the Remuneration Committee. Fees for Ian Duncan include fees for his role as the Chairman of the Audit and Risk Committee.

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.

5.3 Proposed Director

Pursuant to a letter of appointment signed on 9 December 2013, Jeff Randall will be appointed to the Board as an independent non-executive director with effect from 1 April 2014 for a term of up to three years (subject to election at the AGM in 2014 and annual re-election thereafter). His base fees for the year ending 31 March 2015 will be at a rate of £55,000 per annum and in addition, for his services as the Chairman of the Remuneration Committee from July 2014, a fee at the rate of £12,500 per annum. The appointment is, however, terminable at will by either Babcock or Mr Randall at any time.

6. CORPORATE GOVERNANCE

The Babcock Board is firmly committed to high standards of corporate governance. The principal governance rules applying to UK companies listed on the Main Market of the London Stock Exchange are contained in the UK Corporate Governance Code. The Board considers that as at the Latest Practicable Date the Company is in compliance with the principles and provisions of the UK Corporate Governance Code (see further details below concerning the effect of the appointment of the Babcock Proposed Directors).

6.1 Board of Directors

A Babcock Director is appointed by ordinary resolution (i.e. a simple majority of votes cast) at a general meeting of ordinary shareholders of Babcock. The Babcock Board also has the power to appoint a Babcock Director, but any person so appointed must stand for reappointment by shareholders at the first annual general meeting following his or her appointment by the Babcock Board. After appointment, Babcock Directors must offer themselves for reappointment at least every three years. It is Babcock's policy to review rigorously the reappointment of non-executive directors who have served more than six years.

The Corporate Governance Code currently recommends that at least half of the board of directors (excluding the chairman) of a UK listed company should be independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgment.

As at the date of this document, the Babcock Board is composed of eleven members, consisting of the Chairman (Mike Turner, CBE), five full-time Executive Directors (Peter Rogers CBE, William Tame, Kevin Thomas, Archibald Bethel and John Davies), and five Non-Executive Directors, all of whom (that is, half of the Babcock Board excluding the Chairman) are considered by the Babcock Board to be independent: Sir David Omand GCB, Justin Crookenden, Ian Duncan, Kate Swann and Anna Stewart. Jeff Randal will be joining the Board on 1 April 2014 as an independent non-executive director.

The Corporate Governance Code also recommends that the board of directors should appoint one of its independent non-executive directors as the senior independent director and Sir David Omand GCB has been appointed to fill this role. The Senior Independent Director should be available to shareholders if they have concerns which have not been resolved through contact with the normal channels of Chairman, Chief Executive or Finance Director of Babcock or for which contact is inappropriate.

The Babcock Board has established Audit and Risk, Remuneration and Nominations Committees, with formally delegated duties and responsibilities with written terms of references.

6.2 Board Committees

(a) *Audit and Risk Committee*

Current members

The Babcock Audit and Risk Committee is made up entirely of the independent Non-Executive Directors: Ian Duncan (Committee Chairman), Sir David Omand GCB, Justin Crookenden, Kate Swann and Anna Stewart. Jeff Randall, who will join the Board on 1 April 2014, will also serve as a member of the Audit and Risk Committee. The Corporate Governance Code recommends that the Audit and Risk Committee should be comprised of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience. Ian Duncan is a Chartered Accountant who is currently also Chairman of the Audit Committees of WANDisco plc and Mouchel Group. He is a former Group Finance Director of Royal Mail Holdings PLC, and has also been Corporate Finance Director at British Nuclear Fuels and Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA. Mr Duncan is considered by the Babcock Board to have the necessary recent and relevant financial experience for his role as committee chairman. Babcock therefore considers that it complies with the Corporate Governance Code recommendations regarding the composition of the Audit and Risk Committee.

The Audit and Risk Committee meets formally at least four times a year and otherwise as required.

Role of the Audit and Risk Committee

The Audit and Risk Committee operates under defined terms of reference and its principal responsibilities include:

- monitoring the integrity of the full year and half-yearly financial statements and any formal announcements relating to the Company's financial performance;
- making recommendations to the Board in relation to the appointment of the external auditor;
- reviewing and monitoring at least once a year the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- keeping under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- monitoring and keeping under review the effectiveness of the Company's internal audit service;
- reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

(b) **Remuneration Committee**

Current members

The Babcock Remuneration Committee is made up of entirely Non-Executive Directors: Justin Crookenden (Committee Chairman), Sir David Omand GCB, Ian Duncan, Kate Swann and Anna Stewart. Jeff Randall, who will join the Board on 1 April 2014, will also serve as a member of the Remuneration Committee. Justin Crookenden will step down from the Committee Chairmanship with effect from the Company's AGM in July 2014 and Jeff Randall will assume his role. The Corporate Governance Code provides that the Remuneration Committee should consist of at least three members who are all independent non-executive directors. Babcock therefore considers that it complies with the Corporate Governance Code recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee meets formally at least four times a year and otherwise as required.

Role of the Remuneration Committee

The Remuneration Committee operates under defined terms of reference and its principal responsibilities include:

- determining and recommending to the Babcock Board the Babcock Group's policy on executive remuneration;
- overseeing any major changes in employee benefit structures throughout the Babcock Group and reviewing and noting annually the remuneration trends across the Babcock Group;
- determining the terms of service of the Chairman and the Executive Directors, including remuneration and other benefits package and severance terms;
- reviewing the design of all new equity schemes for approval by the Board and shareholders;
- approving the terms and basis of participation in short and long term bonus and incentive schemes for which the Chairman and/or Executive Directors and/or senior management are eligible; setting performance criteria for the granting, vesting or execution of awards or options under any existing or new share scheme or other LTIP and to review annually the bonus arrangements for the Executive Directors;
- granting options or awards under any Share Scheme (other than any all employee share schemes);
- granting dispensations in respect of leavers exercising rights under the Share Schemes;
- determining, whether the performance measures for any equity incentive plans, performance-related pay schemes and other cash based incentive plans for Executive Directors operated by the Company have been satisfied; and
- making sure that all short and long term incentives are consistent with and support sound risk management, and are aligned with customer and shareholder interests.

(c) **Nominations Committee**

Current members

The Babcock Nominations Committee is made up of independent Non-Executive Directors: Mike Turner (Chairman), Ian Duncan, Sir David Omand GCB, Justin Crookenden, Kate Swann and Anna Stewart. Jeff Randall, who will join the Board on 1 April 2014, will also serve as a member of the Nominations Committee. The Corporate Governance Code provides that a majority of the members of the Nominations Committee should be independent non-executive directors. Babcock therefore considers that it complies with the Corporate Governance Code recommendations regarding the composition of the Nominations Committee.

The Nominations Committee meets as required.

Role of the Nominations Committee

The Nominations Committee operates under defined terms of reference and its principal responsibilities include:

- regularly reviewing the structure, size and composition (including the skills knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- considering succession planning for directors and other senior executives, taking account of the challenges and opportunities facing the Company, and the skills and expertise needed on the board in the future;
- keeping under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the market place;
- identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise; and
- reviewing annually the time required from the Non-Executive Directors for performance of their duties to the Company.

7. **ETHICAL CONDUCT**

Babcock has adopted a Code of Business Conduct which sets out the ethical standards that should be adhered to by Babcock's employees, business advisors and partners. All employees are expected to avoid conflicts of interest, to act lawfully (and in particular, not to be involved in any corrupt practices) and to report any non-compliance issues of which they become aware.

Babcock also complies with the Common Industry Standards for European Aerospace and Defence, a voluntary code created by the European Aerospace and Defence Industries Association of Europe to improve transparency and promote a code of ethical standards in the aerospace and defence industries.

8. **OTHER DIRECTORSHIPS**

- 8.1 In addition to their directorships of Babcock (in the case of the Babcock Directors), the Babcock Directors, the Proposed Director and the Senior Managers hold or have held the following directorships (other than directorships of subsidiaries of Babcock), and are or were members of the following partnerships, within the past five years.

Directors

<u>Name</u>	<u>Current directorship/ partnership</u>	<u>Previous directorship/ partnership</u>
Chairman and Executive Directors		
Michael Turner CBE	GKN plc Lazard Limited	No such position held in the past five years
Peter Rogers CBE	Galliford Try plc	No such position held in the past five years
William Tame	Carclo plc	No such position held in the past five years

Name	Current directorship/ partnership	Previous directorship/ partnership
Kevin Thomas ⁽¹⁾	Advanced Jet Training Holdings Limited Advanced Jet Training Limited Ascent Flight Training (Management) Limited Cavendish Dounreay Partnership Limited Rear Crew Training Holdings Limited Rear Crew Training Limited	ABC678 Limited Apollo Group Holdings Limited
Archibald Bethel CBE	Institution of Mechanical Engineers	Society of Maritime Industries Limited
John Davies	AirTanker Services Limited ALC (FMC) Limited ALC (Holdco) Limited ALC (SPC) Limited ALC (Superholdco) Limited Ascent Flight Training (Holdings) Limited Ascent Flight Training (Services) Limited Whitefleet Limited	No such position held in the past five years
Non-Executive Directors		
Sir David Omand GCB	Finmecannica UK Limited	No such position held in the past five years
Justin Crookenden	No such position held currently	No such position held in the past five years
Ian Duncan	WANDisco plc MRBL Limited	Royal Mail Holdings plc Westinghouse Electric Company LLC Fiberweb plc
Kate Swann	SSP Group Limited	WH Smith plc
Anna Stewart	Laing O'Rourke Corporation	No such position held in the past five years
Proposed Director		
Jeff Randall	No such position held currently	Lusura Limited

Senior Managers

<u>Name</u>	<u>Current directorship/ Partnership</u>	<u>Previous directorship/ Partnership</u>
Kevin Goodman	No such position held currently	No such position held in the past five years
Albert Dungate	No such position held currently	No such position held in the past five years

(1) Kevin Thomas has, with effect from 1 May 2014, been appointed as an independent non-executive director of Harvey Nash Group PLC.

9. DIRECTORS' AND SENIOR MANAGERS' CONFIRMATIONS

As at the date of this document, none of the Directors, the Proposed Director or Senior Managers have, during the five years prior to the date of this document:

- (a) been convicted in relation to a fraudulent offence;
- (b) been associated with any bankruptcies, receiverships or liquidations while acting in the capacity of a member of the administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company;
- (c) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including any designated professional bodies); or
- (d) been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company.

No Director, Proposed Director or Senior Manager has any material interest, either currently or on Completion, in any significant contract with the Company or any of its subsidiary undertakings.

The Board does not presently consider there are to be any potential conflicts of interests between any of the Directors' or the Proposed Director's duties to Babcock or the Babcock Group and their private interests and/or other duties.

None of the Directors, the Proposed Director or Senior Managers were selected to act in such capacity pursuant to any arrangement or understanding with any major shareholder, customer, supplier or other person having a business connection with the Enlarged Group.

As at the date of this document, no restrictions have been agreed by any Director, Proposed Director or Senior Managers on the disposal within a certain time period of their holdings of their Ordinary Shares.

There are no family relationships between any of the Directors, the Proposed Director or Senior Managers.

There are no outstanding loans granted by Babcock or any member of the Babcock Group to any of the Directors, the Proposed Director or the Senior Managers, nor has any guarantee been provided by Babcock or any member of the Babcock Group for their benefit, save that each of the Directors has, and the Proposed Director will have, the benefit of a qualifying third party indemnity pursuant to which Babcock agrees to indemnify the Directors against liabilities that they may incur as a result of their office as director or acting, for the purposes of this document, as a proposed director, in terms which are in accordance with the relevant provisions of the 2006 Act.

**PART XIV
ADDITIONAL INFORMATION**

1. RESPONSIBILITY

The Directors and the Proposed Director, whose names appear in paragraphs 1.1 and 1.3 of Part XIII (*Directors, Senior Managers and Corporate Governance*) and Babcock accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, the Proposed Director and Babcock (who have each taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND REGISTERED OFFICE

Babcock was incorporated and registered in England and Wales on 1 February 1989 under the Companies Act 1985 as a public company limited by shares with registered number 2342138 and with the name Flowplus Public Limited Company. On 23 June 1989, it changed its name to Babcock International Group PLC.

The registered and head office of Babcock is at 33 Wigmore Street, London, W1U 1QX. The telephone number of Babcock's registered and head office is +44 (0)20 7355 5300.

The principal legislation under which Babcock operates is the Companies Act 2006 and the regulations made thereunder.

The Ordinary Shares are admitted to the premium listing segment of the Official List and traded on the main market of the London Stock Exchange. The ISIN of the Ordinary Shares is GB0009697037 and the SEDOL number is 0969703. The Ordinary Shares are in registered form and are capable of being held in either certificated or uncertificated form.

The New Ordinary Shares will be ordinary shares in registered form and are capable of being held either: (i) in certificated form; or (ii) in uncertificated form, and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

PricewaterhouseCoopers LLP, whose address is 1 Embankment Place, London WC2N 6RH are the auditors of Babcock. Pricewaterhouse Coopers LLP is a member of the Institute of Chartered Accountants in England and Wales.

3. BABCOCK'S SHARE CAPITAL

3.1 Issued share capital

The issued and fully paid share capital of the Company as at the Latest Practicable Date was as follows:

Nominal value of Ordinary Shares	Number of Ordinary Shares issued, allotted, called up and fully paid	Amount of share capital (£)
Ordinary Shares of £0.60	362,073,932	217,244,359

The issued and fully paid share capital of the Company immediately following completion of the Rights Issue is expected to be as follows:

Nominal value of Ordinary Shares	Number of Ordinary Shares issued, allotted, called up and fully paid ⁽¹⁾	Amount of share capital (£)
Ordinary Shares of £0.60	501,333,136	300,799,882

(1) Assuming that no share options are exercised between the Latest Practicable Date and completion of the Rights Issue.

3.2 Share capital history

As at 1 April 2010, the first day covered by the Audited Financial Statements incorporated by reference into this document, the authorised share capital of the Company was 137,812,560 divided into 229,687,601 Ordinary Shares of 60 pence each.

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital, and the Articles adopted by special resolution on 8 July 2010 reflect this. Directors are still limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act, save in respect of employees' Share Schemes.

During the three year period ended 31 March 2013 and for the period between 1 April 2013 and the Latest Practicable Date, the Company has issued 132,386,331 Ordinary Shares in total:

Allotted, issued and fully paid	Issue/option exercise price per share	Number of Ordinary Shares
At 1 April 2010		229,687,601
Allotment in respect of the acquisition of VT Group plc	£6.245 ⁽¹⁾	128,707,575
Allotment pursuant to share schemes of VT Group plc	£5.01 - £5.89 ⁽¹⁾	327,311
Allotment pursuant to Babcock Share Schemes	£0.9933 - £1.26	115,605
At 31 March 2011		358,838,092
Allotment pursuant to Babcock Share Schemes	£1.0633 - £1.26	306,447
Allotment pursuant to the VT US sharesave scheme	£7.42 - £7.675 ⁽¹⁾	2,166
At 31 March 2012		359,146,705
Allotment pursuant to Babcock Share Schemes	£1.0633 - £1.26	10,807
Allotment to Babcock's employee benefit trusts	£0.60	2,914,290
At 31 March 2013		362,071,802
Allotment pursuant to Babcock Share Schemes	£1.26	2,130
At 25 March 2014 (the Latest Practicable Date)		362,073,932

(1) On the acquisition of VT Group plc by Babcock in 2010, the consideration was 361.6 pence in cash and 0.701 Babcock Ordinary Shares for each share of VT Group plc. These prices show how the relevant allotments were accounted for by Babcock, which are by reference to the share price of Babcock Ordinary Shares on the dealing day prior to the date of the relevant allotment.

The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the 2006 Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the issued share capital of the Company which is not the subject of the dis-application approved by the Shareholders in a general meeting of the Company.

3.3 Dilution

The New Ordinary Shares represent up to approximately 27.8 per cent. of the Ordinary Shares in issue immediately prior to the Rights Issue.

Qualifying Shareholders who take up their *pro rata* entitlement in full will suffer no dilution to their interests in the Company. Shareholders who do not take up any of their rights to subscribe for the New Ordinary Shares or who are not entitled to participate in the Rights Issue will suffer an immediate dilution of 27.8 per cent. in their interests in the Company as a consequence of the Rights Issue.

3.4 Miscellaneous

Save as disclosed in this document, during the three years immediately preceding the date of this document, there has been no issue of share capital of Babcock fully or partly paid, either for cash or other consideration, and no such issues are proposed and no share capital of Babcock or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

4. **RESOLUTION**

As described in paragraph 17 of Part I (*Letter from the Chairman*) of this document, it is proposed that the following resolution be passed at the General Meeting:

That, the proposed acquisition (the “Acquisition”) of Avincis Mission Critical Services Topco Limited, the holding company of the Avincis group of companies, substantially on the terms and subject to the conditions set out in the circular to shareholders outlining the Acquisition dated 27 March 2014 (a copy of which is produced to the meeting and signed for identification purposes by the chairman of the meeting) be and is hereby approved and the directors of the Company (the “Directors”) (or any duly constituted committee thereof) be authorised: (1) to take all such steps as may be necessary or desirable in connection with, and to implement, the Acquisition; and (2) to agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Acquisition (provided such modifications, variations, revisions, waivers or amendments are not material), and to any documents relating thereto, in either such case as they may in their absolute discretion think fit.

5. **ARTICLES OF ASSOCIATION**

The following is a summary of Babcock’s Articles which were adopted by special resolution passed on 8 July 2010 and contain (amongst others) provisions as set out below. The Articles are available for inspection at the registered office of the Company and at the offices of Clifford Chance LLP, as set out in the section entitled “*Directors, Company Secretary, Registered Office and Advisers*” of this document.

5.1 **Objects**

The objects of the Company, in accordance with section 31(1) of the 2006 Act, are unrestricted.

5.2 **Limited liability**

The liability of the members is limited to the amount, if any, unpaid on the shares in the Company respectively held by them.

5.3 **Rights attaching to ordinary shares**

(a) *Voting rights of members*

Subject to disenfranchisement in the event of (i) non-payment of any call or other sum payable in respect of any share or (ii) any non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares and subject to any special rights or restrictions as to voting for the time being attached to any shares, on a show of hands, every member has one vote and every proxy present has one vote except if the proxy has been duly appointed by more than one member and has been instructed by one or more of those members to vote for the resolution and has been instructed by one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders. A member in respect of whom an order has been made by any court having jurisdiction (whether in the United Kingdom or elsewhere) relating to a mental disorder may vote (whether on a show of hands or on a poll) by any person authorised to do so on that member’s behalf by such court. Such authorised person may, on a poll, also vote by proxy.

(b) *Dividends*

- (i) *Declaration of dividends* – the Company may, by ordinary resolution, declare dividends, but no dividend shall exceed the amount recommended by the Directors.
- (ii) *Fixed and interim dividends* – subject to applicable statutory provisions, the Directors may pay such interim dividends as they think fit and may also pay fixed dividends half-yearly or otherwise on fixed dates.
- (iii) *Calculation of dividends* – subject to applicable statutory provisions and the rights attaching shares with any priority, preference or special rights as to dividend, (i) all

dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid up on the share and (ii) all dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as if paid up in full or in part from a particular date, such share shall rank for dividend accordingly.

- (iv) *Dividends not to bear interest* – no dividend or other moneys payable by the Company on or in respect of any share shall bear interest as against the Company unless otherwise provided by the rights attached to the share.
- (v) *Calls or debts may be deducted from dividends* – the Board may deduct from any dividend or other moneys payable to any member on or in respect of a share all such sums presently payable by him to the Company on account of calls or otherwise in relation to shares of the Company.
- (vi) *Dividends in specie* – with the authority of an ordinary resolution of the Company and on the recommendation of the Directors, payment of any dividend may be satisfied wholly or in part by the distribution of assets and, in particular, of paid up shares or debentures of any other company.
- (vii) *Scrip dividends* – the Board may, with the authority of an ordinary resolution of the Company, offer any holders of ordinary shares the right to elect to receive further ordinary shares by way of scrip dividend instead of cash in respect of all (or some part) of any dividend specified by the ordinary resolution.
- (viii) *Unclaimed dividends* – any dividend unclaimed for a period of 12 years after having been declared shall be forfeited and shall revert to the Company.

