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Audited Preliminary Results for year ended 31 March 2010

11 May 2010

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Introduction and highlights

Peter Rogers
Chief Executive

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2009/10 highlights

- Excellent profit growth
 - 11% increase in underlying operating profit
 - 20% increase in underlying profit before tax
- Group operating margin 8.7%
- Strong growth in Marine and Defence
 - Marine – 7% increase in revenue, 26% increase in underlying operating profit
 - Defence – 13% increase in revenue, 13% increase in underlying operating profit
- Committed to delivering value for shareholders
 - 23% increase in underlying eps
 - 22% increase in full year dividend
- 46% increase in order book - £8.3bn
- Proposed acquisition of VT on track
 - further strengthens scale and capability in core markets
 - integration planning progressing well

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Financial results for the year ended 31 March 2010

Bill Tame
Group Finance Director

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Income statement

	FY 2009/10 £m	FY 2008/09 £m	Change
Revenue	1,895.5	1,901.9	-
Operating Profit*	164.2	147.3	+ 11%
<i>Margin</i>	8.7%	7.7%	
Joint ventures	(0.5)	(0.2)	-
Net finance cost	(18.4)	(26.2)	-
Profit before tax*	145.3	120.9	+ 20%

* Before amortisation of acquired intangibles and exceptional items – continuing businesses

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Income statement cont



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	FY 2009/10 £m	FY 2008/09 £m	Change
Profit before tax*	145.3	120.9	+ 20%
Tax**	(25.3)	(23.1)	-
Effective tax rate***	19 %	19%	-
Profit after tax*	120.0	97.8	-
Amortisation of acquired intangibles and exceptionals (net of tax)	(11.6)	(10.2)	-
Continuing profit after tax	108.4	87.6	+ 24%
eps*	51.37p	41.90p	+ 23%
Dividend	17.60p	14.40p	+ 22%

* Before amortisation of acquired intangibles – continuing businesses

** Tax charge including a one-off prior year credit of £2.4m

*** Tax rate before prior year and non-recurring tax adjustments

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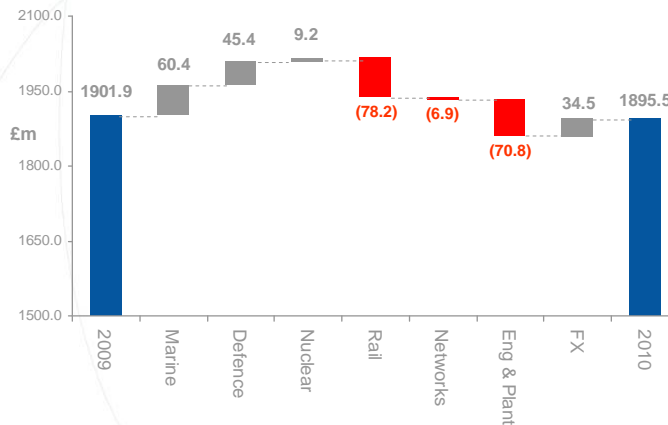
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Bridging analysis Revenue



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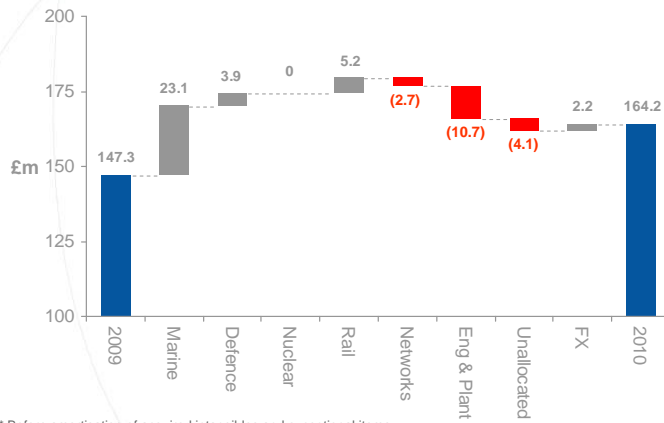


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Bridging analysis Operating profit*