(c) *Return of capital*

If the Company is to be wound up, the liquidator may, with the sanction of a special resolution of the Company and any other authority required by any applicable statutory provision (i) divide among the members in specie or in kind the whole or any part of the assets of the Company; or (ii) vest the whole or any part of the assets in trustees on such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but no member shall be compelled to accept any shares, securities or other assets upon which there is any liability.

(d) *Capitalisation of profits*

The Board may, with the authority of an ordinary resolution of the Company (i) resolve to capitalise any sum standing to the credit of any reserve account of the Company (including share premium account and capital redemption reserve) or any sum standing to the credit of profit and loss account (in each case, whether or not it is available for distribution); and (ii) appropriate that sum to be capitalised to the holders of ordinary shares who would have been entitled if distributed by way of dividend and in the same proportions; and apply that sum on their behalf in or towards paying up any amounts unpaid on any shares held by such holders respectively or in paying up in full at par shares or debentures of the Company to be allotted credited as fully paid up to such holders in the proportions aforesaid, or partly in the one way and partly in the other, **provided that** the share premium account and the capital redemption reserve, and any sum not available for distribution, may only be applied in paying up shares to be allotted to holders of ordinary shares as fully paid up.

5.4 **Transfer of shares**

- (a) Company shares in certificated form may be transferred by an instrument of transfer in writing in any usual or common form, or in such other form as the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor (and, in the case of a share which is not fully paid, also be signed by or on behalf of the transferee). The Board may, in its absolute discretion, refuse to register the transfer of any share which is not fully paid, whether certificated or uncertificated, provided that, where any such shares are admitted to the Official

List or AIM, such discretion may not be exercised in a way which the FCA or the LSE regards as preventing dealings in the shares from taking place on an open and proper basis. The Board may likewise refuse to register any transfer of a share (whether certificated or uncertificated), whether fully-paid or not, in favour of more than four persons jointly.

- (b) The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer (i) is left at the registered office of the Company or at such other place as the Directors may from time to time determine, accompanied by the share certificate(s) to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do), and (ii) is in respect of only one class of shares.
- (c) If the Directors refuse to register a transfer in the case of certificated shares, they shall, as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal together with the reasons for the refusal and (except in the case of fraud) return to him the instrument of transfer. The Company may retain all instruments of transfer which are registered. If the Operator (as defined in the CREST Regulations) of the relevant system refuses to register the transfer of an uncertificated share or of any such uncertificated renounceable right of allotment of a share it shall, as soon as practicable and in any event within two months after the date on which the relevant system member instruction or issuer instruction (as the case may be) was received by the Operator, send notice of the refusal to the relevant system member or participating issuer (as the case may be).
- (d) All transfers of uncertificated shares shall be made in accordance with and be subject to the provisions of the CREST Regulations and the facilities and requirements of the relevant system and, subject thereto, in accordance with any arrangements made by the Directors in relation to the transfer of uncertificated shares.
- (e) No fee shall be charged by the Company on the registration of any instrument of transfer, probate, letters of administration, certificate of death or marriage, power of attorney, renunciation of a renounceable letter of allotment, stop notice or other document or instruction relating to or affecting the title to any shares or otherwise for making any entry in the register affecting the title to any shares.

5.5 Alteration of share capital

The Company may exercise the powers conferred by the applicable statutory provisions to:

- (a) increase its share capital by allotting new shares;
- (b) reduce its share capital;
- (c) sub-divide or consolidate and divide all or any of its share capital;
- (d) reconvert stock into shares;
- (e) redenominate all or any of its shares and reduce its share capital in connection with such redenomination;
- (f) issue redeemable shares; and
- (g) purchase all or any of its own shares including any redeemable shares.

5.6 Variation of class rights

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class or any of such rights may, subject to the applicable statutory provisions, whether or not the Company is being wound up, be abrogated or varied with the consent in writing of the holders of at least three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

The necessary quorum at any such meeting, other than an adjourned meeting, shall be two persons present holding at least one-third in nominal value of the issued shares of the class in question (excluding any shares of that class held as treasury shares) and at an adjourned meeting one person present holding shares of the class in question.

5.7 Disclosure of interests in shares

If any member, or other person appearing to be interested in the Company's shares, has been duly served with a notice under section 793 of the 2006 Act and is in default for the period of 14 days from the date of service of the notice in supplying to the Company the information thereby required, then the Board may impose restrictions upon the relevant shares.

The restrictions available are the suspension of the entitlement to attend and vote (in person or by proxy) at any general meeting or separate meeting of holders of any class of share, or to be reckoned in a quorum. In the case where the relevant shares represent at least 0.25 per cent. (in nominal value) of their class of shares (excluding any shares of their class held as treasury shares), additional restrictions include the withholding of payment on dividends on, rendering ineffective any election to receive shares of the Company instead of cash in respect of a dividend, and in certain cases the restriction of transfers of, the relevant shares.

The restrictions shall cease to apply not more than seven days after the Directors are satisfied that the default in respect of which the restrictions were imposed no longer continues or, if earlier, on receipt by the Company of notice that an excepted transfer (but only in relation to the shares transferred) has been made.

5.8 Uncertificated shares

Subject to the CREST Regulations and the facilities and requirements of the relevant system in which the uncertificated share is held, the Directors may implement any arrangements they think fit in relation to the evidencing of title to and the transfer of an uncertificated share. The provisions in the Articles shall not apply to the extent that they are inconsistent with the holding of shares in uncertificated form.

The Company may, by notice to the holder of an uncertificated share, require the holder to change the form of that share to certificated form within such period as may be specified in the notice. Unless the Directors determine otherwise, shares held by a person in uncertificated form and in certificated form shall be treated as separate holdings. A class of share shall not be treated as two classes by virtue only of that class comprising both certificated shares and uncertificated shares.

Subject to the CREST Regulations and the facilities and requirements of the relevant system concerned, conversion of a certificated share into an uncertificated share, and vice versa, may be made in such manner as the Directors think fit. The Company shall be entitled to require the conversion of an uncertificated share into certificated form to enable it to deal with that share in accordance with the Articles.

5.9 Forfeiture and lien

The Company may serve notice on the members in respect of any amounts unpaid on their shares. The member shall be given not less than 14 clear days notice to pay the unpaid amount, together with any interest and all expenses incurred by the Company by reason of the non-payment. In the event of non-compliance, a share in respect of which the notice is given may be forfeited by resolution of the Directors. Such forfeiture shall include all dividends declared but not yet paid in respect of the forfeited shares. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was the holder of the share. Failure to give notice to the relevant holder of the share will not invalidate the forfeiture. Forfeited shares shall become the property of the Company. Notwithstanding the forfeiture, amounts owing in respect of forfeited shares (together with all interest and expenses) at the time of forfeiture will continue to be payable, together with interest thereon, by the person ceasing to be a member of the Company.

The Company has a first and paramount lien on every share (not being a fully-paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of such share, but the Directors may at any time waive any lien which has arisen and may declare any share to be wholly or in part exempt from the lien. The Company may enforce a lien by selling the shares after the giving of written notice to the defaulting member in accordance with the Articles.

5.10 Directors

(a) *Number of Directors*

The Directors (other than alternate Directors) shall not, unless otherwise determined by an ordinary resolution of the Company, be less than two nor more than 15 in number.

(b) *Appointment*

The Company may from time to time by ordinary resolution appoint Directors either to fill a casual vacancies or as additional Directors. In addition, the Directors may appoint any person to be a Director of the Company, either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not at any time exceed the maximum number. Any Director so appointed by the board shall hold office only until the next following annual general meeting, and shall then be eligible for reappointment. If not reappointed at such meeting, he shall vacate office at the conclusion thereof.

A Director need not be a member of the Company. There is no age limit for Directors.

(c) *Retirement by rotation*

At every annual general meeting, any Director who shall have been a Director at each of the preceding two annual general meetings and who was not appointed or re-appointed by the Company in general meeting at, or since, either such meeting, shall retire from office. A retiring Director shall be eligible for re-appointment. A Director retiring at a meeting shall, if he is not re-appointed at such meeting, retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of such meeting.

(d) *Removal by ordinary resolution*

The Company may in accordance with the applicable statutory provisions, by ordinary resolution remove any Director before the expiration of his term of office.

(e) *Executive Directors*

Subject to the applicable statutory provisions, the Directors may appoint one or more Directors as managing Directors of the Company or to hold such other executive office in relation to the management of the business of the Company as they may decide, for such period and on such terms as they think fit. The Directors may revoke such an appointment, subject to the terms of any service contract and without prejudice to any claim for damages such Director may have for breach of any such service contract.

The salary or remuneration of any managing Director or such executive Director of the Company shall, subject as provided in any contract, be such as the Directors may from time to time determine.

(f) *Alternate Directors*

Each Director shall have the power at any time to appoint as an alternate Director either (i) another Director or (ii) any other person approved for that purpose by a resolution of the Directors, and, at any time, to terminate such appointment.

(g) *Remuneration*

The Directors shall be paid out of the funds of the Company by way of fees for their services such sums as the Directors may determine (not exceeding in aggregate £850,000 per annum (excluding amounts payable under any other provision of the Articles), or such larger sum as the Company may, by ordinary resolution, determine). This remuneration shall be divided among the Directors as they shall agree, or failing agreement, equally.

Any Director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services

which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Directors may determine.

The Directors may also be paid all reasonable travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or general meetings of the Company or of the holders of debentures of the Company or otherwise in connection with the business of the Company.

The Directors may exercise all the powers of the Company to give or award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits (whether or not similar to the foregoing) to (or to any person in respect of) any persons who are or have at any time been Directors of or employed by or in the service of (i) the Company; (ii) any body corporate which is or was a subsidiary undertaking or a parent undertaking of the Company or another subsidiary undertaking of a parent undertaking of the Company; (iii) any body corporate which is otherwise associated with the Company or (iv) any such body corporate, or a predecessor in business of the Company or any such body corporate, and in each case, including the wives, widows, children and other relatives and dependants of any such persons. For this purpose the Directors may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds (whether contributory or non-contributory) for the benefit of such persons aforementioned, and so that any Director or former Director shall be entitled to receive and retain for his own benefit any such pension, annuity, gratuity, allowance or other benefit (whether under any such trust, fund or scheme or otherwise).

(h) *Directors' indemnity, insurance and defence*

As far as the applicable statutory provisions allow, the Company may:

- (i) indemnify any past or present Director or other officer of the Company or any company within the Babcock Group against any liability which he may sustain or incur in the actual or purported discharge of his duties, including those duties in relation to any company that is a trustee of an occupational pension scheme for employees of the Company;
- (ii) purchase and maintain insurance against any liability for any Director referred to in (i) above; and
- (iii) provide any Director referred to in (i) or (ii) above with funds to meet expenditure incurred or to be incurred by him in defending any criminal, regulatory or civil proceedings or in connection with an application for relief (or to enable any such Director to avoid incurring such expenditure).

(i) *Directors' interests*

A Director may be authorised by the Company, in accordance with section 175 of the 2006 Act, to be in a situation or become involved in a matter, transaction or arrangement where his interests, directly or indirectly, conflict or may possibly conflict with the interests of the Company (a “**Conflict**”). A Director who has, or may have, a Conflict shall (as soon as he is aware that his interests may conflict with those of the Company) inform the Directors of that Conflict in accordance with proceedings of the Directors and the Articles and the Directors (other than the Director with the Conflict) shall be permitted to authorise the situation, matter, transaction or arrangement where they consider, in good faith, that to do so will be most likely to promote the Company's success. The Directors (other than the Director with the Conflict) may impose such limits or conditions as they believe desirable or appropriate when giving an authorisation, or subsequently to qualify an authorisation previously given. No authorisation shall be required under the Articles where the conflict of interest, or possible conflict of interest, arises in relation to a transaction or arrangement with the Company.

A Director shall not be in breach of any duty in respect of a situation, matter, transaction or arrangement that has been authorised by in accordance with the above:

- (i) if he receives confidential information as a result of the conflict situation from a third party and does not disclose this to the Company or use it for the Company's benefit; or

- (ii) where he takes mitigating action when the actual conflict arises by taking action including, but not limited to, not attending the Company's board meetings or reading relevant board papers.

Subject to the applicable statutory provisions and provided he has declared to the Board the nature and extent of any direct or indirect interest, a Director may hold any other office or place of profit with the Company (except that of auditor) and may act by himself or through his firm in a professional capacity for the Company (otherwise than as auditor), and in any such case on such terms as to remuneration and otherwise as the Directors may decide. A Director may enter into any contract, transaction or arrangement with the Company or in which the Company has a (direct or indirect) interest subject to the applicable statutory provisions.

Subject to the applicable statutory provisions, and provided he has declared to the board the nature and extent of any direct or indirect interest, a Director may be a director or other officer, employee or member of, or a party to any contract, transaction or arrangement with, or otherwise interested in, any body corporate in which the Company may be (directly or indirectly) interested or any parent undertaking or subsidiary undertaking of any parent undertaking of the Company.

Subject to the applicable statutory provisions, the Company may by ordinary resolution suspend or relax the provisions in the Articles relating to Directors' interests and voting or ratify any contract, arrangement or transaction not duly authorised by reason of a contravention of the relevant provisions in the Articles.

(j) *Voting and quorum requirements*

The Directors may determine the quorum necessary for the transaction of business. Until otherwise determined two Directors shall constitute a quorum.

Unless otherwise provided by the Articles, a Director shall not vote on or be counted in any quorum in respect of any contract, arrangement or transaction whatsoever in which he has an interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares, debentures or other securities of or otherwise in or through the company).

Notwithstanding the above, this prohibition does not apply to a resolution concerning any of the following matters:

- (i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (iv) any contract, arrangement or transaction concerning another company in which he or any person connected with him is interested, directly or indirectly and whether as an officer or shareholder or otherwise, provided that he and any persons so connected with him do not to his knowledge hold an interest in one per cent. or more of any class of the equity share capital of such body corporate or of the voting rights available to members of the relevant body corporate;
- (v) any contract, arrangement or transaction for the benefit of employees of the Company or any of its subsidiary undertakings which does not accord to him any privilege or advantage not generally accorded to the employees to whom the scheme relates;
- (vi) any contract, arrangement or transaction concerning any insurance which the Company is to purchase and/or maintain for, or for the benefit of, any Directors or persons including Directors; and

- (vii) the giving of an indemnity to Directors or the provision of funds to meet expenses pursuant to the Articles.

A Director shall not vote or be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested including fixing or varying the terms of his appointment or the termination thereof.

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company (or any body corporate in which the Company is interested), such proposals may be divided and considered in relation to each Director separately. In such cases, each of the Directors concerned (if not debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

The Directors may exercise or procure the exercise of the voting rights conferred by the shares in any other body corporate held or owned by the Company or any power of appointment in relation to any other body corporate, and may exercise any voting rights or power of appointment to which they are entitled as Directors of such other body corporate, in such manner as they shall in their absolute discretion think fit.

5.11 General meetings

An annual general meeting shall be held in accordance with the applicable statutory provisions and in each period of six months beginning with the day following the Company's accounting reference date, at such place as may be determined by the Directors. Other general meetings shall be held whenever the Directors think fit or on the requisition of shareholders in accordance with the applicable statutory provisions.

Subject to the applicable statutory provisions, an annual general meeting shall be called by at least 21 clear days' notice and all other general meetings shall be called by not less than 14 clear days' notice.

The notice of meeting shall be given to the members (other than any who, under the provisions of the Articles or the terms of allotment or issue of shares, are not entitled to receive notice), to the Directors and to the auditors. The notice shall specify a time (which shall not be more than 48 hours (excluding any part of a day that is not a working day) before the time fixed for the meeting) by which a person must be entered on the register in order to have the right to attend or vote at the meeting. The accidental failure to give notice of a meeting or the non-receipt of notice of a meeting shall be disregarded for the purpose of determining whether notice of the meeting is duly given.

The requisite quorum for general meetings of the Company shall be two members present in person or by proxy and entitled to vote, provided that two corporate representatives or two proxies representing the same shareholder (even if in respect of different shares) shall not constitute a quorum.

A member may appoint another person as his proxy to exercise all or any of his rights to attend, speak and vote (both on a show of hands and on a poll) at a general meeting. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to different shares held by the member. A proxy need not also be a member.

5.12 Borrowing powers

The Directors shall restrict the borrowings of the Company, and shall so far as possible by the exercise of the Company's voting rights in and other rights or powers of control over its subsidiaries, secure that they restrict their borrowings, so that the aggregate principal amount at any time outstanding in respect of money borrowed by the Babcock Group shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to three times the adjusted share capital and reserves.

"Adjusted share capital and reserves" means the aggregate of the amount paid up or credited as paid up on the allotted or issued share capital of the Company and the amount standing to the credit of each of the consolidated capital and revenue reserves (including any share premium account, capital redemption reserve, revaluation reserve and profit and loss account but net of any debit balance on profit and loss

account) of the Babcock Group all as shown in the latest audited consolidated balance sheet of the Babcock Group but adjusted as may be necessary, and in accordance with the provisions of the Articles.

“Money borrowed” shall include: (i) the nominal amount and any fixed or minimum premium payable on redemption or repayment of any debentures or loan capital issued by any member of the Babcock Group; and (ii) the nominal amount of any issued share capital and the principal amount of any money borrowed the redemption or repayment of which is guaranteed or secured or the subject of an indemnity by the Company or any subsidiary undertaking (together in each case with any fixed or minimum premium payable on final redemption or repayment) except so far as such money borrowed is otherwise taken into account as money borrowed by the Company or a subsidiary undertaking, but shall not include certain other items set out in more detail in the Articles.

A report by the Company’s auditors stating what is in their opinion (based on their examination of the accounting records of the Babcock Group or such other evidence as they may think appropriate) the amount of the adjusted share capital and reserves or the amount of money borrowed or to the effect that the limit imposed by the Articles was not or will not be exceeded at any time or times shall be conclusive evidence of such amount or fact.

5.13 Communications by the Company

Unless the Articles require otherwise, any notice, document or information may be sent, or supplied by the Company to any member in accordance with the 2006 Act.

A notice, document or other information may be validly sent or supplied by the Company to all joint holders of a share if it is sent or supplied to the joint holder first named in the register in respect of the share. Unless otherwise required by the Directors, anything to be agreed or specified in relation to a notice, document or information to be sent or supplied to joint holders, may be agreed or specified by any of the joint holders on behalf of the others.

A notice, document or information sent by post and addressed to a member at his registered address or address for service in the UK is deemed to be given to or received by the intended recipient 24 hours after posting if prepaid as first class and 48 hours after posting if prepaid as second class. In proving such service, it shall be sufficient to prove that the letter containing the notice, document or information was properly addressed and stamped and put in the post.

A notice, document or information sent or supplied by electronic means to an address specified for the purpose by the member is deemed to have been given to or received by the intended recipient 24 hours after it was sent, and in proving service it is sufficient to prove that the communication was properly addressed and sent.

A notice, document or information may also be sent or supplied by means of a website in accordance with the 2006 Act.

6. FINANCIAL STATEMENTS AND ANNUAL GENERAL MEETINGS

The Company’s annual reports and financial statements are made up to 31 March in each year. The Company’s latest annual report and financial statements cover the financial year ended 31 March 2013, and was made public and posted to shareholders on 5 June 2013. The Company also made public its half year results for the six months ended 30 September 2013 on 12 November 2013 and its latest interim management statement on 11 February 2014. The Company held its most recent annual general meeting on 11 July 2013 at Grosvenor House Hotel, Park Lane, London W1K 7TN. Further information on annual general meetings is contained in paragraph 5.11 above of this Part XIV (*Additional Information*).

7. EMPLOYEES’ SHARE SCHEMES

7.1 The Babcock International Group PLC Performance Share Plan 2009 (the “PSP”)

(a) Administration

The PSP is administered by the Remuneration Committee.

(b) Eligibility

The Remuneration Committee selects participants in the PSP who must be employees of the Babcock Group.

(c) *Awards*

Awards may be granted by Babcock in the form of:

- (i) an option to acquire Ordinary Shares for nil consideration;
- (ii) a conditional right to acquire Ordinary Shares for nil consideration; or
- (iii) a phantom option or phantom conditional award to receive a cash amount linked to the value of Ordinary Shares.

Awards are personal to the participant and his personal representative and may not be transferred. No payment is required for the grant of an award. Awards are not pensionable.

(d) *Timing*

Awards may only be granted during the six weeks following the announcement of Babcock's yearly and half yearly results or at any other time if the Remuneration Committee considers the circumstances are exceptional. No award may be granted after 8 July 2019. No award may be granted when such grant would be in breach of the Model Code.

(e) *Dividends*

Any dividends or other cash distributions paid by Babcock in respect of Ordinary Shares during the period prior to the vesting of an award are not immediately available to award holders. Instead, an amount equal to the aggregate value of such distributions may be payable to the award holder when the award is exercised ("**Dividend Equivalent Cash**").

Alternatively, the Remuneration Committee has the discretion to increase the number of Ordinary Shares which are subject to an award by an amount equal to the aggregate value of such distributions (calculated as if the distribution had been invested in Ordinary Shares as at the date of payment of such distribution to shareholders) ("**Dividend Equivalent Shares**").

To the extent that an award does not become exercisable, any right to Dividend Equivalent Cash or Dividend Equivalent Shares will lapse.

(f) *Plan Limits*

No award may be granted under the PSP if, as a result, the aggregate nominal value of Ordinary Shares issued or intended to be issuable by Babcock pursuant to that award and any awards granted during the previous ten years under the PSP or any other employees' share scheme adopted by Babcock would exceed ten per cent. of the nominal value of the share capital of Babcock in issue on the date of that award, were it to be made.

In addition, no award may be granted under the PSP if, as a result, the aggregate nominal value of Ordinary Shares issued or intended to be issuable by Babcock pursuant to that award and any awards granted during the previous ten years under the PSP or any other discretionary employees' share scheme adopted by Babcock would exceed five per cent. of the nominal value of the share capital of Babcock in issue on the date of that award, were it to be made.

For the avoidance of doubt, Dividend Equivalent Shares already acquired would count for the above purposes, but potential future Dividend Equivalent Shares would not.

(g) *Individual Limit*

In general, no award may be granted under the PSP to an eligible employee if the aggregate market value (on the date of the proposed grant) of the Ordinary Shares which are to be subject to that award, when aggregated with the market value (on the date such other award was granted) of the Ordinary Shares which such eligible employee may acquire in relation to other awards already granted to the employee under the PSP in the same financial year of Babcock as the proposed grant, would exceed 200 per cent. of the employee's salary as at the date of the proposed grant. All references to "market value" on a particular date are to the average of the middle market prices for an Ordinary Share as derived from the Official List of the LSE for the three dealing days immediately preceding that date.

(h) *Performance Targets*

The exercise of awards under the PSP is, in normal circumstances, conditional upon the achievement of performance targets set at the time of grant measured over a three year performance period (the “**Performance Period**”).

The Remuneration Committee sets performance targets and determined that the performance target for 2013 awards is based as to 50 per cent. on comparative TSR performance (the “**TSR Element**”) and 50 per cent. on growth in earnings per share (the “**EPS Element**”). For the TSR Element, the TSR sector peer group is the FTSE 350 (excluding investment trusts and financial services).

For threshold performance, 12.5 per cent. of the award vests for each element.

For TSR performance at median, 16.7 per cent. of the TSR Element of the award vests (with no vesting for TSR performance below median). Out-performance of the median by at least 9 per cent. per annum results in 100 per cent. vesting of the TSR Element. For out-performance of the median between 0 per cent. and 9 per cent. per annum, vesting increases on a straight-line basis between 16.7 per cent. and 100 per cent.

For the EPS Element, 16.7 per cent. vests if earnings per share growth over the performance period is equivalent to a real compound annual growth rate of 4 per cent. Full vesting requires 11 per cent. real growth per annum. Vesting is on a straight-line basis for growth between those two points. There is no vesting for compound annual earnings per share growth of below 4 per cent.

If events occurs which cause the Remuneration Committee reasonably to consider that a different or amended target would be a fairer measure of performance, the Remuneration Committee will be able to waive or amend the original performance target in such manner as it reasonably deems fit, provided that any such amended performance target is not materially more difficult to achieve than the original performance target.

(i) *Exercise of Awards*

Normally, an award may only be exercised following the vesting date to the extent that the performance target has been satisfied and if the award holder is still an employee within the Babcock Group.

Awards may not be exercised during any prohibited period specified by the Model Code.

(j) *Leaving the Babcock Group*

Except as set out below, if a participant ceases to be employed or hold office with any member of the Babcock Group before an award has become vested in respect of any Ordinary Shares, rights under the award shall immediately lapse and cease to be exercisable. However, the Remuneration Committee has discretion to allow an award to be exercised after cessation within such period (not exceeding three months) and over such proportion of Ordinary Shares as it determines.

If an award holder dies, an award will vest immediately (to the extent reduced on a time pro-rated basis unless the Remuneration Committee exercises its discretion otherwise). The award holder’s personal representatives may, within the next 12 months (or such shorter period as is determined by the Remuneration Committee), exercise the award in respect of the vested Ordinary Shares.

If the award holder’s employment ends as a result of injury, ill-health, disability, redundancy or retirement or if the company by which the award holder is employed, or the business in which he works, is sold outside the Babcock Group:

- (i) if the cessation occurs after the Ordinary Shares have been vested, the award may be exercised within 12 months (or such shorter period as is determined by the Remuneration Committee being not less than 6 months) from the cessation of employment;

- (ii) if the cessation occurs prior to the vesting of the Ordinary Shares, the award may be exercised (to the extent reduced on a time pro-rated basis, unless the Remuneration Committee exercises its discretion otherwise) within 12 months (or such shorter period as is determined by the Remuneration Committee being not less than 6 months) from the vesting date for those Ordinary Shares (or the date of cessation if the Remuneration Committee so decides);

If the Remuneration Committee allows the exercise of an award prior to the vesting date, or if an award holder leaves employment before the vesting date in circumstances where an award does not cease to be exercisable, the award will nonetheless still normally be exercisable only if any performance condition attached to it is satisfied.

(k) *Change of Control*

In the event of a takeover or a scheme of arrangement sanctioned by the court, or if Babcock is voluntarily wound up, an award will vest on the date of the event and will be exercisable for a period of six months (or such shorter period as is determined by the Remuneration Committee) or, in the case of a takeover by general offer up to the end of any compulsory acquisition period. The number of Ordinary Shares which are exercisable will be determined by reference to the extent to which the performance targets have been met over the reduced performance period and will be time pro-rated, unless the Remuneration Committee exercises its discretion otherwise.

Where any such event occurs as part of an internal re-organisation or reconstruction of Babcock, awards will be automatically exchanged for new awards granted by the acquiring company with the consent of the acquiring company.

(l) *Variation of Capital*

In the event of any increase or variation in the share capital of Babcock, the Remuneration Committee may make such adjustment as it deems appropriate to the number of Ordinary Shares comprised in each award and/or the nominal value of the Ordinary Shares subject to awards.

(m) *Amendments*

The Babcock Board can amend the provisions of the PSP, save that rules relating to:

- (i) the persons to whom Ordinary Shares are provided under the PSP;
- (ii) the limits on the number of Ordinary Shares which may be issued under the PSP;
- (iii) the maximum entitlement of any award holder;
- (iv) the basis for determining an award holder's entitlement to Ordinary Shares or awards; and
- (v) the basis for determining the adjustment of any award granted under the PSP following any increase or variation in the share capital of Babcock,

cannot be amended by the Babcock Board to the advantage of any award holder or potential award holder without the prior approval of Babcock in general meeting (except for minor amendments to benefit the administration of the PSP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for award holders or any Babcock Group company).

No amendment to the rules of the PSP to the disadvantage of any award holder may be made without the prior written consent of such award holders as hold subsisting awards over at least 75 per cent. of the total number of Ordinary Shares that are subject to subsisting awards under the PSP (or, if the Babcock Board reasonably believes that the proposed amendments do not adversely affect all subsisting awards under the PSP, the written consent of those award holders who hold subsisting awards that are affected).

The Remuneration Committee has the discretion, in respect of employees of the Babcock Group who are resident for tax purposes outside the United Kingdom, to amend or alter the provisions

of any award to take account of overseas taxation or securities law. However, the Remuneration Committee cannot make any such amendment or alteration if this would result in an award being made upon terms commercially more favourable than the terms upon which an award could have been granted if such person was tax resident in the United Kingdom.

(n) *Termination*

The PSP may be terminated at any time by resolution of the Babcock Board and will in any event terminate on the tenth anniversary of its adoption so that no further awards can be granted under the PSP after termination. Termination will not affect the outstanding rights of existing award holders.

(o) *Outstanding Awards*

As at the Latest Practicable Date, awards over 4,588,711 Ordinary Shares were outstanding under the PSP (including those awards granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.2 The Babcock International Group PLC Company Share Option Plan 2009 (the “CSOP”)

(a) *Administration*

The Remuneration Committee has absolute discretion to select the persons to whom options are granted and, subject to the limits set out below, in determining the number of Ordinary Shares to be subject to each option.

The CSOP may be operated in conjunction with the existing employee benefit trusts operated by the Babcock Group.

(b) *Eligibility*

All employees (including full-time executive directors) of the Babcock Group will be eligible to be granted options over Ordinary Shares under the CSOP.

(c) *Options*

Options entitle the holder to acquire Ordinary Shares. Options are personal to the option holder and may not be transferred, other than to the option holder’s personal representative in the event of their death. No payment is required for the grant of an option and options are not pensionable.

(d) *Timing*

Options may only be granted during the six weeks following the announcement of Babcock’s yearly and half yearly results or at any other time if the Remuneration Committee considers the circumstances are exceptional.

If the grant of an option on any of the above days would be prohibited by virtue of the Model Code or any statute or regulation or any order made pursuant to such statute, then such option may be granted during the period of 40 days commencing immediately after the second dealing day following the time that such prohibition shall cease to have effect.

(e) *Plan Limits*

No option may be granted under the CSOP if, as a result, the aggregate nominal value of Ordinary Shares issued or intended to be issuable by Babcock pursuant to that option and any options granted during the previous ten years under the CSOP or any other employees’ share scheme adopted by Babcock would exceed 10 per cent. of the nominal value of the share capital of Babcock in issue on that date.

In addition, no option may be granted under the CSOP if, as a result, the aggregate nominal value of Ordinary Shares issued or issuable pursuant to that option and any options granted during the previous ten years under the CSOP or any other discretionary employees’ share scheme adopted by Babcock would exceed five per cent. of the nominal value of the share capital of Babcock in issue on that date.

(f) *Individual Limit*

Each individual's participation is limited so that the aggregate market value of Ordinary Shares subject to all options (calculated as at the date of grant of each option) held by that individual and granted under the CSOP or any other HMRC approved company share option plan operated by Babcock or any associated company, shall not exceed £30,000 (or such other amount as may be permitted by HMRC from time to time).

(g) *Performance Targets*

The exercise of options granted under the CSOP is, in normal circumstances, conditional upon the achievement of performance targets set at the time of grant measured over a three year performance period ("**Performance Period**").

The Remuneration Committee sets performance targets and has determined that the performance condition for the CSOP options granted in 2013 was the same as under the PSP.

If events occur which cause the Remuneration Committee reasonably to consider that a different or amended target would be a fairer measure of performance, the Remuneration Committee is able to waive or amend the original performance target in such manner as it reasonably deems fit, provided that any such amended target is not materially more difficult to achieve than the original performance target.

Where an employee ceases to be a Babcock Group employee, or certain corporate events occur (such as a change of control of Babcock), before the end of the relevant Performance Period, the Remuneration Committee has the discretion to modify the performance target. In certain circumstances, the Remuneration Committee will also have discretion to waive performance targets.

(h) *Exercise of Options*

Normally, an option may only be exercised following the vesting date to the extent that the performance target has been satisfied and if the option holder is still an employee within the Babcock Group. An option may not be exercised later than the day immediately prior to the tenth anniversary of its date of grant and, unless exercised, will lapse on the tenth anniversary of its date of grant. Options may not be exercised during any prohibited period specified by the Model Code.

(i) *Exercise Price*

No consideration is payable by an eligible employee for the grant of an option. The exercise price per Ordinary Share under option is determined by the Remuneration Committee at the time of grant but may not be less than the higher of (i) the market value of an Ordinary Share on the date of grant and (ii) in the case of an option to subscribe for Ordinary Shares, the nominal value of such shares.

(j) *Leaving the Babcock Group*

Except as set out below, if a participant ceases to be employed or hold office with any member of the Babcock Group before an award has become vested in respect of any Ordinary Shares, rights under the award shall immediately lapse and cease to be exercisable. However, the Remuneration Committee has discretion to allow an award to be exercised after cessation within such period (not exceeding three months) and over such proportion of Ordinary Shares as it determines.

If an award holder dies, an award will vest immediately (to the extent reduced on a time pro-rated basis unless the Remuneration Committee exercises its discretion otherwise). The award holder's personal representatives may, within the next 12 months, exercise the award in respect of the vested Ordinary Shares.

If the award holder's employment ends as a result of injury, ill-health, disability, redundancy or retirement or if the company by which the award holder is employed, or the business in which he works, is sold outside the Babcock Group:

- (i) if the cessation occurs after the Ordinary Shares have been vested, the award may be exercised within 6 months from the cessation of employment;
- (ii) if the cessation occurs prior to the vesting of the Ordinary Shares, the award may be exercised (to the extent reduced on a time pro-rated basis, unless the Remuneration Committee exercises its discretion otherwise) within 6 months from the vesting date for those Ordinary Shares (or the date of cessation if the Remuneration Committee so decides);

If the Remuneration Committee allows the exercise of an award prior to the vesting date, or if an award holder leaves employment before the vesting date in circumstances where an award does not cease to be exercisable, the award will nonetheless still normally be exercisable only if any performance condition attached to it is satisfied. The Remuneration Committee will have discretion under the rules to waive or modify any performance condition in such circumstances.

(k) *Change of Control*

In the event of a takeover or a scheme of arrangement sanctioned by the court, or if Babcock is voluntarily wound up, an award will vest on the date of the event and will be exercisable for a period of six months (or such shorter period as is determined by the Remuneration Committee) or, in the case of a takeover by general offer up to the end of any compulsory acquisition period. The number of Ordinary Shares which are exercisable will be determined by reference to the extent to which the performance targets have been met over the reduced performance period and will be time pro-rated, unless the Remuneration Committee exercises its discretion otherwise.

Where any such event occurs (including where it is as part of an internal re-organisation or reconstruction of Babcock), awards can be exchanged for new awards granted by the acquiring company with the consent of the acquiring company provided the participants surrender their old awards.

(l) *Variation of Capital*

In the event of any increase or variation in the share capital of Babcock, the Remuneration Committee may make such adjustment as it deems appropriate to the number of Ordinary Shares subject to each option and/or the nominal value of the Ordinary Shares subject to options.

(m) *Amendments*

The Remuneration Committee can amend the provisions of the CSOP, save that no amendment to a key feature of the CSOP shall have effect until HMRC has approved such amendment or from 6 April 2014, such an amendment is reported to HMRC. Furthermore, the rules of the CSOP which relate to:

- (i) the persons to whom Ordinary Shares are provided under the CSOP;
- (ii) the limits on the number of Ordinary Shares which may be issued under the CSOP;
- (iii) the maximum entitlement of any option holder;
- (iv) the basis for determining an option holder's entitlement to Ordinary Shares or options; and
- (v) the basis for determining the adjustment of any option granted under the CSOP following any increase or variation in the share capital of Babcock,

will not be capable of being amended by the Remuneration Committee to the advantage of any option holder or potential option holder without the prior approval of Babcock in general meeting (except for minor amendments to benefit the administration of the CSOP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or any Babcock Group company).

No amendment to the rules of the CSOP to the disadvantage of any option holder may be made without the prior written consent of such option holders as hold subsisting options over at least 75 per cent. of the total number of Ordinary Shares that are subject to subsisting options under the CSOP (or, if the Remuneration Committee reasonably believes that the proposed amendments do not adversely affect all subsisting options under the CSOP, the written consent of those option holders which hold subsisting options that are affected).

The Remuneration Committee has the discretion, in respect of employees of the Babcock Group who are resident for tax purposes outside the United Kingdom, to amend or alter the provisions of any option to take account of overseas taxation or securities law. However, the Remuneration Committee is not able to make any such amendment or alteration without the consent of HMRC (if required) and/or if this would result in an option being made upon terms commercially more favourable than the terms upon which an option could have been granted if such person was tax resident in the United Kingdom.

(n) *Termination*

The CSOP may be terminated at any time by resolution of the Babcock Board and will in any event terminate on the tenth anniversary of its adoption so that no further options can be granted under the CSOP after termination. Termination will not affect the outstanding rights of existing option holders.

(o) *Outstanding Options*

As at the Latest Practicable Date, options over 312,935 Ordinary Shares were outstanding under the CSOP (including those options granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.3 The Babcock International Group PLC Deferred Bonus Matching Plan 2012 (the “DBMP”)

(a) *Administration*

The DBMP is administered by the Remuneration Committee.

(b) *Eligibility*

The Remuneration Committee selects participants in the DBMP who must be employees of the Babcock Group.

(c) *Awards*

Awards may be granted by Babcock in the form of:

- (i) an option to acquire Ordinary Shares for nil consideration;
- (ii) a conditional right to acquire Ordinary Shares; or
- (iii) any other form having substantially the same economic effect as either of the above.

Awards are personal to the participant and his personal representative and may not be transferred. No payment will be required for the grant of an award. Awards are not pensionable.

(d) *Timing*

Awards may only be granted during the six weeks following the announcement of the yearly and half yearly results of Babcock or at any other time if the Remuneration Committee considers the circumstances are exceptional. No awards may be granted after 4 July 2022. No award may be granted when such grant would be in breach of the Model Code.

(e) *Dividends*

Any dividends or other cash distributions paid by Babcock in respect of Ordinary Shares during the period prior to the vesting of an award are not immediately available to award holders. Instead, an amount equal to the aggregate value of such distributions may be payable to the award holder when the award is exercised (“**Dividend Equivalent Cash**”).

Alternatively, the Remuneration Committee has the discretion to increase the number of Ordinary Shares which are subject to an award by an amount equal to the aggregate value of such distributions (calculated as if the distribution had been invested in Ordinary Shares as at the date of payment of such distribution to shareholders) ("**Dividend Equivalent Shares**").

To the extent that an award does not become exercisable, any right to Dividend Equivalent Cash or Dividend Equivalent Shares will lapse.

(f) *Plan Limits*

No award may be granted under the DBMP if, as a result, the aggregate nominal value of Ordinary Shares issued or intended to be issuable by Babcock pursuant to that award and any awards granted during the previous ten years under the DBMP or any other employees' share scheme adopted by Babcock would exceed ten per cent. of the nominal value of the share capital of Babcock in issue on the date of that award, were it to be made.

In addition, no award may be granted under the DBMP if, as a result, the aggregate nominal value of Ordinary Shares issued or issuable pursuant to that award and any awards granted during the previous ten years under the DBMP or any other discretionary employees' share scheme adopted by Babcock would exceed five per cent. of the nominal value of the share capital of Babcock in issue on the date of that award, were it to be made.

(g) *Individual Limit*

The Remuneration Committee sets the percentage of any annual bonus that an eligible employee will receive in the form of an award under the DBMP.

The Remuneration Committee also has discretion to invite an eligible employee to: (i) defer, on a voluntary basis, a further portion of any annual bonus so that it is received as an award under the DBMP; and/or (ii) to acquire additional Ordinary Shares under the DBMP using personal funds.