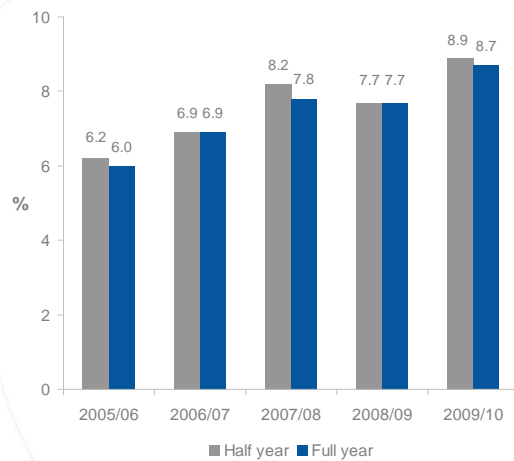
* Before amortisation of acquired intangibles and exceptional items

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Group operating return on revenue*



* Before amortisation of acquired intangibles and exceptional items

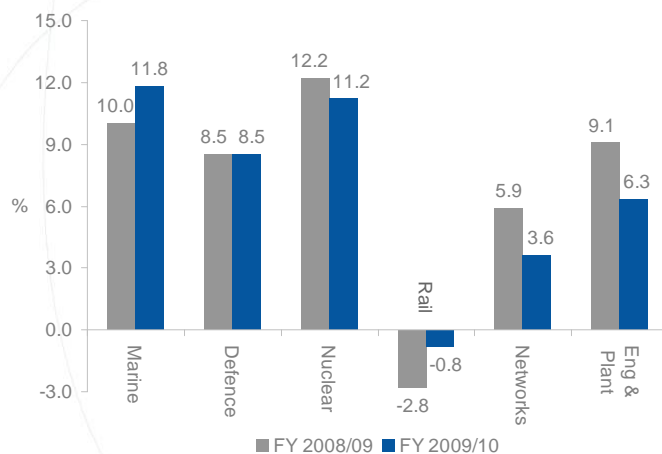
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Divisional operating return on revenue*



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Cash flow



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	FY 2009/10 £m	FY 2008/09 £m
Operating profit	148.1	133.1
Non-cash items	43.5	37.1
Working capital	(21.3)	(16.6)
Cash from operations	170.3	153.6
<i>Cash conversion</i>	<i>115%</i>	<i>115%</i>
Net capital expenditure*	(23.7)	(14.4)
Interest	(18.5)	(28.8)
Tax	(1.7)	(7.7)
Free cash flow	126.4	102.7
Acquisitions/disposals	(37.9)	(96.4)
Dividends	(34.7)	(27.9)
Other	(4.6)	(7.7)
Net cash flow	49.2	(29.3)

* including finance leases
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Funding Secure financial position



- Period end net debt £302.3m
 - reduced from £351.5m at March 2009
- Facilities (ex overdrafts - £24m) £600m
 - 5 year term from June 2007 – £600m
- US Private Placement loan notes £100m
 - issued January 2010, 7 and 10 year duration
- Bridging finance – VT acquisition £400m
- Net debt to EBITDA ratio 1.6 x
- Interest cover 10.3 x
- Free cash flow less dividends £91.7m
 - 2008/09 £74.8m

Defined benefit pensions Triennial valuations



	Devonport	BIG	Rosyth	Rail	Total Group
Last valuation date	31 March 2008	01 April 2007	31 March 2006	31 Dec 2007	
Next valuation date	31 March 2011	01 April 2010	31 March 2009	31 Dec 2010	
Surplus/(deficit) £m	(43.0)	14.0	(9.0)	4.0	(34.0)
Level of funding %	95%	103%	98%	102%	
Cash contribution for 2010/11					
– formal valuation £m	31.9	6.4	8.8	2.4	49.5
– longevity swap funding £m	4.8	0.0	2.5	0.0	7.3
– prepayments in prior years £m	(15.0)	0.0	(3.0)	0.0	(18.0)
Net annual cash contribution 2010/11 £m	21.7	6.4	8.3	2.4	38.8

- Cash contributions stable – only Rosyth changing for 2010/11
- Majority of contributions recovered from customer through contract charges
- Longevity swap funding fixed for 20 years for Devonport and Rosyth schemes