The mandatory and voluntary deferred awards and voluntary investment using personal funds are subject to such limits as the Remuneration Committee sets from time to time but shall not exceed (in aggregate) 100 per cent. of basic salary for the eligible employee in the relevant financial year.

(h) *Matching Awards*

The Remuneration Committee may decide to make a matching award over Ordinary Shares ("**Matching Award**"). The Remuneration Committee has discretion to make a Matching Award over Ordinary Shares up to the maximum ratio of two Ordinary Shares for every one Ordinary Share subject to an award or purchased voluntarily.

(i) *Performance Targets*

The vesting of Matching Awards under the DBMP is, in normal circumstances, conditional upon the achievement of performance targets set at the time of grant measured over a three year performance period (the "**Performance Period**").

The Remuneration Committee sets performance targets and has determined that the performance target for 2013 Matching Awards is based as to one third on comparative TSR performance (the "**TSR Element**"), one third on growth in earnings per share (the "**EPS Element**") and one third on Babcock's return on capital employed ("**ROCE**") (the "**ROCE Element**"). For the TSR Element, the TSR sector peer group is the FTSE 350 (excluding investment trusts and financial services). For threshold performance, 12.5 per cent. of the Matching Award vests for each element.

For TSR performance at median, 12.5 per cent. of the TSR Element of the award vests (with no vesting for TSR performance below median). Out-performance of the median by at least 9 per cent. per annum results in 100 per cent. vesting of the TSR Element. For out-performance of the median between 0 per cent. and 9 per cent. per annum, vesting increases on a straight-line basis between 12.5 per cent. and 100 per cent.

For the EPS Element, 12.5 per cent. vests if earnings per share growth over the performance period is equivalent to a real compound annual growth rate of 4 per cent. Full vesting requires 11 per cent. real growth per annum. Vesting is on a straight-line basis for growth between those two points. There is no vesting for real compound annual earnings per share growth of below 4 per cent.

For the ROCE Element, 12.5 per cent. vests if Babcock's average ROCE is at least 21.5 per cent. Full vesting requires Babcock's average ROCE to be 23.5 per cent. Vesting is on a straight-line basis for ROCE between these two points. There is no vesting for ROCE below 21.5 per cent.

If events occur which cause the Remuneration Committee reasonably to consider that a different or amended target would be a fairer measure of performance, the Remuneration Committee can waive or amend the original performance target in such manner as it reasonably deems fit, provided that any such amended target is not materially more difficult to achieve than the original performance target.

(j) *Exercise of Awards*

Normally, an award may only be exercised following the occurrence of the vesting date if the award holder is still an employee within the Babcock Group. A Matching Award may only be exercised to the extent that any performance target has been satisfied.

The DBMP includes "malus" provisions under which the Remuneration Committee may revoke or reduce awards subject to mandatory deferral where there has been a material restatement of accounts and financial performance is materially worse than shown in the original accounts.

Awards may not be exercised during any prohibited period specified by the Model Code.

(k) *Leaving the Babcock Group*

Except as set out below, if a participant ceases to be employed or hold office with any member of the Babcock Group before an award has become vested in respect of any Ordinary Shares, rights under the award shall immediately lapse and cease to be exercisable. However, if the Remuneration Committee considers that the circumstances are exceptional, it has discretion to allow an award to be exercised after cessation within such period (not exceeding 12 months) and over such proportion of Ordinary Shares as it determines.

If an award holder dies, an award will vest immediately (in the case of Matching Awards, to the extent that the performance targets have been met and reduced on a time pro-rated basis unless the Remuneration Committee exercises its discretion otherwise). The award holder's personal representatives may, within the next 12 months, exercise the award in respect of the vested Ordinary Shares.

If the award holder's employment ends as a result of injury, ill-health, disability, redundancy or retirement or if the company by which the award holder is employed, or the business in which he works, is sold outside the Babcock Group:

- (i) if the cessation occurs after the Ordinary Shares have been vested, the award may be exercised within 6 months from the cessation of employment; or
- (ii) if the cessation occurs prior to the vesting of the Ordinary Shares, the Remuneration Committee is entitled to determine (within 90 days) whether:
 - (A) the award may be exercised with respect to the proportion of the vested Ordinary Shares held by the award holder at cessation of employment, within 12 months from the vesting date for those Ordinary Shares; or
 - (B) whether the award may be exercised within such period (of not less than 6 months or more than 12 months) immediately after the cessation of employment, with respect to the proportion of the Ordinary Shares that correspond to the proportion of the performance period expired at cessation of employment, which Ordinary Shares will be deemed to be vested (or such greater amount as the Remuneration Committee considers appropriate).

If cessation of an award holder's employment occurs for a reason other than death in service or any of the other reasons (such as injury, ill-health, disability, etc.) outlined above, and the award holder had purchased additional Ordinary Shares under the DBMP using his/her own private investment, s/he may dispose of the Ordinary Shares acquired under such investment.

(l) *Change of Control*

In the event of a takeover or a scheme of arrangement sanctioned by the court, or if Babcock is voluntarily wound up, an award will vest on the date of the event and will be exercisable for a period of six months (or such shorter period as is determined by the Remuneration Committee) or, in the case of a takeover by general offer up to seven days before the end of any compulsory acquisition period. The number of Matching Awards which are exercisable will be determined by reference to the extent to which the performance targets have been met over the reduced performance period and will be time pro-rated, unless the Remuneration Committee exercises its discretion otherwise.

Where any such event occurs as part of an internal re-organisation or reconstruction of Babcock, awards can be automatically exchanged for new awards granted by the acquiring company with the consent of the acquiring company.

(m) *Variation of Capital*

In the event of any increase or variation in the share capital of Babcock, the Remuneration Committee may make such adjustment as it deems appropriate to the number of Ordinary Shares comprised in each award.

(n) *Amendments*

The Remuneration Committee will be able to amend the provisions of the DBMP, save that rules relating to:

- (i) the persons to whom Ordinary Shares are provided under the DBMP;
- (ii) the limits on the number of Ordinary Shares which may be issued under the DBMP;
- (iii) the maximum entitlement of any award holder;
- (iv) the basis for determining an award holder's entitlement to Ordinary Shares or awards; and
- (v) the basis for determining the adjustment of any award granted under the DBMP following any increase or variation in the share capital of Babcock,

will not be capable of being amended by the Remuneration Committee to the advantage of any award holder or potential award holder without the prior approval of Babcock in general meeting (except for minor amendments to benefit the administration of the DBMP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for award holders or any Babcock Group company).

No amendment to the rules of the DBMP to the disadvantage of any award holder may be made without the prior written consent of such award holders as hold subsisting awards over at least 75 per cent. of the total number of Ordinary Shares that are subject to subsisting awards under the DBMP (or, if the Remuneration Committee reasonably believes that the proposed amendments do not adversely affect all subsisting awards under the DBMP, the written consent of those award holders who hold subsisting awards that are affected).

The Remuneration Committee will have the discretion, in respect of employees of the Babcock Group who are resident for tax purposes outside the United Kingdom, to amend or alter the provisions of any award to take account of overseas taxation or securities law. However, the Remuneration Committee will not be able to make any such amendment or alteration if this would result in an award being made upon terms commercially more favourable than the terms upon which an award could have been granted if such person was tax resident in the United Kingdom.

(o) *Termination*

The DBMP may be terminated at any time by resolution of the Babcock Board and will in any event terminate on the tenth anniversary of its adoption so that no further options can be granted under the DBMP after termination. Termination will not affect the outstanding rights of existing option holders.

(p) *Outstanding Awards*

As at the Latest Practicable Date, awards over 1,390,269 Ordinary Shares were outstanding under the DBMP (including those awards granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.4 The Babcock International Group PLC Deferred Bonus Plan 2009 (the “DBP”)

The DBP has been replaced by the DBMP described at paragraph 7.3 of this Part XIV (*Additional Information*) above, but there are deferred awards outstanding under the DBP. The rules of the DBP are substantially the same as the rules of Babcock’s DBMP but without the ability for the Remuneration Committee to make Matching Awards and with a vesting period of two, rather than three, years.

(a) *Outstanding Awards*

As at the Latest Practicable Date, awards over 214,360 Ordinary Shares were outstanding under the DBP (including those awards granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.5 The Babcock 2003 Long Term Incentive Plan (the “LTIP”)

(a) *Administration of the Plan*

The LTIP is administered by the Remuneration Committee.

No further awards may be granted under the LTIP but there are outstanding awards under it. Below is a summary of the features relevant to those outstanding awards.

(b) *Awards*

Awards were granted in the form of:

- (i) a conditional right to acquire Ordinary Shares (a “**Share Award**”); or
- (ii) a deferred entitlement to payment of a cash sum of an amount determined by multiplying the number of Ordinary Shares awarded in consequence of performance targets having being met, by the market value of an Ordinary Share (being the average of the middle market quotations of a share as derived from the LSE for the three consecutive dealing days preceding that date) (a “**Cash Award**”).

Awards are personal to the participant and his personal representative and may not be transferred. Awards are not pensionable.

(c) *Plan Limits*

The number of Ordinary Shares which may be allotted by Babcock to the trust in connection with the LTIP on any date, when aggregated with the number of shares issued or issuable pursuant to rights granted in the previous 10 years under any other executive option scheme or executive share incentive scheme operated by Babcock, may not exceed 5 per cent. of the equity share capital in issue or, in respect of all plans for the benefit of employees and executives, 10 per cent. of the equity share capital of Babcock in issue from time to time.

(d) *Exercise of Awards*

An award may not be exercised later than ten years after the date of grant. Awards may not be exercised during any prohibited period specified by the Model Code.

Payment of a cash sum upon the exercise of a Cash Award shall be made subject to deductions for income tax and national insurance liability.

Babcock has the right to satisfy a Cash Award by transferring such number of Ordinary Shares to or to the order of the award holder as is equal in value to the net amount of such cash sum (after income tax and national insurance deductions) divided by the market value of a share (being the average of the middle market quotations of a share as derived from the LSE for three consecutive dealing days preceding that date).

(e) *Exercise Price*

The price payable to Babcock upon exercise of a Share Award on any occasion shall be £1 or such lesser amount (if any) as Babcock may determine and notify to award holders.

(f) *Leaving the Babcock Group*

Except as set out below, if a participant ceases to be employed or hold office with any member of the Babcock Group before an award has become vested in respect of any Ordinary Shares, rights under the award shall immediately lapse and cease to be exercisable.

If an award holder dies, his personal representatives may, within the next 12 months, exercise the award in respect of the vested Ordinary Shares.

If the award holder's employment ends as a result of injury, ill-health, disability, redundancy, retirement or if the company by which the award holder is employed, or the business in which he works, is sold outside the Babcock Group, the award may be exercised within 6 months from the cessation of employment.

If cessation of an award holder's employment occurs for a reason other than death in service or any of the other reasons (such as injury, ill-health, disability, etc.) outlined above, and if the Remuneration Committee considers that the circumstances are exceptional, the Remuneration Committee may allow an award to be exercised after cessation within such period (not exceeding 12 months) and over such proportion of Ordinary Shares as it determines.

(g) *Change of Control*

In the event of a takeover or a scheme of arrangement sanctioned by the court, an award may be exercised on the date of the event. In the event that Babcock is voluntarily wound up, the Remuneration Committee may determine that an award may be exercised on the date of the event.

(h) *Variation of Capital*

In the event of any variation in the share capital of Babcock (including a capitalisation or rights issue or any sub-division, consolidation or reduction in the share capital of Babcock), the Remuneration Committee may make such adjustment as it considers appropriate to the number of shares subject to any award provided that any such adjustment is generally confirmed in writing by the auditors of Babcock to be, in their opinion, fair and reasonable.

(i) *Amendments*

The rules of the LTIP may be amended by the Remuneration Committee at any time, save that rules relating to:

- (i) the persons to whom Ordinary Shares are provided under the LTIP;
 - (ii) the limits on the number of Ordinary Shares which may be issued under the LTIP;
 - (iii) the maximum entitlement of any award holder;
 - (iv) the basis for determining an award holder's entitlement to Ordinary Shares or awards;
- and

- (v) the basis for determining the adjustment of any award granted under the LTIP following any increase or variation in the share capital of Babcock,

will not be capable of being amended by the Remuneration Committee to the advantage of any award holder or potential award holder without the prior approval of Babcock in general meeting (except for minor amendments to benefit the administration of the LTIP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for award holders or any Babcock Group company).

(j) *Outstanding Awards*

As at the Latest Practicable Date, awards in respect of 27,841 Ordinary Shares were outstanding under the LTIP (including those awards granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.6 The Babcock Approved Employee Share Ownership Plan (the “AESOP”)

(a) *Constitution and Administration*

The AESOP is an all-employee plan approved by HMRC. The AESOP is administered by the Babcock Board. The AESOP is operated by a trustee through a UK resident trust (the “**AESOP Trustee**”).

(b) *Operation of the Plan*

The Babcock Board may operate the AESOP on one or more of the following bases:

- (i) as a Partnership Plan;
- (ii) as a Matching Plan; and
- (iii) as a Free Plan.

(c) *Partnership Plan*

Under the Partnership Plan, an eligible employee may enter into an agreement with Babcock to allocate part of his pre-tax salary each year to subscribe for and/or purchase Ordinary Shares to be held in the AESOP (“**Partnership Shares**”) which are purchased by the AESOP Trustee on behalf of the participant.

The maximum allocation may not exceed the lower of 10 per cent. of the participant’s salary or, up to 5 April 2014, £1,500, and from 6 April 2014, £1,800 in any tax year. The minimum allocation is determined by the Babcock Board and must not be greater than £10. The partnership share agreement provides for the AESOP Trustee to purchase the Partnership Shares either within 30 days of the day on which the deduction is made, or if the deductions are to be accumulated for a period (not exceeding 12 months), then for the Partnership Shares to be bought within 30 days of the end of that period.

A participant may withdraw his Partnership Shares at any time but, if he does so before the Partnership Shares have been held in the trust for five years, he may incur an income tax and national insurance liability.

If the Babcock Board considers that such suspension is appropriate in the circumstances, the Babcock Board may give notice to all participants that operation of the AESOP is suspended and no further deductions from salary shall be made for the purposes of enabling participants to acquire Partnership Shares and that all existing accumulation periods shall come to an end. The Babcock Board may at any time thereafter give notice to all participants that deductions from salary will be resumed in accordance with each participant’s partnership share agreement.

(d) *Matching Plan*

If the Babcock Board decides to operate the Partnership Plan in any period, it may also decide to operate the Matching Plan in the same period. Under the Matching Plan, Babcock provides the

AESOP Trustee with funds to enable them to subscribe for and/or purchase shares of the same class and carrying the same rights as the Partnership Shares with which they are matched (“**Matching Shares**”), which will then be allocated to the eligible employees up to the maximum ratio of 2 Matching Shares for every 1 Partnership Share, or such lower ratio as is specified in the partnership share agreement. As at the Latest Practicable Date, a ratio of 1 Matching Share for every 10 Partnership Shares bought applies.

Matching Shares must be held by the AESOP Trustee for a minimum period of three years or for such longer period not exceeding five years as the Babcock Board may decide. If a participant ceases to be employed within the Babcock Group before the end of this period, his Matching Shares must be withdrawn from the trust. If the shares are withdrawn from the trust before the end of the five year period, the participant may incur an income tax and national insurance liability.

If the relevant participation agreement provides for such terms and a participant ceases to be employed within the minimum three year period (or within such shorter period as the Babcock Board may decide) other than for a specified reason such as redundancy, injury, ill-health or disability, retirement, death, sale of an undertaking or subsidiary, the occurrence of an exchange of control or other circumstances ending the associated company status of the company by which such participant is employed or withdrawal by the participant of his Partnership Shares from the trust before the end of the minimum three year period or such other period set by the Babcock Board, his Matching Shares will be forfeited and his beneficial interest in his Matching Shares will be transferred to, and become vested in, the AESOP Trustee for no consideration.

(e) *Free Plan*

Babcock will provide the AESOP Trustee with funds to enable the AESOP Trustee to subscribe for and/or purchase Ordinary Shares, which will then be allocated to the eligible employees. The maximum individual allocation of Ordinary Shares under the Free Plan (“**Free Shares**”) in any tax year is Free Shares with a market value of, from 6 April 2014, £3,600. As at the Latest Practicable Date, no Free Shares have been acquired under the Free Plan.

Free Shares may only be appropriated, within a period of six weeks following an announcement to the London Stock Exchange of Babcock’s annual or half-year results.

Any allocation of Free Shares must be made on similar terms; however, the allocation can be linked to such individual, team, business division, company, or Babcock Group performance as the Babcock Board may decide. The performance targets set for each unit must be on the basis of “similar treatment”.

Free Shares must be held by the AESOP Trustee for a minimum period of three years or for such longer period not exceeding five years as the Babcock Board may decide. If a participant ceases to be employed within the Babcock Group before the end of this period, his Free Shares must be withdrawn from the trust. If the shares are withdrawn from the trust before the end of the five year period, the participant may incur an income tax and national insurance liability.

If the relevant participation agreement provides for such terms and a participant ceases to be employed within the minimum three year period (or within such shorter period as the Babcock Board may decide) other than for a specified reason such as redundancy, injury, ill-health or disability, retirement, death, sale of an undertaking or subsidiary, the occurrence of an exchange of control or other circumstances ending the associated company status of the company by which such participant is employed or withdrawal by the participant of his Free Shares from the trust before the end of the minimum three year period or such other period set by the Babcock Board, his Free Shares will be forfeited and his beneficial interest in his Free Shares will be transferred to, and become vested in, the AESOP Trustee for no consideration.

(f) *Eligibility*

All UK resident employees of Babcock and its participating subsidiaries who have not less than 18 months’ continuous service or, for Partnership or Matching Shares where there is an accumulation period, six months’ continuous service (or, in each case, such shorter period as the

Babcock Board may decide) are eligible to participate in the AESOP. Other employees with the relevant periods of service may be eligible to participate in the AESOP at the Babcock Board's discretion.

(g) *Subscription Price*

The Babcock Board will determine the subscription price of any Free or Matching Shares issued. The subscription price for Partnership Shares will be the market value at the date of subscription or, if there is an accumulation period, the market value on the first day of that period or the market value at the date of subscription or the lower of the two.

(h) *Plan Limit*

The AESOP is subject to the limit that, on any date, the aggregate nominal amount of new Ordinary Shares which may be issued to the AESOP Trustee under the AESOP may not, when added to the nominal amount of new Ordinary Shares allocated in the previous 10 years under all employee share schemes of the Babcock Group, exceed 10 per cent. of the equity share capital of Babcock.

The AESOP Trustee may not deal in Ordinary Shares or other securities of Babcock at any time if the AESOP Trustee is aware or notified by Babcock that this would be in breach of the Model Code or any code of dealing adopted by the Babcock Board.

(i) *Dividends*

Any dividends paid on the Free Shares, Partnership Shares or Matching Shares will either be paid to the participants or reinvested in the purchase of additional Ordinary Shares to be held in the AESOP for a period of three years. The Babcock Board can set a limit on the amount of dividends that can be reinvested.

(j) *Voting Rights*

The AESOP Trustee may, but is not obliged to, seek irrevocable directions from a participant on how to exercise the voting rights attributable to the shares of a participant. The AESOP Trustee will not, however, exercise the voting rights attributable to the AESOP shares held in the trust except in accordance with the participant's instructions.

(k) *Change of Control*

In the event of a general offer being made to the shareholders or a rights issue or capitalisation issue, participants may direct the AESOP Trustee how to act on their behalf.

(l) *Amendments*

The Babcock Board may make such amendments to the AESOP as are either necessary or desirable to obtain or retain the approval of HMRC or to take account of changes to that Act or other applicable legislation.

Except as described above, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility to participate, individual or Plan limits, holding periods, voting rights, rights and capitalisation issues, reconstructions, or the basis upon which employees may participate in the AESOP, without the prior approval of the company in general meeting (except for amendments which the Babcock Board believes are minor amendments to benefit the administration of the AESOP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Babcock Group).

(m) *Number of Ordinary Shares in the AESOP*

As at the Latest Practicable Date, participants in the AESOP held 1,340,181 Ordinary Shares through the AESOP trust (including those awards held by Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.7 The Babcock 1999 Approved Executive Share Option Scheme (the “1999 Approved Scheme”)

(a) *Administration*

The 1999 Approved Scheme is operated and administered by the Remuneration Committee or such other committee of Babcock Directors (a majority of whom must be non-executive directors) as the Babcock Board may appoint to operate and administer the 1999 Approved Scheme. No further grants of options may be made under the 1999 Approved Scheme, but there are outstanding options under it all of which are already vested and exercisable. Below is a summary of the features relevant to those outstanding options.

(b) *Options*

Options entitle the holder to acquire (either by purchase or by subscription) Ordinary Shares. Options are personal to the option holder and may not be transferred, other than to the option holder's personal representative in the event of their death. No payment is required for the grant of an option and options are not pensionable.

(c) *Exercise of Options*

Options are normally exercisable in whole or in part not earlier than three years and not later than 10 years after grant and normally only for so long as the option holder remains employed or holds office in the Babcock Group or a company considered to be associated with Babcock under the terms of 1999 Approved Scheme. An option may only be exercised within a period (not less than 6 months) specified by the Remuneration Committee after the Remuneration Committee has notified the option holder that the option has become vested except in circumstances where an option holder's employment ends as a result of injury, ill-health, disability, redundancy, retirement at normal retirement age or in other circumstances if the company by which the option holder is employed, or the business in which he works, is sold outside the Babcock Group. In these circumstances, if the cessation of employment or office occurs after the end of the relevant performance period, the option may be exercised within a period of 6 months beginning with the date of cessation. Options may also be exercised in the event of death or where employment ceases for reasons other than those outlined above, at the discretion of the Remuneration Committee.

Except in these circumstances, options will lapse if the option holder ceases to be employed by the Babcock Group.

The exercise of options will be permitted in the event of a change of control or a compromise or arrangement of Babcock. In the event of a change of control, option holders may be entitled to surrender their options in return for substitute options over shares in the acquiring company in accordance with the 1999 Approved Scheme rules.

Options may not be exercised during any prohibited period specified by the Model Code.

(d) *Exercise Price*

The option price payable on exercise of an option is determined by the Remuneration Committee and may not be less than an amount equal to the average of the middle market quotations of a Ordinary Share, for the three consecutive dealing days immediately preceding the date of grant. Notwithstanding the foregoing, in respect of an option to subscribe for new Ordinary Shares, the exercise price may not in any event be less than the nominal value of a Ordinary Share.

(e) *Variation of Capital*

In the event of any capitalisation or rights issue by Babcock, or any consolidation, subdivision or reduction or any other variation of Babcock's share capital, the number of Ordinary Shares subject to any option and the exercise price payable for each ordinary share under any such option may be adjusted by the Remuneration Committee in such manner as they determine to be appropriate with the prior written consent of HMRC and generally subject to confirmation by the auditors that such adjustment is fair and reasonable.

(f) *Amendments*

The Remuneration Committee may make alterations or additions to the 1999 Approved Scheme as it sees fit, provided that no alteration or addition: (a) will take effect until (i) HMRC has confirmed that the approved status of the 1999 Approved Scheme will not be affected or (ii) written notice of any alteration or addition which would cause the 1999 Approved Scheme to cease to be approved by HMRC has been given and HMRC has agreed to withdraw the 1999 Approved Scheme approval status; and (b) shall be made (to the advantage of existing or new option holders) to the provisions dealing with 1999 Approved Scheme eligibility, individual or 1999 Approved Scheme limits; the terms of the options; or the amendment of the 1999 Approved Scheme rules, without the prior approval of the company in general meeting (except for minor amendments to benefit the administration of the 1999 Approved Scheme, to take account of any change in legislation or to maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Babcock Group).

(g) *Outstanding Options*

As at the Latest Practicable Date, options over 1,870 Ordinary Shares were outstanding under the 1999 Approved Scheme (including those options granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

7.8 **The Babcock 1999 Unapproved Executive Share Option Scheme (the “1999 Unapproved Scheme”)**

No further grants of options may be made under the 1999 Unapproved Scheme, but there are outstanding options under it. The rules of the 1999 Unapproved Scheme are substantially the same as the rules of Babcock’s 1999 Approved Scheme (summarised at paragraph 7.7 of this Part XIV (*Additional Information*)) above but the 1999 Unapproved Scheme is not approved for tax purposes by HMRC and the HMRC approval requirements in the 1999 Approved Scheme do not therefore apply.

(a) *Outstanding Options*

As at the Latest Practicable Date, options over 10,000 Ordinary Shares were outstanding under the 1999 Unapproved Scheme (including those options granted to Babcock Directors and Babcock Senior Managers disclosed in paragraph 3.2 of Part XIII (*Directors, Senior Managers and Corporate Governance*)).

8. **MAJOR SHAREHOLDERS AND OTHER INTERESTS**

As at the Latest Practicable Date, the Company had been notified under the Disclosure and Transparency Rules of the following direct and indirect substantial interests in the issued Ordinary Shares of the Company:

Shareholders	Number of Existing Ordinary Shares	Approximate percentage of existing issued share capital	Number of Ordinary Shares following the Rights Issue	Approximate percentage of issued share capital following the Rights Issue
The Capital Group Companies Inc	21,910,915	6.05	30,338,190	6.05
Blackrock, Inc	18,147,899	5.01	25,127,860	5.01
Cantillon Capital LLC	17,938,977	4.95	24,838,583	4.95
Standard Life Investments Limited	17,928,896	4.95	24,824,625	4.95
FMR LLC	17,700,915	4.89	24,508,959	4.89
Legal & General Group Plc	14,325,920	3.96	19,835,889	3.96
JP Morgan Chase & Co	11,376,214	3.14	15,751,680	3.14
Ameriprise Financial Inc.	11,330,063	3.13	15,687,779	3.13

Notes:

Assuming each major Shareholder takes up its rights to New Ordinary Shares in full and that there is no exercise of options or awards under the Share Schemes between the Latest Practicable Date and completion of the Rights Issue.

As at the Latest Practicable Date, save as disclosed in this paragraph 8, the Company is not aware of any interest (within the meaning of the Disclosure and Transparency Rules) which represents three per cent. or more of the voting rights in the Company. The Company is not aware of any person or persons who, directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.

None of the Company's major Shareholders has now, or will following the Rights Issue have, different voting rights from other holders of Ordinary Shares.

9. MATERIAL CONTRACTS

9.1 Babcock's material contracts

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by members of the Babcock Group: (i) within the two years immediately preceding the date of this document and which is, or may be, material; or (ii) which contains any provision under which any member of the Babcock Group has any obligation or entitlement which is material to the Babcock Group as at the date of this document.

(a) *Sale and Purchase Agreement*

A description of the principal terms of the Sale and Purchase Agreement is set out in Part II (*Principal Terms of the Acquisition*) of this document.

(b) *Management Warranty Deed*

A description of the principal terms of the Management Warranty Deed is set out in Part II (*Principal Terms of the Acquisition*) of this document.

(c) *Underwriting Agreement*

On 27 March 2014, Babcock and the Underwriters entered into the Underwriting Agreement pursuant to which Babcock has appointed J.P. Morgan Cazenove and Jefferies as Joint Global Coordinators and J.P. Morgan Cazenove, Jefferies, Barclays and HSBC as Joint Bookrunners and Underwriters in connection with the Rights Issue and Admission.

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters (as agents of Babcock) have agreed severally to exercise reasonable endeavours to procure subscribers for the New Ordinary Shares which have not been taken up under the Rights Issue (or, at their discretion, for as many as can be so procured) as soon as reasonably practicable and in any event by no later than 3.00 p.m. on the second dealing day after the last date for acceptance under the Rights Issue, for an amount which is not less than the total of the Issue Price multiplied by the number of such New Ordinary Shares for which acquirers are so procured and the expenses of procurement (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable). If and to the extent that the Underwriters are unable to procure acquirers on the basis outlined in the previous paragraph, the Underwriters have agreed to acquire, on a several basis, any remaining New Ordinary Shares.

In consideration of their services under the Underwriting Agreement, and subject to their obligations under the Underwriting Agreement not having been terminated, the Underwriters will be paid a commission of 1.75 per cent. of the Issue Price multiplied by 139,259,204 (the aggregate number of New Ordinary Shares), whether or not the Underwriters are called upon to acquire or procure acquirers for any New Ordinary Shares under the Underwriting Agreement, as described above. Out of such commission payable to the Underwriters, the Underwriters will pay or procure the payment of sub-underwriting commissions payable to such persons (if any) as the Underwriters may procure to acquire New Ordinary Shares. In addition to the commission payable to the Underwriters as described above, Babcock may, in its absolute discretion, pay to the Joint Global Coordinators, in such proportions as Babcock in its absolute discretion

determines, a discretionary amount of up to 0.06 per cent. of the Issue Price multiplied by 139,259,204 (the aggregate number of New Ordinary Shares) and a discretionary amount of up to 0.10 per cent. of the Issue Price multiplied by 139,259,204 (the aggregate number of New Ordinary Shares) to the Underwriters. Babcock may also in its absolute discretion pay to the Sponsor a fee of 0.04 per cent. multiplied by 139,259,204 (the aggregate number of New Ordinary Shares) Babcock has also agreed to pay all costs and expenses, properly incurred, of or in connection with the Rights Issue and the General Meeting (whether or not the obligations of the Underwriters under the Underwriting Agreement become unconditional or are terminated).

The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions including, amongst others:

- (i) the passing of the Resolution (without material amendment) at the General Meeting on 16 April 2014 (and not, save with the prior written agreement of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed), at any adjournment of such meeting);
- (ii) Admission occurring not later than 8.00 a.m. on the first dealing day after the date of the General Meeting (or such later time and/or date (being not later than 48 hours later) as Babcock and the Joint Global Coordinators (on behalf of the Underwriters) may agree);
- (iii) there being no breach of certain of the warranties and undertakings on the part of Babcock contained in the Underwriting Agreement (save to the extent not material in the context of the Rights Issue or Admission); and
- (iv) the fulfilment in all material respects by Babcock of its obligations, undertakings and covenants under the Underwriting Agreement and under the terms or conditions of the Rights Issue (save to the extent not material in the context of the Rights Issue).

If any of the conditions is not satisfied or becomes incapable of being satisfied (unless in either case waived by the Joint Global Coordinators (on behalf of the Underwriters) in their absolute discretion) by the required time and date (being no later than Admission) then, save for certain exceptions, the parties' obligations under the Underwriting Agreement (including the Underwriters' obligations to procure acquirers for New Ordinary Shares and the Underwriters' obligations to acquire any remaining New Ordinary Shares) shall cease and terminate, without prejudice to any liability for any prior breach of the Underwriting Agreement.

In addition, the Joint Global Coordinators (on behalf of the Underwriters) are entitled, in their absolute discretion (acting in good faith) to terminate the Underwriting Agreement in certain circumstances, but only prior to Admission.

Babcock has given certain customary representations, warranties and undertakings to the Underwriters, and customary indemnities to the Underwriters and to certain persons connected with them. The liabilities of Babcock thereunder are unlimited as to time and amount.

(d) ***Subscription and Transfer Agreements***

In connection with the Rights Issue, Babcock, J.P. Morgan Cazenove and JerseyCo have entered into two agreements, each dated 27 March 2014, in relation to the subscription and transfer of ordinary shares and redeemable preference shares in JerseyCo.

Under the terms of these agreements:

- (i) Babcock and J.P. Morgan Cazenove will acquire ordinary shares in JerseyCo and enter into certain put and call options in respect of the ordinary shares in JerseyCo subscribed for by J.P. Morgan Cazenove that are exercisable if the Rights Issue does not proceed;
- (ii) J.P. Morgan Cazenove will apply monies received from Qualifying Shareholders and renouncees and from acquirers of New Ordinary Shares not taken up by Qualifying Shareholders and renouncees under the Rights Issue, and held by the Receiving Agent until Admission, to subscribe for redeemable preference shares in JerseyCo to an aggregate value equal to such monies, after deduction of the amount of certain

commissions and expenses together with any relevant amounts in respect of New Ordinary Shares acquired by the Underwriters for which the Underwriters have procured places pursuant to the Underwriting Agreement (after deducting relevant commissions and expenses); and

- (iii) Babcock will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration of J.P. Morgan Cazenove transferring their holdings of redeemable preference shares and ordinary shares in JerseyCo to Babcock.

Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Rights Issue Babcock will own the entire issued ordinary share capital and entire redeemable preference share capital of JerseyCo whose only assets will be its cash reserves, which will represent an amount equal to the proceeds of the Rights Issue. Babcock will be able to use this amount (including to pay the costs and expenses of the Rights Issue) on redemption of the redeemable preference shares it will hold in JerseyCo and, during any interim period prior to redemption, by procuring that JerseyCo lends the amount to Babcock (or one of Babcock's subsidiaries).

Qualifying Shareholders are not party to these arrangements and so will not acquire any direct right against J.P. Morgan Cazenove pursuant to these arrangements. Babcock will be responsible for enforcing the obligations of J.P. Morgan Cazenove and JerseyCo thereunder.

(e) ***Existing Facility Agreement***

Babcock entered into an English law governed syndicated facility agreement on 17 June 2011 between Australia and New Zealand Banking Group Limited, Banc of America Securities Limited, Barclays Corporate, HSBC Bank plc, J.P. Morgan Limited, 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 certain financial institutions named therein as lenders (the "**Existing Facility Agreement**"), pursuant to which the lenders made available to Babcock a £500,000,000 multicurrency revolving credit facility (the "**Existing Facility**").

Babcock initially used amounts borrowed under the Existing Facility Agreement to refinance its previous £600,000,000 credit facility and, on an ongoing basis, it may draw down amounts from time to time to finance its general corporate purposes. Each loan advanced to Babcock needs to be repaid on the last day of the interest period applicable to that loan. However, at the end of an interest period (which can be between two weeks and six months), Babcock can roll over a loan for another interest period, subject to certain conditions. Any amounts voluntarily prepaid under the Existing Facility Agreement can be reborrowed by Babcock in subsequent interest periods.

The final maturity date for the Existing Facility is 17 September 2016, being the date falling 63 months after the signing date. If an interest period would otherwise overrun the final maturity date, it is shortened so it ends on the final maturity date.

Loans advanced to Babcock under the Existing Facility Agreement bear interest at a floating rate (EURIBOR/LIBOR) plus mandatory costs (if any) plus an applicable margin of between 1.35 per cent. per annum and 0.65 per cent. per annum which is determined in accordance with the ratio of Consolidated Net Borrowings to Consolidated EBITDA (each as defined in the Existing Facility Agreement) of the Group. At any time when an event of default is outstanding, the margin will be 1.35 per cent. per annum.

Certain agency, commitment fee and other fees are payable under the Existing Facility Agreement.

Indebtedness under the Existing Facility Agreement is guaranteed by certain subsidiaries of Babcock.

Loans under the Existing Facility Agreement are mandatorily repayable in certain circumstances, including on a change of control of Babcock or if it becomes illegal for any lender to lend. Babcock may make voluntary prepayments of loans and cancel undrawn commitments.

The Existing Facility Agreement contains customary representations and warranties and undertakings for an investment grade credit such as Babcock. These include a requirement to maintain certain specified financial ratios and non-guarantor subsidiaries' net borrowings, including:

- maintaining a ratio of Consolidated Net Borrowings to Consolidated EBITDA (each as defined in the Existing Facility Agreement) which is less than or equal to 3.50:1;
- maintaining a ratio of Consolidated EBITDA to Consolidated Net Interest (each as defined in the Existing Facility Agreement) which is less than or equal to 4.00:1;
- ensuring that net borrowings of non-guarantor subsidiaries do not exceed 5 per cent. (and, when taken together with the amount of indebtedness secured under the general basket to the negative pledge clause, 7.5 per cent.) of Consolidated Total Assets (as defined in the Existing Facility Agreement); and
- ensuring that the aggregate turnover or profits before interest and taxation of the guarantors is not at any time less than 70 per cent. of turnover or profits before income and taxation of the Group at that time.

The Existing Facility Agreement also contains customary covenants which restrict Babcock and the guarantors and, in certain cases, all of Babcock's subsidiaries (subject to agreed exceptions and materiality carve outs) from, amongst other things, creating security, disposing of assets, entering into new Class 1 transactions and substantially changing the general nature of the business of the Group. Babcock will seek a waiver of such provisions of the Existing Facility Agreement to permit the Acquisition. If such waiver is not obtained, Babcock intends to refinance the Existing Facility with the Backstop Facility (as defined below).

The Existing Facility Agreement contains customary events of default. At any time after the occurrence of an event of default, lenders holding 66²/₃ per cent. of commitments under the Existing Facility may terminate the availability of the facility and declare any amounts outstanding due and payable or payable on demand.

(f) ***Backstop Facility Agreement***

Babcock entered into an English law governed backstop facility agreement on 27 March 2014 between J.P. Morgan Limited and Lloyds Bank plc as mandated lead arrangers and bookrunners and Lloyds Bank plc as facility agent and certain financial institutions named therein as lenders (the "**Backstop Facility Agreement**"), pursuant to which the lenders made available to Babcock a £500,000,000 multicurrency revolving credit facility (the "**Backstop Facility**").

The final maturity date for the Backstop Facility is 27 March 2016, being the date falling 24 months after the signing date.

Indebtedness under the Backstop Facility Agreement is guaranteed by certain subsidiaries of Babcock.

The Backstop Facility may be utilised by Babcock for the purposes of refinancing the indebtedness under the Existing Facility Agreement and for its general corporate and working capital purposes.

Babcock entered into the Backstop Facility in order to refinance the Existing Facility in the event that the lenders under the Existing Facility Agreement did not consent to the Acquisition. The terms of the Backstop Facility Agreement are substantially the same as the terms of the Existing Facility Agreement which it is intended to refinance aside from:

- an amendment to the acquisitions covenant to permit the Acquisition;
- Babcock undertakes to procure that any financial indebtedness of the Avincis Group in excess of £5 million which has been accelerated will be repaid (including using the Backstop Facility);

- an amendment to the requirement to maintain certain specified financial ratios and non-guarantor subsidiaries' net borrowings, including an increase to the ratio of net borrowings of non-guarantor subsidiaries (when taken together with the amount of indebtedness secured under the general basket to the negative pledge clause) to consolidated total assets to 10 per cent; and
- increases to the baskets for the disposals covenant and negative pledge to 10 per cent. of consolidated total assets.

Initial margin under the Backstop Facility is 1.05 per cent. per annum, thereafter determined, following the first gearing covenant test date (which is 31 March 2014), by reference to a margin ratchet ranging between 1.35 per cent. per annum and 0.65 per cent. per annum, based on the gearing ratio. At any time while an Event of Default is outstanding, the margin will be 1.35 per cent. per annum.

Loans under the Bridge Facility Agreement are mandatorily repayable in certain circumstances, including on a change of control of Babcock or if it becomes illegal for any lender to lend. Babcock may make voluntary prepayments of loans and cancel undrawn commitments.

(g) ***Bridge Facility Agreement***

Babcock entered into an English law governed bridge facility agreement on 27 March 2014 between J.P. Morgan Limited, Lloyds Bank plc, Barclays Bank plc and HSBC Bank plc as mandated lead arrangers and bookrunners and Lloyds Bank plc as facility agent and certain financial institutions named therein as lenders (the “**Bridge Facility Agreement**”), pursuant to which the lenders have made available to Babcock a £383,000,000 multicurrency bridge loan facility and a €620,000,000 bridge loan facility (the “**Bridge Facility**”).

Indebtedness under the Bridge Facility Agreement is guaranteed by certain subsidiaries of Babcock.