Defined benefit pensions Pension strategy



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- All three longevity swaps transacted 2009/10
- Cross-scheme Investment committee now up and running
 - faster decision making and lower costs
 - structure established to enable interest rate and inflation swaps
 - integrated investment and funding target to move towards fully hedged position over time
- Cross-scheme Governance committee established
- Pro-active management of benefits and membership
 - all schemes closed to new members

Defined benefit pensions – IAS19 Income statement



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- 2010/11 full year increase of £6.9m due to higher inflation and lower discount rate
- Proactive management of investments and benefits will stabilise charge over time
- IAS19 charge will remain sensitive to small changes in assumptions

Income statement	FY 2010/11 £m	FY 2009/10 £m	FY 2008/09 £m
Service cost	(36.4)	(23.3)	(26.7)
Expected return on assets	129.1	113.1	127.4
Interest on obligations	(117.0)	(107.2)	(116.6)
Net charge to operating profit	(24.3)	(17.4)	(15.9)

Sensitivities for 2010/11			
	Inflation		
Discount rate	3.1%	3.4%	3.7%
5.2%	(22.2)	(26.4)	(30.6)
5.5%	(20.1)	(24.3)	(28.5)
5.8%	(18.0)	(22.2)	(26.4)

Defined benefit pensions – IAS19 position Balance sheet



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- Major swing in discount rate and inflation rate significantly increased liabilities
- Longevity swaps included in valuation at £(158)m
- Cash contributions entirely separately determined
- As ever, extremely sensitive to small changes in assumptions

Balance sheet	31 Mar 2010 £m	30 Sep 2009 £m	31 Mar 2009 £m
Assets at market value	1,979.8	1,854.9	1,702.9
Liabilities	(2,303.8)	(2,142.2)	(1,652.2)
Surplus/(deficit)	(324.0)	(287.3)	50.7
Cash contributions *	48.0	-	48.6

Sensitivities	Inflation		
Discount rate	3.1%	3.4%	3.7%
5.2%	(362)	(431)	(501)
5.5%	(254)	(324)	(394)
5.8%	(147)	(217)	(287)

* Normalised payments excluding pre-payment effect

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Financial summary





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- Increased operating profit + 11%
 - despite downturn in South Africa and c £10m of restructuring costs
- Increased operating margin - approaching 9%
- eps and dividend - over 22% growth
- Excellent cash flow conversion, as last year, at 115%
 - EBITDA and interest cover debt ratios very comfortable
- Well placed for 2010/11

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Operational review

Peter Rogers
Chief Executive

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Proposed acquisition of VT Group plc

Current timetable

- Babcock General Meeting 9 June 2010
- VT Court Meeting and General Meeting 10 June 2010
- Scheme effective date/completion 8 July 2010

- Hart Scott Rodino clearance received
- OFT, CFIUS reviews remain on schedule
- Integration planning going well
- Integration teams and work streams established
- VT management involved and extremely co-operative

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Marine



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Revenue £958.3m **Operating profit** £112.9m **Operating margin** 11.8%
 + 7% + 26%

- Principal focus remains generation of long-term partnerships with MoD to
 - achieve cost savings
 - improve service delivery
- Excellent results reflect
 - considerable scale of division
 - synergy savings in excess of those committed to
 - streamlined organisational structure
- Terms of Business Agreement (ToBA)
 - confirms Babcock as MoD's key maritime support partner
 - 15 years' visibility of allocated work streams
 - guaranteed level of savings for MoD

Marine cont



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- Excellent long-term visibility
 - scheduled maintenance and refit programmes for submarines and surface ships progressing as scheduled
 - planning support for new Astute class submarines
 - 30 year operational life involving teams from Devonport, Clyde and Bristol
 - QE class aircraft carrier project continues on schedule
- Playing a major role in concept development of future nuclear deterrent submarine programme
 - as part of collaborative industry team and as independent expert consultant
- Significant opportunities to utilise strength of UK reputation and expertise in overseas markets
 - HMCS Chicoutimi in dry dock ready for 2 year extended docking period
 - contracts to support new air warfare destroyer in Australia worth AU\$11m and continuing to discuss further areas of support