The terms of the Bridge Facility Agreement are substantially the same as the terms of the Existing Facility Agreement and the Backstop Facility Agreement (including the amendments to the position under the Existing Facility Agreement which are specified in paragraph (f) above in relation to the Backstop Facility Agreement), with the following additional main amendments:

- the Bridge Facility is a term loan facility (comprising two separate term loan facilities in amounts of £383,000,000 and €620,000,000 respectively) and therefore contains drawdown, payment and other mechanics relevant to a term loan and not a revolving loan. The term loans which have been drawn down under the Bridge Facility Agreement are repayable on the applicable final maturity date under the Bridge Facility by way of “bullet”, rather than amortising repayments;
- the Bridge Facility may be utilised for the purposes of refinancing or cash collateralising certain indebtedness of the Avincis Group (including the financing of any related premiums, fees, costs and expenses of such refinancing or cash collateralisation), as well as for the general ongoing corporate and working capital purposes of the Avincis Group (other than the funding of any portion of the consideration for the Acquisition);
- to the extent that any loan is advanced in Australian dollars, the floating rate of interest is determined by reference to BBSW, rather than by reference to LIBOR or EURIBOR;
- the initial margin is 1.05 per cent. per annum, thereafter determined, following the first gearing covenant test date (which is 31 March 2014), by reference to a margin ratchet ranging between 1.35 per cent. per annum and 0.65 per cent. per annum, based on the gearing ratio. At any time whilst an event of default is outstanding, the margin will be 1.35 per cent. per annum;
- the final maturity date for the Bridge Facility is 27 March 2015, being the date falling 12 months after the signing date. This may be extended by two further periods of six months at the option of Babcock, although each extension will increase the then Applicable Margin (as defined in the Bridge Facility Agreement) by 0.25 per cent. on each occasion that such extension becomes effective;

- loans under the Bridge Facility are mandatorily repayable in certain circumstances, including on a change of control of Babcock or if it becomes illegal for any lender to lend. Babcock may make voluntary prepayments of loans and cancel undrawn commitments;
- if the Acquisition does not occur, or if the Sale and Purchase Agreement is terminated, the commitments of the lenders under the Bridge Facility will be automatically cancelled; and
- in addition to the conditions precedent under the Backstop Facility Agreement, there are additional conditions precedents under the Bridge Facility, including the provision of due diligence reports and documentation in relation to the Rights Issue.

(h) **Note Purchase Agreement**

On 17 March 2011, Babcock issued to 21 financial institutions (i) US\$150 million 4.94% Series A Senior Notes due 17 March 2018 and (ii) US\$500 million 5.64% Series B Senior Notes due 17 March 2021 (together, the “**Notes**”) pursuant to a note purchase agreement (the “**Note Purchase Agreement**”). The Notes were issued on the following terms:

- each series of Notes is unsecured and unsubordinated and ranks *pari passu* with all other unsecured and unsubordinated financial indebtedness obligations of Babcock;
- Babcock may, at its option and upon notice, prepay at any time, or from time to time any part of, the Notes, in an amount of not less than 5 per cent. of the aggregate principal amount of the Notes of all series then outstanding in the case of a partial prepayment, at 100 per cent. of the outstanding principal amount, together with accrued interest at the prepayment date and the “make-whole amount” (if any). The make-whole amount is an amount calculated by reference to the remaining scheduled payments at the prepayment date, discounted in accordance with the terms of the Notes. Any Note paid or prepaid in full must be surrendered to Babcock and will be cancelled and cannot be reissued;
- if Babcock is obliged to pay additional amounts in respect of the Notes as a result of a change in applicable tax law, the affected Notes may be repaid early at Babcock’s option, at 100 per cent. of the outstanding principal amount together with accrued interest (with no obligation to pay any make-whole amount or penalty);
- Babcock may not purchase, redeem, prepay or otherwise acquire the Notes except (i) as permitted under the terms of the Notes and the Note Purchase Agreement or (ii) pursuant to an offer to all noteholders pro-rata on the same terms and conditions (except as necessary to reflect differences in the interest rates and maturities of the Notes). If holders of more than 50 per cent. of the Notes accept such offer, Babcock must promptly notify the remaining holders. Babcock will promptly cancel any Notes acquired and no Notes may be reissued;
- in the event that Babcock defaults on its obligations under the Notes or in certain other circumstances described as “events of default” in the terms of the Notes, the Notes may become immediately due and repayable. The amount due will be 100 per cent. of the unpaid principal amount of the Notes, together with accrued interest at the prepayment date and the “make-whole amount” (if any);
- if, during the life of the Notes, there is a change of control of Babcock, Babcock must give written notice to all noteholders, containing an offer by Babcock to prepay the Notes held by each noteholder at 100% of the principal amount of such Notes at par (without any make-whole or penalty amount), together with accrued interest;
- Babcock gave certain customary representations and warranties upon issue of the Notes and granted the noteholders certain information rights, in particular, in respect of financial information. Babcock also gave certain covenants in respect of the Babcock Group and its affairs during the life of the Notes, including with respect to financial covenants, financial indebtedness and sales of assets, amongst others; and
- the Notes are governed by the law of the State of New York.

(i) ***Multi-Currency Note Facility Agreement***

On 21 January 2010, Babcock issued two series of New York law governed loan notes to Prudential Investment Management Inc. (and certain of its affiliates) under a multi-currency note facility agreement:

- (A) £60 million 4.995 per cent. Series A Shelf Notes due 21 January 2017 (the “**Series A Shelf Notes**”); and
- (B) £40 million 5.405 per cent. Series B Shelf Notes due 21 January 2020 (the “**Series B Shelf Notes**”),

(together, the “**Babcock Multi-Currency Loan Notes**”).

Each series of Babcock Multi-Currency Loan Notes is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of Babcock. Each of the Babcock Multi-Currency Loan Notes remains outstanding, with the annual interest under each series payable twice yearly.

Unless previously redeemed or purchased and cancelled, Babcock 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 Babcock before then, Babcock must offer to pre-pay the Babcock Multi-Currency Loan Notes together with a make whole premium. Babcock may redeem some or all of the Babcock Multi-Currency Loan Notes upon notice.

The terms and conditions of each of the Babcock Multi-Currency Loan Notes provide for events of default, representations, warranties and undertakings which are customary for agreements of this nature.

In addition to the above material contracts, which are not in ordinary course of business, the following contract is material and in the ordinary course for Babcock:

(j) ***Terms of Business Agreement (“ToBA”) dated 25 March 2010, as amended on 26 March 2013, 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. It provides Babcock with good visibility of future revenues, including the Company’s involvement in the Queen Elizabeth (QE) Class carrier project.

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.

9.2 **Avincis material contracts**

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by a member of the Avincis Group: (a) within the two years immediately preceding the date of this document and which is, or may be, material; or (b) which contains any provision under which a member of the Avincis Group has any obligation or entitlement which is material to Avincis as at the date of this document.

(a) ***Avincis Revolving Facility Agreement***

Avincis Mission Critical Services Group S.A.U. (“**Avincis MCS Group**”) and certain of its subsidiaries entered into a syndicated facility agreement on 23 July 2010 (as amended and restated on 29 May 2012) between Banco Santander, S.A., Barclays, BNP Paribas S.A. Sucursal en España, J.P. Morgan plc and KKR Capital Markets Limited as mandated lead arrangers, BNP

Paribas, S.A. Sucursal en España as facility agent and certain financial institutions named therein as lenders (the “**Avincis Revolving Facility Agreement**”). Thereunder, the lenders made available to Avincis MCS Group and certain of its subsidiaries as borrowers a €145,000,000 multicurrency revolving credit facility (the “**Avincis Revolving Facility**”).

The borrowers under the Avincis Revolving Facility Agreement may draw down amounts from time to time to finance or refinance the general corporate purposes of Avincis MCS Group and certain of its subsidiaries (the “**Avincis Credit Group**”). Each loan advanced to the borrowers needs to be repaid on the last day of the interest period applicable to that loan. However, at the end of an interest period (which can be between one month and six months), the borrowers can roll over a loan for another interest period, subject to certain conditions. Any amounts voluntarily prepaid under the Avincis Revolving Facility Agreement can be reborrowed by the borrowers in subsequent interest periods.

The final maturity date for the Avincis Revolving Facility is 23 July 2016. If an interest period would otherwise overrun the final maturity date, it is shortened so it ends on the final maturity date.

Loans advanced to the borrowers under the Avincis Revolving Facility Agreement bear interest at a floating rate (EURIBOR/LIBOR) plus mandatory costs (if any) plus an applicable margin of between 3.75 per cent. per annum and 2.75 per cent. per annum which is determined in accordance with the ratio of Consolidated Net Indebtedness to Consolidated EBITDA (each as defined in the Avincis Revolving Facility Agreement). At any time when an event of default is outstanding, the margin will be 3.75 per cent. per annum.

Certain agency, commitment and other fees are payable under the Avincis Revolving Facility Agreement.

Indebtedness under the Avincis Revolving Facility Agreement is guaranteed by cross-guarantees from the borrowers and certain other subsidiaries of Avincis MCS and is secured by a security package including share pledges, security over bank accounts and intra-group receivables. Such security is shared on a *pari passu* basis with other senior indebtedness, including the Notes Proceeds Loan Agreement as described below (subject to the terms of an intercreditor agreement dated 23 July 2010 (the “**Avincis Intercreditor Agreement**”)).

The borrowers may make voluntary prepayments of loans and cancel undrawn commitments under the Avincis Revolving Facility. Loans under the Avincis Revolving Facility are mandatorily repayable in certain circumstances, including if it becomes illegal for any lender to lend and on a change of control of Avincis MCS Group. If such a change of control occurs, each lender may require repayment of its own participation under the Avincis Revolving Facility. Babcock intends to refinance the Avincis Revolving Facility following the Acquisition, by drawing down on the Bridge Facility.

The Avincis Revolving Facility Agreement contains customary representations and warranties and undertakings. These include a requirement to maintain certain specified financial ratios, including:

- maintaining certain ratios of Consolidated EBITDA to Net Cash Interest (each as defined in the Avincis Revolving Facility Agreement), tested on a quarterly basis;
- maintaining a ratio of Net Priority Debt to Adjusted Fleet Value (each as defined in the Avincis Revolving Facility Agreement) which is less than or equal to 1.00:1, tested on an annual basis; and
- ensuring that the aggregate profits before interest and taxation and gross assets of the guarantors is not at any time less than 80 per cent. of Consolidated EBITDA (as defined in the Avincis Revolving Facility Agreement) and gross assets of the Avincis Credit Group at that time.

The Avincis Revolving Facility Agreement also contains covenants which restrict the obligors thereunder and, in certain cases, all members of the Avincis Credit Group (subject to agreed exceptions and materiality carve outs) from, amongst other things, incurring indebtedness,

creating security, disposing of assets, merging or consolidating, making upstream payments and substantially changing the general nature of the business of the Avincis Credit Group, including certain covenants also applicable to the 2017 Notes (as defined below). Repurchase or redemption of the 2017 Notes is also restricted except in certain circumstances. Certain covenants cease to apply if the 2017 Notes (as defined below) are awarded an investment grade credit rating.

The Avincis Revolving Facility Agreement contains certain events of default. At any time after the occurrence of an event of default, lenders holding 66⅔ per cent. of commitments under the Avincis Revolving Facility may terminate the availability of the Avincis Revolving Facility and declare any amounts outstanding due and payable or payable on demand.

(b) ***Senior Secured Notes due 2017 and Notes Proceeds Loan Agreement***

Inaer Aviation Finance Limited issued €470,000,000 9.5% senior secured notes due 1 August 2017 (the “**2017 Notes**”). The 2017 Notes were issued pursuant to an indenture dated 23 July 2010 made between, amongst others, the issuer, Avincis MCS Group, The Bank of New York Mellon, London Branch, as notes trustee and principal paying agent, and BNP Paribas, S.A. Sucursal en España, as security agent (the “**2017 Notes Indenture**”). Inaer Aviation Finance Limited, the issuer, incorporated in Ireland, is a special purpose finance subsidiary and does not belong to the Avincis Group. The issuer on-lent the proceeds to Avincis MCS Group pursuant to the Notes Proceeds Loan Agreement described below on substantially the same terms as the 2017 Notes.

The 2017 Notes were issued on the following terms:

- interest on the 2017 Notes is payable semi-annually in arrears on 1 February and 1 August of each year, at the rate of 9.5 per cent. of the principal amount;
- the 2017 Notes may be redeemed in whole or part at the option of the issuer at any time at a redemption price at a price equal to the following percentages of the principal amount of the 2017 Notes (together with accrued and unpaid interest):
 - in the case of a redemption between 1 August 2013 and 31 July 2014, 109.500 per cent.;
 - in the case of a redemption between 1 August 2014 and 31 July 2015, 104.750 per cent.;
 - in the case of a redemption between 1 August 2015 and 31 July 2016, 102.375 per cent.;
 - in the case of a redemption on or after 1 August 2016, 100 per cent.;
- if a direct or indirect change of control in Avincis MCS Group occurs, each 2017 Note may be redeemed at the option of each noteholder at a price of 101 per cent. of principal amount (together with accrued and unpaid interest);
- the 2017 Notes are senior obligations of the issuer and rank equally in right of payment with all existing and future unsubordinated indebtedness of the issuer;
- the 2017 Notes are secured by share security over the shares in the issuer, an assignment of the issuer’s credit rights under the Notes Proceeds Loan Agreement, charges over the issuer’s bank accounts and a floating charge over the entire assets and undertaking of the issuer; and
- the terms and conditions applicable to the 2017 Notes also contain, inter alia, other redemption and purchase provisions, certain restrictive covenants and events of default affecting the issuer, and a package of covenants and events of default applicable to the Avincis Credit Group with respect to, among other things, incurring indebtedness, making certain payments and investments, including dividends, creating security over assets, guaranteeing indebtedness, disposing of assets and merging or consolidating.

(c) ***Notes Proceeds Loan Agreement***

Pursuant to a secured credit facility agreement entered into on 23 July 2010 between the issuer of the 2017 Notes as lender, Avincis MCS Group, as borrower and certain subsidiaries of Avincis MCS Group as guarantors (the “**Notes Proceeds Loan Agreement**”), proceeds of the issue of the 2017 Notes were on-lent by the issuer to Avincis MCS Group S.A.U. on the following terms:

- if any amount, whether principal, interest, premium or otherwise is payable by the issuer pursuant to the 2017 Notes or the 2017 Notes Indenture, whether upon its originally stated date, on redemption, by acceleration or otherwise, a corresponding amount is payable under the Notes Proceeds Loan Agreement by the borrower to the issuer of the 2017 Notes;
- the obligations of the borrower under the Notes Proceeds Loan Agreement are senior obligations of the borrower, rank pari passu with and share security with certain other senior indebtedness of the borrower (including under the Avincis Revolving Facility) subject to the terms of the Avincis Intercreditor Agreement;
- the obligations of the borrower under the Notes Proceeds Loan Agreement are guaranteed by certain companies which are guarantors under the Avincis Revolving Facility, and are secured by the same security package as the Avincis Revolving Facility. Such security is shared on a pari passu basis between the lender under the Notes Proceeds Loan Agreement, the lenders under the Avincis Revolving Facility and certain other indebtedness (subject to the terms of the Avincis Intercreditor Agreement);
- any event of default under the 2017 Notes Indenture shall constitute an event of default under the Notes Proceeds Loan Agreement, and an acceleration under the 2017 Notes Indenture will also constitute an acceleration of the Notes Proceeds Loan Agreement; and
- any default, event of default or acceleration under the Notes Proceeds Loan Agreement will be automatically cancelled to the extent that a corresponding default, event of default or acceleration is waived, cured or otherwise not continuing or such acceleration is cancelled or annulled under the 2017 Notes Indenture.

Certain agency, commitment and other fees are payable under this Notes Proceeds Loan Agreement.

(d) ***Bond Revolving Facility Agreement***

Bond Aviation Group Limited and certain of its subsidiaries entered into a syndicated facility agreement on 1 May 2013 between Commerzbank Aktiengesellschaft and The Royal Bank of Scotland plc as mandated lead arrangers, The Royal Bank of Scotland as facility agent and certain financial institutions named therein as lenders (the “**Bond Revolving Facility Agreement**”). Thereunder, the lenders made available to Bond Mission Critical Services plc and certain of its subsidiaries as borrowers a £25,000,000 multicurrency revolving credit facility (the “**Bond Revolving Facility**”).

The borrowers under the Bond Revolving Facility Agreement may draw down amounts from time to time to finance or refinance the general corporate purposes and/or working capital requirements of Bond Aviation Group Limited and certain of its subsidiaries (the “**Bond Credit Group**”). Each loan advanced to the borrowers needs to be repaid on the last day of the interest period applicable to that loan. However, at the end of an interest period (which can be between one month and six months), the borrowers can roll over a loan for another interest period, subject to certain conditions. Any amounts voluntarily prepaid under the Bond Revolving Facility Agreement can be reborrowed by the borrowers in subsequent interest periods.

The final maturity date for the Bond Revolving Facility is 9 November 2018. If an interest period would otherwise overrun the final maturity date, it is shortened so it ends on the final maturity date.

Loans advanced to the borrowers under the Bond Revolving Facility Agreement bear interest at a floating rate (EURIBOR/LIBOR) plus an applicable margin of between 3.50 per cent. per annum and 2.50 per cent. per annum which is determined in accordance with the ratio of Consolidated Net Indebtedness to Consolidated EBITDA (each as defined in the Bond Revolving Facility Agreement). At any time when an event of default in relation to an unpaid sum is outstanding, the margin will be 3.50 per cent. per annum.

Certain agency, commitment fee and other fees are payable under the Bond Revolving Facility Agreement.

Indebtedness under the Bond Revolving Facility Agreement is guaranteed by cross-guarantees from Bond Aviation Group Limited and certain of its subsidiaries and is secured by debentures creating fixed charges over certain real estate, moveable property, aircraft, insurance policies, intellectual property, accounts, goodwill, certain investments and book debts of the borrowers and the guarantors, and floating charges over their entire assets and undertakings. The security package is shared on a pari passu basis with other senior indebtedness, including the 2019 Notes as described below (subject to the terms of an intercreditor agreement dated 1 May 2013 (the “**Bond Intercreditor Agreement**”)).

The borrowers may make voluntary prepayments of loans and cancel undrawn commitments under the Bond Revolving Facility. Loans under the Bond Revolving Facility are mandatorily repayable in certain circumstances, including if it becomes illegal for any lender to lend and on a change of control of Bond Aviation Group Limited. If such a change of control occurs, each lender may require repayment of its own participation under the Bond Revolving Facility. Babcock intends to refinance the Bond Revolving Facility following the Acquisition by drawing down on the Bridge Facility.

The Bond Revolving Facility Agreement contains customary representations and warranties and undertakings. These include a requirement to maintain certain ratios of Consolidated Net Indebtedness to Consolidated EBITDA (each as defined in the Bond Revolving Facility Agreement and tested on a quarterly basis), and for the aggregate profits before interest and taxation and gross assets of the guarantors at any time to represent at least 80 per cent. of Consolidated EBITDA (as defined in the Bond Revolving Facility Agreement) and gross assets of the Bond Credit Group at that time.

The Bond Revolving Facility Agreement also contains certain covenants which restrict the obligors thereunder and, in certain cases, all members of the Bond Credit Group (subject to agreed exceptions and materiality carve outs) from, amongst other things, incurring indebtedness, creating security, disposing of assets, merging or consolidating, making upstream payments and substantially changing the general nature of the business of the Bond Credit Group. Repurchase or redemption of the 2019 Notes (as defined below) is also restricted except in certain circumstances. Certain covenants cease to apply if the 2019 Notes (as defined below) are awarded an investment grade credit rating.

The Bond Revolving Facility Agreement contains certain events of default. At any time after the occurrence of an event of default, lenders holding 66⅔ per cent. of commitments under the Bond Revolving Facility may terminate the availability of the Bond Revolving Facility and declare any amounts outstanding due and payable on demand.

(e) ***Senior Secured Floating Rate Notes due 2019***

Bond Mission Critical Services plc issued £260,000,000 senior secured floating rate notes due 1 May 2019 (the “**2019 Notes**”). The 2019 Notes were issued pursuant to an indenture dated 9 May 2013 made between, amongst others, the issuer, Bond Aviation Group Limited and certain of its subsidiaries as guarantors, The Bank of New York Mellon, London Branch, as notes trustee and principal paying agent, and The Royal Bank of Scotland plc as security agent (the “**2019 Notes Indenture**”).

The 2019 Notes were issued on the following terms:

- interest on the 2019 Notes is payable quarterly in arrears on 1 February, 1 May, 1 August and 1 November of each year, at a rate equal to three month sterling LIBOR plus 5.750 per cent, which is reset quarterly;

- the 2019 Notes may be redeemed in whole or part at the option of the issuer at any time, but subject to a “make-whole premium” calculated under the 2019 Notes Indenture if redemption occurs before 1 May 2014. Thereafter, redemption is at a price at a price equal to the following percentages of the principal amount of the 2019 Notes (together with accrued and unpaid interest):
- in the case of a redemption between 1 May 2014 and 30 April 2015, 101 per cent.;
- in the case of a redemption on or after 1 May 2015, 100 per cent.;
- if a direct or indirect change of control in Bond Aviation Group Limited occurs, each 2019 Note may be redeemed at the option of each noteholder at a price of 101 per cent. of principal amount (together with accrued and unpaid interest);
- the 2019 Notes are senior obligations of the issuer, rank *pari passu* with and share security with certain other senior indebtedness of the issuer (including the Bond Revolving Facility) subject to the terms of the Bond Intercreditor Agreement;
- the 2019 Notes are guaranteed by the companies which are guarantors under the Bond Revolving Facility, and are secured by the same security package as the Bond Revolving Facility. Such security is shared on a *pari passu* basis between the noteholders, the lenders under the Bond Revolving Facility and certain other indebtedness (subject to the terms of the Bond Intercreditor Agreement); and
- the terms and conditions applicable to the 2019 Notes also contain, inter alia, other redemption and purchase provisions, certain restrictive covenants affecting the issuer and a package of covenants and events of default applicable to the Bond Credit Group with respect to, among other things, incurring indebtedness, making certain payments and investments, including dividends, creating security over assets, guaranteeing indebtedness, disposing of assets and merging or consolidating.

10. RELATED PARTY TRANSACTIONS

Save as disclosed in (i) note 16 to Babcock’s 2013/14 Half Year Financial Statements; (ii) note 37 to Babcock’s 2013 Financial Statements; (iii) note 26 to Babcock’s 2012 Financial Statements; and (iv) note 35 to Babcock’s 2011 Financial Statements (which are incorporated by reference into this document), Babcock has not entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation (EC) No 1606/2002) with any related party during the period covered by the historical financial information of the Babcock Group incorporated by reference into this document.

The related party transactions during the period between 1 October 2013 and the Latest Practicable Date are:

- Sales to joint ventures and associates amounting to an aggregate of £130.4 million;
- Sales to companies related by common directorships amounting to an aggregate of £5.3 million; and
- Purchases from companies related by common directorships amounting to an aggregate of £0.2 million.

11. WORKING CAPITAL STATEMENT

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the bank and other facilities available to the Babcock Group, the working capital available to the Babcock Group is sufficient for its present requirements, that is, for at least the 12 months following the date of publication of this document.

12. **LITIGATION**

12.1 **Babcock**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Babcock is aware) which may have or have had in the recent past (covering the 12 months immediately preceding the date of this document) a significant effect on Babcock and/or the Babcock Group's financial position or profitability.

12.2 **Avincis**

Save as disclosed in paragraph 12 of Part VI (*Information on the Avincis Group*) on page 124 of this document, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Babcock is aware) which may have or have had in the recent past (covering the 12 months immediately preceding the date of this document) a significant effect on Avincis and/or the Avincis Group's financial position or profitability.

13. **NO SIGNIFICANT CHANGE**

13.1 **Babcock**

There has been no significant change in the trading or financial position of the Babcock Group since 30 September 2013, the date to which Babcock's last unaudited 2013/14 Half Year Financial Statements were prepared.

13.2 **Avincis**

There has been no significant change in the trading or financial position of the Avincis Group since 31 December 2013, the date to which the historical financial information of Avincis, as set out in Part X (*Historical Financial Information Relating to the Avincis Group*) of this document, was prepared.

14. **MANDATORY BIDS AND COMPULSORY ACQUISITION RULES RELATING TO ORDINARY SHARES**

The Company is subject to the Takeover Code. Other than as provided by the 2006 Act and the Takeover Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares. There is not in existence any current mandatory takeover bid in relation to the Company. There have been no takeover bids by third parties during the period from incorporation to 31 March 2013 or in the current financial year.

15. **GENERAL**

J.P. Morgan Limited has given and has not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which it appears.

PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion of its report set out in Section B (*Accountants' Report on the Profit Forecast of the Babcock Group*) of Annex 1 (*Profit Forecast of the Babcock Group*) to this document and its report set out in Section B (*Accountants' Report on Unaudited Pro Forma Financial Information of the Enlarged Group*) of Part XI (*Unaudited Pro Forma Financial Information for the Enlarged Group*) of this document in the form and context in which they appear and has authorised the contents of those reports solely for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the SEC under section 7 of the Securities Act. As the Ordinary Shares have not been and will not be, registered under the Securities Act, PricewaterhouseCoopers LLP has not filed a consent under section 7 of the Securities Act.

Deloitte LLP has given and has not withdrawn its written consent to the inclusion of its reports set out in Section A1 (*Accountants' Report on the Historical Financial Information of Avincis Mission Critical Services Topco Limited*) and Section B1 (*Accountants' Report on the Historical Financial Information of Bond Aviation Group Limited*) of Part X (*Historical Financial Information Relating to the Avincis Group*) of this document in the form and context in which they appear and has authorised the contents of those reports solely for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules. A written consent

under the Prospectus Rules is different from a consent filed with the SEC under section 7 of the Securities Act. As the Ordinary Shares have not been and will not be, registered under the Securities Act, Deloitte LLP has not filed a consent under section 7 of the Securities Act.

The aggregate costs and expenses payable by Babcock in connection with the Rights Issue and the Acquisition are estimated to amount to approximately £45 million (excluding amounts in respect of VAT). Total estimated costs and expenses are split as follows: Rights Issue £24 million and Acquisition £21 million.

One or more of the Underwriters and their affiliates have engaged in transactions with the Company (including, in some cases, credit agreements and credit lines) in the ordinary course of its banking business and one or more of the Underwriters have performed various investment banking, financial advisory and other services for the Company, for which it received customary fees, and the Underwriters and their affiliates may provide such services in the future. Each of the Underwriters and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Company and the Group in the ordinary course of their respective businesses.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any Business Day, free of charge, at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ, from the date of this document up to and including the date of Admission:

- (a) the Articles of Babcock;
- (b) the Sale and Purchase Agreement;
- (c) the Management Warranty Deed;
- (d) Babcock's Annual Reports 2011, 2012 and 2013;
- (e) Babcock's Half Year Report 2013/14;
- (f) Babcock's Interim Management Statement;
- (g) Accountant's Report on the Historical Financial Information of Avincis Mission Critical Services Topco Limited set out in Section A1 of Part X (*Historical Financial Information Relating to the Avincis Group*);
- (h) Accountant's Report on the Historical Financial Information of Bond Aviation Group Limited Section B1 of Part X (*Historical Financial Information Relating to the Avincis Group*);
- (i) Accountants' Report on the Profit Forecast of the Babcock Group set out in Section B of Annex 1 (*Profit Forecast of the Babcock Group*) of this document;
- (j) Accountants' Report on the Unaudited Pro Forma Information on the Enlarged Group set out in Part XI (*Unaudited Pro Forma Financial Information for the Enlarged Group*) of this document;
- (k) the letters of consent referred to in paragraph 15 of this Part XIV (*Additional Information*) of this document; and
- (l) a copy of this document and the Form of Proxy.

17. ANNOUNCEMENT ON RESULTS OF THE RIGHTS ISSUE

Babcock will make an announcement(s) to a Regulatory Information Service giving details of the results of the Rights Issue.

PART XV DOCUMENTS INCORPORATED BY REFERENCE

This document should be read and construed in conjunction with certain information which have been previously published and filed with the FCA and which shall be deemed to be incorporated in, and form part of, this document.

Paragraph 2 of Part IX (*Historical Financial Information Relating to the Babcock Group*) and the table below list the various sections of certain documents which are incorporated by reference into this document in compliance with Prospectus Rule 2.4.1. It should be noted that the information in other sections of such documents that are not incorporated by reference is either not relevant to investors or is covered elsewhere in this document.

To the extent that any document or information incorporated by reference or attached to this document itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document for the purposes of the Prospectus Rules, except where such information or documents are stated within this document as specifically being incorporated by reference or where this document is specifically defined as including such information.

Any statement contained in a document which is deemed to be incorporated by reference into this document shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained in this document (or in a later document which is incorporated by reference into this document) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

These documents are available for inspection as set forth in paragraph 16 of Part XIV (*Additional Information*) of this document and also available on the Company's website at www.babcockinternational.com.

Information incorporated by reference into this document	Reference document	Page numbers
Interim Management Statement		
The information contained in the Interim Management Statement but <u>excluding</u> , for the avoidance of doubt, the contact details and text that follows after "Ends".	Babcock's Interim Management Statement	1-3
For the six months ended 30 September 2013		
"Overview" section, but <u>excluding</u> the text under the sub-heading "Outlook"	Babcock's Half Year Report 2013/14	2
"Financial review" section	Babcock's Half Year Report 2013/14	3 - 5
"Operational review" section, but <u>excluding</u> the following information:	Babcock's Half Year Report 2013/14	6 - 11
<ul style="list-style-type: none"> in the sub-section titled "Marine and Technology", the text under the heading "Marine and Technology outlook"; in the sub-section titled "Defence and Security", the text under the sub-heading "Defence and Security outlook"; in the sub-section titled "Support Services", the text under the sub-heading "Support Services outlook"; and in the sub-section titled "International", the text under the sub-heading "International outlook". 	Babcock's Half Year Report 2013/14	
Group income statement	Babcock's Half Year Report 2013/14	12
Group statement of comprehensive income	Babcock's Half Year Report 2013/14	13

Information incorporated by reference into this document	Reference document	Page numbers
Group statement of changes in equity	Babcock's Half Year Report 2013/14	13
Group balance sheet	Babcock's Half Year Report 2013/14	14
Group statement of cash flows	Babcock's Half Year Report 2013/14	15
Notes to the interim financial statements	Babcock's Half Year Report 2013/14	16 - 24

For the year ended 31 March 2013

The following information from the "Operating review" section commencing on page 14:

- | | | |
|---|------------------------------|---------|
| <ul style="list-style-type: none"> in the sub-section titled "Marine and Technology", the text under the headings "Our market", "Our strategy", "Financial review", "Operational review" and "Our approach"; | Babcock's Annual Report 2013 | 16 - 19 |
| <ul style="list-style-type: none"> in the sub-section titled "Defence and Security", the text under the headings "Strategic overview", "Financial overview" and "Operational overview"; | Babcock's Annual Report 2013 | 22 - 25 |
| <ul style="list-style-type: none"> in the sub-section titled "Support Services", the text under the headings "Market overview", "Strategy", "Finance review", "Operational review" and "Capability development"; | Babcock's Annual Report 2013 | 28 - 31 |
| <ul style="list-style-type: none"> in the sub-section titled "International", the text under the headings "Financial overview", "South African market", "South African strategy" and "Operational overview"; | Babcock's Annual Report 2013 | 33 |

The following information from the "Financial review" section commencing on page 36:

- | | | |
|--|------------------------------|-------|
| <ul style="list-style-type: none"> the table under the heading "Statutory to underlying reconciliation"; and | Babcock's Annual Report 2013 | 36 |
| <ul style="list-style-type: none"> pages 37 to 43 (inclusive) but excluding any information found at the embedded cross-references. | Babcock's Annual Report 2013 | 37-43 |

Independent auditor's report to the members of Babcock	Babcock's Annual Report 2013	101
Group income statement	Babcock's Annual Report 2013	102
Group statement of comprehensive income	Babcock's Annual Report 2013	103
Group statement of changes in equity	Babcock's Annual Report 2013	103
Group balance sheet	Babcock's Annual Report 2013	104
Group statement of cash flows	Babcock's Annual Report 2013	105
Notes to the group financial statements	Babcock's Annual Report 2013	106-148

Information incorporated by reference into this document	Reference document	Page numbers
For the year ended 31 March 2012		
The following information from the “Financial review” section commencing on page 20:	Babcock’s Annual Report 2012	
<ul style="list-style-type: none"> the table under the heading “Income Statement - continuing operations – Statutory to underlying reconciliation”; and 	Babcock’s Annual Report 2012	20
<ul style="list-style-type: none"> pages 21 to 25 (inclusive) but excluding any information found at the embedded cross-references. 	Babcock’s Annual Report 2012	21-25
The following information from the “Operating review” section commencing on page 26:	Babcock’s Annual Report 2012	
<ul style="list-style-type: none"> in the “Marine and Technology” sub-section, the text under the headings “our market”, “Our strategy”, “Financial review” and “Operational review”; 	Babcock’s Annual Report 2012	27-29
<ul style="list-style-type: none"> in the “Defence and Security” sub-section, the text under the headings “Our markets”, “Our strategy”, “Financial review” and “Operational review”; 	Babcock’s Annual Report 2012	30-31
<ul style="list-style-type: none"> in the “Support Services” sub-section, the text under the headings “Our markets”, “Our strategy”, “Financial review” and “Operational review”; 	Babcock’s Annual Report 2012	32-34
<ul style="list-style-type: none"> in the “International” sub-section, the text under the headings “Our market”, “Our strategy”, “Financial overview” and “Operational overview”. 	Babcock’s Annual Report 2012	35
Independent auditor’s report to the members of Babcock	Babcock’s Annual Report 2011	81
Group income statement	Babcock’s Annual Report 2011	82
Group statement of comprehensive income	Babcock’s Annual Report 2011	83
Group statement of changes in equity	Babcock’s Annual Report 2011	83
Group balance sheet	Babcock’s Annual Report 2011	84
Group statement of cash flows	Babcock’s Annual Report 2011	85
Notes to the group financial statements	Babcock’s Annual Report 2011	86 -124

PART XVI
DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“1999 Approved Scheme”	the Babcock 1999 Approved Executive Share Option Scheme;
“1999 Unapproved Scheme”	the Babcock 1999 Unapproved Executive Share Option Scheme;
“2006 Act” or “Companies Act 2006”	the Companies Act 2006, as amended;
“2011 Financial Statements”	as defined in paragraph 3(a)(i) of the section headed “ <i>Important Information</i> ” on page 41 of this document;
“2011 Financial Year”	the financial year of the Company ended 31 March 2011;
“2012 Financial Statements”	as defined in paragraph 3(a)(ii) of the section headed “ <i>Important Information</i> ” on page 41 of this document;
“2012 Financial Year”	the financial year of the Company ended 31 March 2012;
“2012 EC 225 Incidents”	as defined in paragraph 3 of Part VIII (<i>Operating and Financial Review of the Avincis Group</i>) of this document;
“2013 Financial Statements”	as defined in paragraph 3(a)(iii) of the section headed “ <i>Important Information</i> ” on page 41 of this document;
“2013 Financial Year”	the financial year of the Company ended 31 March 2013;
“2013/14 Half Year Financial Statements”	as defined in paragraph 3(a)(iv) of the section headed “ <i>Important Information</i> ” on page 41 of this document;
“2014 Financial Year”	the financial year of the Company ending 31 March 2014;
“Acquisition”	the proposed acquisition of the Avincis Group by way of acquisition of the Avincis Shares pursuant to the Sale and Purchase Agreement;
“AESOP”	the Babcock Approved Employee Share Ownership Plan;
“AGM”	annual general meeting;
“Admission”	the proposed admission of the New Ordinary Shares by the UKLA to listing on the premium segment of the Official List and by the London Stock Exchange to trading nil paid on the main market of the London Stock Exchange;
“AIM”	the AIM market operated by the London Stock Exchange;
“Aircraft Operating Licence”	an authorisation granted by the competent licensing authority to an undertaking, permitting it to provide air services as stated in the operating licence;
“Annual Report 2011”	the annual report and accounts of the Company for the 2011 Financial Year;
“Annual Report 2012”	the annual report and accounts of the Company for the 2012 Financial Year;
“Annual Report 2013”	the annual report and accounts of the Company for the 2013 Financial Year;
“Articles”	the articles of association of Babcock and reference to a specific article of the articles of association of Babcock shall be to an “ Article ”;
“Audit and Risk Committee”	the Audit and Risk Committee of the Board;
“Audited Financial Statements”	as defined in paragraph 3(a)(iii) of the section headed “ <i>Important Information</i> ” on page 41 of this document;

“Auditors”	PricewaterhouseCoopers LLP;
“Avincis”	Avincis Mission Critical Services Topco Limited (company number 08338012) whose registered office is 8th Floor Kings Buildings, 16 Smith Square, London, SW1P 3HQ;
“Avincis Group”	Avincis and its subsidiary undertakings from time to time;
“Avincis Group’s Historical Financial Information”	as defined in paragraph 3(b) of the section headed “ <i>Important Information</i> ” on page 41 of this document;
“Avincis Revolving Facility”	as defined in paragraph 9.2(a) of Part XIV (<i>Additional Information</i>) of this document;
“Avincis Shares”	the entire issued and allotted share capital of Avincis;
“Babcock” or “Company”	Babcock International Group PLC, a company incorporated in England and Wales with registered number 02342138 and having its registered office at 33 Wigmore Street, London, W1U 1QX;
“Babcock Group” or “Group”	Babcock and its subsidiary undertakings from time to time;
“Babcock Group’s Historical Financial Information”	as defined in paragraph 3(a) of the section headed “ <i>Important Information</i> ” on page 41 of this document;
“Backstop Facility”	as defined in paragraph 9.1(f) of Part XIV (<i>Additional Information</i>) of this document;
“BACS”	the UK BACS system for the electronic processing of financial transactions;
“Barclays”	Barclays Bank PLC of 1 Churchill Place, London E14 5HP;
“BBSW”	the average mid rate for Australian dollar bills of exchange;
“Board” or “Babcock Board”	the board of Directors of the Company;
“Bond Acquisition”	as defined in paragraph 3 of Part VIII (<i>Operating and Financial Review of the Avincis Group</i>) of this document;
“Bridge Facility”	as defined in paragraph 9.1(g) of Part XIV (<i>Additional Information</i>) of this document;
“Business Day”	a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are generally open for business in London;
“Capita Asset Services”	a trading name of (i) Capita Registrars Limited acting as Registrar and Receiving Agent to the Company and (ii) Capita IRG Trustees Limited, which is making available the Special Dealing Service;
“Cashless Take-up”	the sale of such number of Nil Paid Rights as will generate sufficient sale proceeds to enable the direct or indirect holder thereof to take up all of their remaining Nil Paid Rights (or entitlements thereto);
“certificated”	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);
“CHAPS”	the UK Clearing House Automated Payment System for the same-day processing of pound sterling and euro fund transfers;
“Closing Price”	the closing middle market price of a relevant share as derived from SEDOL on any particular day;