Rail



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Revenue £150.7m **Operating loss** £1.2m **Operating margin** - 0.8%
- 34% -

- Revenue reduced as anticipated
 - completed withdrawal from multi-disciplinary projects
 - loss of high-output track renewal contract
- Robust 3 year transformation plan
 - positive financial impact, division now operating profitably excluding restructuring costs – H2 profit of £1.1m
 - 25% reduction in overhead
- Strengthening relationship with major customer
 - concluded negotiations on majority of legacy contracts
 - introduced new systems for planning and managing frameworks
- Frameworks in track, signalling and telecoms provide stable platform
- Key focus – ongoing transformation of the business
 - reduced costs, improved operational performance, increased safety

Networks



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Revenue £112.6m **Operating profit** £4.1m **Operating margin** 3.6%
- 6% - 41%

- Results impacted by slow UK telecommunications market and losses (c £1.5m) in Irish telecommunications business
- Transmission market stable - Alliance contracts with National Grid and EDF performed well
 - provide visibility and insulation from volatility
 - partnership provides opportunities for improved efficiency
 - customers value specialist transmission design service
- Telecommunications markets more volatile
 - digital switchover programme provides consistent revenue stream
 - merging of mobile networks and outsourcing of services to OEMs provide opportunities for division
 - 1st Next Generation Network to go live summer 2010
- Well placed to benefit as network owners and operators are required to upgrade infrastructures for new technologies

Engineering and Plant



Revenue £174.2m Operating profit £10.9m Operating margin 6.3%
- 19% - 45%

- Economic climate continued to impact performance
- Electricity generation ongoing priority for South African government
 - increased cost of 2 new stations resulted in reduced spending on maintenance and outages
 - spend now returning to previous levels, demand for Powerlines increasing
- Equipment market showing some early signs of growth with enquiries picking up
 - 2010 sales - January R72.7k, April R117.3k
 - commodity prices recovering, mining stock piles reducing
 - parts and service sales strong
 - focus on tight overhead control
- Confident in long-term prospects
 - supported by demand for electricity and minerals as well as infrastructure improvements

Order book and bid pipeline



- Order book very healthy at £8.3bn
 - £2.6bn increase following signature of ToBA
 - 46% increase on May 2009
- Bid pipeline healthy
 - opportunities at PQQ and ITT stage c £3.4bn
 - 65 bids greater than £10m being pursued
- Significant further opportunities being tracked
- Steady flow of work from bid pipeline into order book as anticipated
- No contracts cancelled
- High proportion of 2010/11 revenue already identified in order book
- Excellent long-term visibility and security

Outlook



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- Secure financial position and strong cash generation
- Markets remain attractive
 - all with significant long-term growth prospects
- Strength of market positions and track record for delivering efficiencies will provide opportunities as pressure on public spending increases
- Proposed acquisition of VT strengthens scale and capabilities in core markets
- Positive outlook for 2010/1, looking forward to another year of good progress



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Appendix

Segmental analysis



	Revenue			Operating profit*			Operating return on revenue	
	FY 2009/10 £m	FY 2008/09 £m	Change %	FY 2009/10 £m	FY 2008/09 £m	Change %	FY 2009/10 %	FY 2008/09 %
Marine	958.3	892.9	+ 7	112.9	89.3	+ 26	11.8	10.0
Defence	383.8	338.4	+ 13	32.8	28.9	+ 13	8.5	8.5
Nuclear	115.9	106.7	+ 9	13.0	13.0	-	11.2	12.2
Rail	150.7	228.9	- 34	(1.2)	(6.4)	-	-0.8	-2.8
Networks	112.6	119.4	- 6	4.1	7.0	- 41	3.6	5.9
Eng & Plant	174.2	215.6	- 19	10.9	19.7	- 45	6.3	9.1
Unallocated	-	-	-	(8.3)	(4.2)	-		
Total	1895.6	1901.9	-	164.2	147.3	+ 11	8.7	7.7

* Before amortisation of acquired intangibles and exceptional items

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