“Code”	the US Internal Revenue Code of 1986, as amended;
“Corporate Governance Code”	the corporate governance code issued by the Financial Reporting Council in the United Kingdom from time to time;
“Committee” or “Committees”	one or all of the Audit Committee, the Nominations Committee, the Remuneration Committee and any other committees established from time to time by the Company;
“Completion”	Completion of the Acquisition in accordance with the Sale and Purchase Agreement;
“CREST” or “CREST system”	the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument;
“CREST Deposit Form”	the form used to deposit securities into the CREST system in the United Kingdom;
“CREST courier” and “sorting service” or “CCSS”	the CREST courier and sorting service operated by Euroclear to facilitate, <i>inter alia</i> , the deposit and withdrawal of securities;
“CREST Manual”	the rules governing the operation of CREST as published by Euroclear;
“CREST member”	a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations);
“CREST Proxy Instruction”	has the meaning ascribed to it in paragraph 8 of the notes to the Notice of General Meeting;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended;
“CSOP”	the Babcock International Group PLC Company Share Option Plan 2009;
“DBMP”	the Babcock International Group PLC Deferred Bonus Matching Plan 2012;
“DBP”	the Babcock International Group PLC Deferred Bonus Plan 2009;
“Directors” or “Babcock Directors”	the directors of the Company, whose names appear in paragraph 1.1 of Part XIII (<i>Directors, Senior Managers and Corporate Governance</i>) of this document, or, as the context requires, the directors from time to time of the Company, and Director shall be construed accordingly;
“document”	this combined prospectus and circular (including any annexes);
“DTR” or “Disclosure and Transparency Rules”	the disclosure and transparency rules made by the FCA under section 73A of FSMA;
“EBITDA”	Earnings before interest, taxation, depreciation and amortisation;
“EEA”	the European Economic Area;
“Enlarged Group”	the Babcock Group as enlarged by the Acquisition and the Rights Issue proceeds (following completion of the Acquisition and completion of the Rights Issue, respectively);
“EU”	the European Union;
“EURIBOR”	the Euro Interbank Offered Rate;
“Euroclear”	Euroclear UK & Ireland Limited;

“ex-rights date”	the date on which the Company’s Ordinary Shares begin trading without giving the holders of those Ordinary Shares the right to participate in the Rights Issue (being 8.00 a.m. on 17 April 2014);
“Exchange Act”	the United States Securities Exchange Act of 1934, as amended;
“Excluded Territories”	Australia, Canada, China, Hong Kong, Japan and South Africa and any other jurisdictions where the extension and availability of the Rights Issue would breach any applicable law, and each an “Excluded Territory” ;
“Executive Directors”	the Directors who hold the position of executive director, and each an “Executive Director” ;
“Existing Ordinary Shares”	the Ordinary Shares of 60 pence each in the capital of Babcock in issue immediately prior to the Rights Issue;
“FCA”	the Financial Conduct Authority of the UK;
“Form of Proxy”	the form of proxy enclosed with this document for use in connection with the General Meeting;
“FSMA”	the Financial Services and Markets Act 2000, as amended;
“Fully Paid Rights”	rights to acquire the New Ordinary Shares, fully paid;
“General Meeting”	the general meeting of the Company proposed to be held at the offices of FTI Consulting at 200 Aldersgate, Aldersgate Street, London EC1A 4HD at 10.30 a.m. on 16 April 2014 to approve the Resolution, the notice of which is contained in this document;
“Half Year Report 2013/14”	the half year report of the Company for the six months ended 30 September 2013;
“HM Revenue & Customs” or “HMRC”	HM Revenue & Customs, the UK tax authority;
“HMNB”	Her Majesty’s Naval Base;
“HSBC”	HSBC Bank plc of 8 Canada Square, London, E14 5HQ;
“IAS”	International Accounting Standards;
“IFRIC”	International Financial Reporting Interpretations Committee;
“IFRS”	International Financial Reporting Standards as adopted by the European Union;
“IRS”	the US Internal Revenue Service;
“Interim Management Statement”	the interim management statement published by Babcock on 11 February 2014 for the period from 1 October 2013;
“ISIN”	international securities identification number;
“Issue Price”	790 pence per New Ordinary Share;
“J.P. Morgan Cazenove”	J.P. Morgan Securities plc, in its capacity as Sole Sponsor, Joint Global Coordinator and Joint Bookrunner, or J.P. Morgan Limited, in its capacity as Sole Financial Adviser, as the context requires, each of 25 Bank Street, Canary Wharf, London E14 5JP;
“Jefferies”	Jefferies International Limited of Vintners Place, 68 Upper Thames Street, London EC4V 3BT;
“JerseyCo”	Axeman (Jersey) Limited of Ogier House, The Esplanade, St Helier, Jersey JE4 9WG;
“Joint Global Coordinators”	J.P. Morgan Securities plc and Jefferies;
“KKR Aviation Investor”	KKR Aviation Investor S.à r.l., a company owned by investment funds advised by Kohlberg Kravis Roberts & Co. L.P.;

“Latest Practicable Date”	25 March 2014 (being the latest practicable date prior to publication of this document);
“LIBOR”	the London Interbank Offered Rate;
“Listing Rules”	the listing rules made by the FCA under section 73A of FSMA;
“London Stock Exchange” or “LSE”	London Stock Exchange plc;
“LTIP”	the Babcock 2003 Long Term Incentive Plan;
“Management Warranty Deed”	the deed entered into between Babcock and the Warrantors dated 27 March 2014, pursuant to which the Warrantors gave certain warranties to Babcock;
“member account ID”	the identification code or number attached to any member account in CREST;
“Member State”	a member state of the EEA;
“MoD” or “Ministry of Defence”	the Ministry of Defence of the UK;
“Model Code”	the Model Code restricting the ability of persons discharging managerial responsibilities from dealing in a company’s securities, pursuant to Annex 1R of Chapter 9 of the Listing Rules;
“Money Laundering Regulations”	the Money Laundering Regulations (SI 2007 No. 2157), as amended;
“MTM instruction”	many to many instruction;
“New Ordinary Shares”	the Ordinary Shares of 60 pence each proposed to be issued by Babcock pursuant to the Rights Issue;
“Nil Paid Rights”	New Ordinary Shares in nil paid form provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue;
“Nominations Committee”	the nominations committee of the Board;
“Non-Executive Directors”	the Directors who hold the position of Chairman of the Babcock Board or non-Executive Director, and each a non-Executive Director;
“Notice of General Meeting”	the notice of General Meeting contained in this document;
“Official List”	the official list of the UKLA;
“Ordinary Shares”	the ordinary shares with a nominal value of 60 pence each in the capital of Babcock;
“Overseas Shareholders”	Qualifying Shareholders who are resident in, or citizens of, countries other than the United Kingdom;
“participant ID”	the identification code or membership number used in CREST to identify a particular CREST member or other system participant (as defined in the CREST Regulations);
“Pensions Regulator”	the regulatory body established under the Pensions Act 2004 with responsibility for all work-based pension schemes in the United Kingdom;
“Proposed Director”	Jeff Randall, who is expected to join the Babcock Board on 1 April 2014 as an independent non-executive director;
“Prospectus Directive”	Directive 2003/71/EC (as amended from time to time, including by Directive 2010/73/EU (the “PD Amending Directive”)) to the extent

	implemented in the relevant Member State) and includes any relevant implementing measures in each Member State that has implemented Directive 2003/71/EU;
“Prospectus Rules”	the prospectus rules of the FCA made pursuant to section 73A of FSMA;
“Provisional Allotment Letter(s)” or “PAL(s)”	the renounceable provisional allotment letters relating to the Rights Issue to be issued to Qualifying non-CREST Shareholders other than certain Overseas Shareholders as described in Part IV (<i>Terms and Conditions of the Rights Issue</i>) of this document;
“PSP”	the Babcock International Group PLC Performance Share Plan 2009;
“QIB” or “Qualified Institutional Buyer”	has the meaning given to such term by Rule 144A;
“QIB Representation Letter”	the letter in a form provided by the Company to be signed by a QIB who wishes to participate in the Rights Issue;
“Qualifying CREST Shareholders”	Qualifying Shareholders holding Ordinary Shares in uncertificated form;
“Qualifying non-CREST Shareholder”	Qualifying Shareholders holding Ordinary Shares in certificated form;
“Qualifying Shareholder(s)”	Shareholder(s) on the register of members of the Company at the Record Date;
“RAF”	the UK Royal Air Force;
“Receiving Agent”	Capita Asset Services, or any other receiving agent appointed by the Company from time to time;
“Record Date”	close of business on 14 April 2014;
“Registrar”	Capita Asset Services, or any other registrar appointed by the Company from time to time;
“Regulation S”	Regulation S under the Securities Act;
“regulatory authority”	any central bank, ministry, governmental, quasi governmental (including the European Union), supranational, statutory, regulatory or investigative body or authority (including any national or supranational anti-trust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), private body exercising any regulatory, taxing, importing or other authority, trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including for the avoidance of doubt, the takeover panel, the FCA, the UKLA and the London Stock Exchange;
“Regulatory Information Service”	a Regulatory Information Service under the Listing Rules;
“Remuneration Committee”	the remuneration committee of the Board;
“Resolution”	the ordinary resolution to be proposed at the Babcock General Meeting (and set out in the notice of general meeting contained in this document) to, among other matters, approve the Acquisition;

“Rights”	the Nil Paid Rights and/or the Fully Paid Rights;
“Rights Issue”	the proposed issue of the New Ordinary Shares to Qualifying Shareholders by way of Rights on the terms and subject to the conditions set out in this document and, in the case of Qualifying non-CREST Shareholder only, the Provisional Allotment Letters;
“Rothschild”	N M Rothschild & Sons Limited;
“RTGS payment mechanism”	has the meaning given to such term by the CREST Manual;
“RTGS settlement bank”	has the meaning given to such term by the CREST Manual;
“Rule 144A”	Rule 144A under the Securities Act;
“Sale and Purchase Agreement”	the agreement dated 27 March 2014 between Babcock and World Helicopters pursuant to which Babcock conditionally agreed to acquire the Avincis Shares, a summary of which is contained in Part II (<i>Principal Terms of the Acquisition</i>) of this document;
“Scandinavian AirAmbulance”	Scandinavian Air Ambulance AB (publ), a company limited by shares incorporated in Sweden under company registration number 556675-8107;
“SDRT”	UK stamp duty reserve tax;
“Securities Act”	the United States Securities Act of 1933, as amended;
“SEC”	the Securities and Exchange Commission of the United States;
“SEDOL”	the London Stock Exchange Daily Official List of share identifiers;
“Senior Managers” or “Babcock Senior Managers”	those persons employed by the Company to assist in the management of the Company from time to time, whose names appear in paragraph 2.1 of Part XIII (<i>Directors, Senior Managers and Corporate Governance</i>) of this document and “Senior Manager” shall be construed accordingly;
“Share Schemes”	the share schemes currently operated by Babcock as described in paragraph 7 of Part XIV (<i>Additional Information</i>) of this document;
“Shareholder”	any holder of Ordinary Shares;
“Special Dealing Service”	the dealing service being made available by Capita Asset Services to Qualifying non-CREST Shareholders who are individuals with a registered address in the UK or any other jurisdiction within the EEA who wish to sell all of their Nil Paid Rights or to effect a Cashless Take-up;
“Sponsor”	J.P. Morgan Cazenove;
“stock account”	an account within a member account in CREST to which a holding of a particular share or other security in CREST is admitted;
“Takeover Code”	the City Code on Takeovers and Mergers;
“TSR”	total shareholder return;
“UKLA”	the UK Listing Authority;
“uncertificated” or in “uncertificated form”	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;

“Underwriters”	J.P. Morgan Cazenove, Jefferies, Barclays and HSBC;
“Underwriting Agreement”	the agreement dated 27 March 2014 between Babcock and the Underwriters pursuant to which the Underwriters have conditionally agreed to underwrite the Rights Issue, a summary of which is contained in paragraph 9.1(c) Part XIV (<i>Additional Information</i>) of this document;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia, and all other areas subject to its jurisdiction;
“VAT”	(i) within the EU, any tax imposed by any member state in conformity with the directive of the council of the European Union on the common system of value added tax (2006/112/EC), and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition;
“Warrantors”	certain members of the senior management of Avincis that have entered into the Management Warranty Deed with Babcock;
“World Helicopters”	World Helicopters S.à r.l (company number B112.127), a company incorporated in Luxembourg with its registered office at 51 Avenue John Fitzgerald Kennedy, L-1855 Luxembourg, the holding company of the Avincis Group.

Reference to a **“company”** in this document shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established.

Technical Glossary

“EMS”	emergency medical services;
“MRO”	maintenance, repair and overhaul;
“OEM”	original equipment manufacturer;
“SAR”	search and rescue.

BABCOCK INTERNATIONAL GROUP PLC

*(Incorporated and registered in England and Wales under the Companies Act of 1985
with registered number 02342138)*

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of Babcock International Group PLC (the “**Company**”) will be held at 10.30 a.m. on 16 April 2014 at the offices of FTI Consulting at 200 Aldersgate, Aldersgate Street, London EC1A 4HD for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

That, the proposed acquisition (the “**Acquisition**”) of Avincis Mission Critical Services Topco Limited, the holding company of the Avincis group of companies, substantially on the terms and subject to the conditions set out in the circular to shareholders outlining the Acquisition dated 27 March 2014 (a copy of which is produced to the meeting and signed for identification purposes by the chairman of the meeting) be and is hereby approved and the directors of the Company (the “**Directors**”) (or any duly constituted committee thereof) be authorised: (1) to take all such steps as may be necessary or desirable in connection with, and to implement, the Acquisition; and (2) to agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Acquisition (provided such modifications, variations, revisions, waivers or amendments are not material), and to any documents relating thereto, in either such case as they may in their absolute discretion think fit.

By order of the Board

.....
Albert Dungate
Company Secretary

27 March 2014

Registered No: 02342138

Registered office:

33 Wigmore Street
London W1U 1QX
United Kingdom

Notes:

1. Any member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll or a show of hands, to vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the Company. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies this notice.
2. To be valid, the Form of Proxy (together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority) must be received by post the Company’s registrars, Capita Asset Services, at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF before 10.30 a.m. on 14 April 2014. You may also appoint a proxy or proxies electronically via the internet at www.babcock-shares.com. Full details of the procedure to be followed to appoint a proxy electronically are given on the website.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “**Nominated Person**”) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting if a Nominated Person has no such proxy

appointment right or does not wish to exercise it, he/she may, under any such circumstances, have a right to give instructions to the shareholder as to the exercise of voting rights. A Nominated Person does not have the right of a member to appoint a proxy.

4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders entered on the register of members of the Company at 5.30 p.m. on 14 April 2014 or, in the event that the meeting is adjourned, in the register of members of the Company at 5.30 p.m. on the day two days before the date of any adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes to the entries on the register of members after this time shall be disregarded in determining the rights of any person to attend and vote at the meeting or any adjourned meeting.
5. As at 25 March 2014 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 362,073,932 ordinary shares carrying one vote each. Therefore total voting rights in the Company as at 25 March 2014 were 362,073,932.
6. A corporate shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all of its powers as a member provided that no more than one corporate representative exercises powers over the same share.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the purpose of this meeting and any adjournment(s) thereof by using the procedures described in the CREST Reference Manual. CREST personal members or other CREST sponsored members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrars, Capita Asset Services (CREST participant RA10) not later than 10.30 a.m. on 14 April 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
9. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. Any member attending the meeting has a right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for, or progress of, the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of any answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
12. The completion and return of a Form of Proxy or a CREST Proxy Instruction will not prevent any member from attending the meeting and voting in person.

13. Any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) may not be used to communicate with the Company for any purpose other than those expressly stated.
14. A copy of this Notice and other information required by section 311A of the Companies Act 2006 can be found at www.babcockinternational.com.

ANNEX 1
PROFIT FORECAST OF THE BABCOCK GROUP

**SECTION A: PROFIT FORECAST FOR THE BABCOCK GROUP FOR THE FINANCIAL YEAR
ENDING 31 MARCH 2014**

1. GENERAL

The Babcock Directors have today issued guidance, set out in paragraph 12.1 of Part I (*Letter from the Chairman*) of this document, that underlying earnings per share of Babcock for the year ending 31 March 2014 are expected to be not less than 68.6 pence:

“The Babcock Directors expect that underlying earnings per share will achieve low double digit growth for the year ending 31 March 2014, which is intended to indicate that underlying earnings per share will be not less than 68.6 pence for that period.” (the “**Profit Forecast**”).”

In the above statement, underlying earnings is defined as earnings before amortisation of acquired intangibles and exceptional items and including the Babcock Group’s share of equity accounted joint ventures and associates and including investment income arising from IFRIC12 (Accounting for Service Concession Arrangements). Collectively these adjustments are made to derive the underlying operating results of the business. The underlying figures provide a consistent measure of business performance year-to-year thereby facilitating comparison and understanding of the Babcock Group financial performance.

The Directors have considered and reconfirm the Profit Forecast.

2. BASIS OF PREPARATION

The Profit Forecast has been properly compiled on the basis of the assumptions stated below, on a basis consistent with the accounting policies of the Babcock Group, which are in accordance with IFRS and are those which Babcock anticipates will be applicable for the full year ending 31 March 2014.

The Babcock Directors have prepared the Profit Forecast based on the unaudited interims for the six months ended 30 September 2013, the unaudited management accounts for the five month period from 1 October 2013 to 28 February 2014 and a forecast of the results for the one month period ending 31 March 2014.

3. ASSUMPTIONS

The Babcock Directors have prepared the Profit Forecast on the basis of the following assumptions:

3.1 Factors outside the influence or control of the Babcock Directors

- (a) There will be no material change to macroeconomic, political or legal conditions in the markets or regions in which the Babcock Group operates that materially affect the Babcock Group during the year ending 31 March 2014.
- (b) There will be no material changes in market conditions within the defence and support services industry over the one month forecast period to 31 March 2014 in relation to either customer demand or competitive environment.
- (c) The exchange rates and inflation and tax rates in Babcock’s principal markets will remain materially unchanged from the prevailing rates.
- (d) There will be no material change in Babcock’s labour costs, including medical and pension and other post-retirement benefits driven by external parties or regulations.
- (e) There will be no business disruption that will have a significant impact on Babcock’s operations, customers or financial performance.
- (f) There will be no material change in legislation or regulatory requirements impacting on Babcock’s operations or its accounting policies.

3.2 Factors within the influence or control of the Babcock Directors

- (a) Current contract negotiations with a number of clients will conclude materially as the Babcock Directors would reasonably expect based on Babcock’s past experience.

- (b) No material new client contract issues will arise beyond those that are already known to the Babcock Directors at the current time and built into the forecasts.
- (c) The Profit Forecast excludes any exceptional transaction and transition costs associated with the proposed acquisition of Avincis by Babcock.
- (d) The Profit Forecast does not take into account any impact of the Rights Issue or the Acquisition, which will be completed after 31 March 2014.
- (e) There will be no material change in the weighted average number of shares in issue during the financial year ending 31 March 2014.

SECTION B: ACCOUNTANTS' REPORT ON THE PROFIT FORECAST OF THE BABCOCK GROUP



The Directors
Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

27 March 2014

Dear Sirs

Babcock International Group PLC

We report on the profit forecast comprising the statement by Babcock International Group PLC (the “**Company**”) and its subsidiaries (together the “**Group**”) for the year ending 31 March 2014 (the “**Profit Forecast**”). The Profit Forecast and the material assumptions upon which it is based, are set out in Section A of Annex 1 to the prospectus issued by the Company dated 27 March 2014 (the “**Prospectus**”).

This report is required by item 13.2 of Annex I to the PD Regulation and is given for the purpose of complying with that Regulation and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Profit Forecast in accordance with the requirements of items 13.1 and 13.3 of Annex I to the PD Regulation.

It is our responsibility to form an opinion as required by item 13.2 of Annex I to the PD Regulation as to the proper compilation of the Profit Forecast and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of Preparation of the Profit Forecast

The Profit Forecast has been prepared on the basis stated in Section A of Annex 1 of the Prospectus and is based on the unaudited interim financial results for the six months ended 30 September 2013, the unaudited management accounts for the five months ended 28 February 2014 and a forecast for the month to 31 March 2014. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Group.

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.



Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Forecast has been prepared and considering whether the Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Group. Whilst the assumptions upon which the Profit Forecast are based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Profit Forecast have not been disclosed or if any material assumption made by the Directors appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Forecast has been properly compiled on the basis stated.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion, the Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

