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# Audited Preliminary Results
## for year ended 31 March 2011

17 May 2011

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# Agenda

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| | |
|---|---|
| • Introduction and highlights | Peter Rogers |
| • Financial review | Bill Tame |
| • Supporting future growth | Peter Rogers |
| • Questions | Peter Rogers<br>Bill Tame<br>Archie Bethel<br>John Davies<br>Kevin Thomas |

# 2011 financial highlights

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- Another set of strong financial results
- Benefiting from successful integration of VT as well as good organic growth
  - revenue £2.9bn + 50%
    - organic growth + 5%
  - operating profit £286.9m + 74%
    - organic growth + 5%
  - profit before tax £228.2m + 57%
  - cash conversion 146%
- Continued focus on creating value for our shareholders
  - eps 55.03p + 7%
  - proposed full year dividend 19.4p + 10%

# 2011 - a transformational year

- Acquisition of VT successfully completed
  - strengthened positions in core markets
  - enhanced scale and broader range of capabilities
  - synergies on track
  - integration ahead of planning assumptions
- SDSR and CSR significantly reduced uncertainty; outlook positive
- Increased outsourcing opportunities starting to come through
  - British Forces Germany – c £170m, 5 year facilities management contract
  - Maritime Equipment Transformation (MET) programme – down selected for £300m, 10 year contract
  - bid pipeline grown to £8.5bn from £5bn in November 2010
- Creating strong platform for growth

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# Financial results

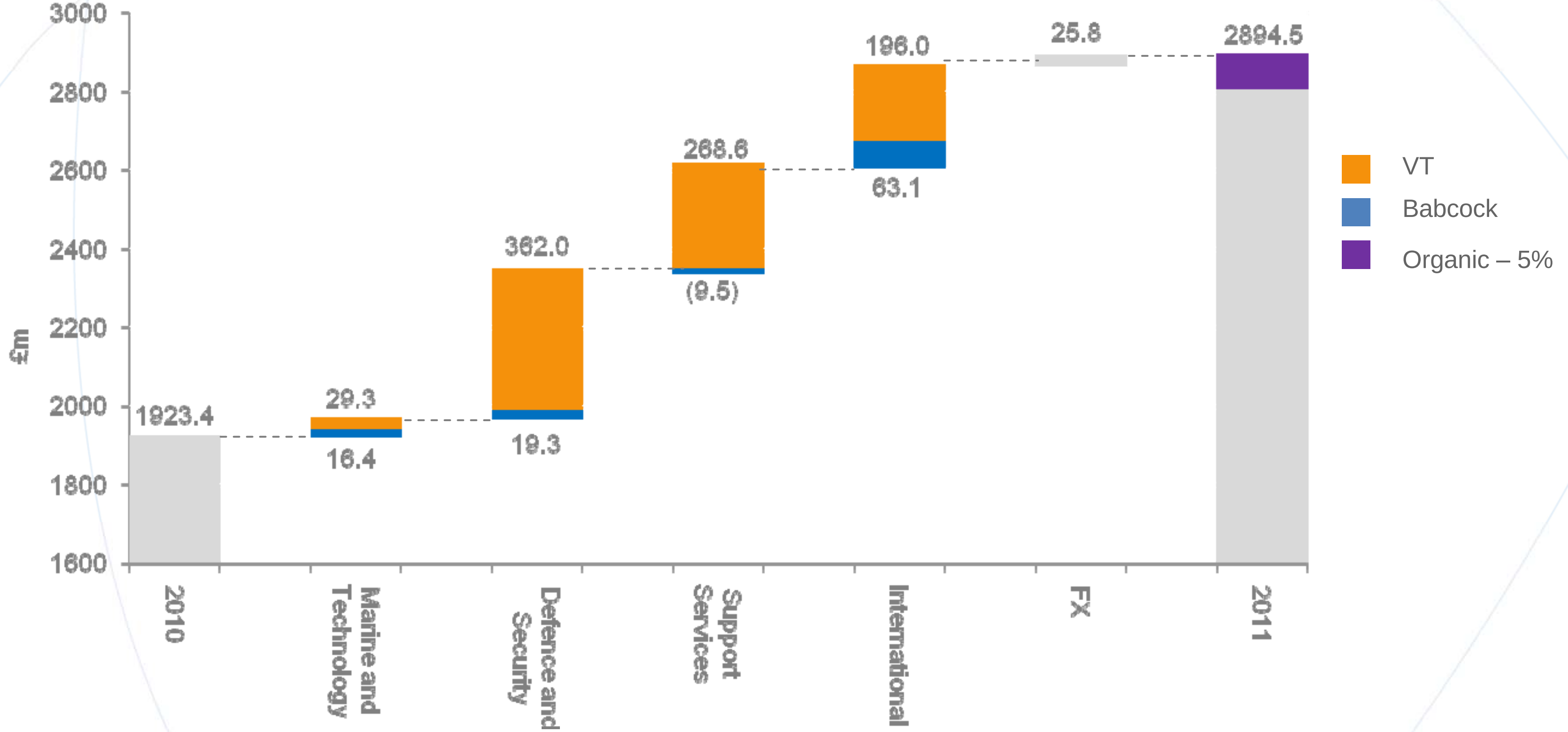
Bill Tame
Group Finance Director

# Income statement*

| | **FY 2011 £m** | FY 2010 £m | Change % |
|---|---|---|---|
| Revenue | **2,894.5** | 1,923.4 | + 50% |
| Operating profit | **286.9** | 164.7 | + 74% |
| *Operating margin* | ***9.9%*** | *8.6%* | |
| Net finance cost | | | |
| group | **(50.4)** | (18.4) | |
| JV | **(8.3)** | (1.1) | |
| | **(58.7)** | (19.5) | |
| Profit before tax | **228.2** | 145.2 | + 57% |
| *Tax* | **46.8** | 25.2 | |
| *Effective rate* | ***20.5%*** | *19.0%* | |
| Profit after tax | **181.4** | 120.0 | + 51% |
| eps | **55.03p** | 51.37p | + 7% |
| Proposed full year dividend | **19.4 p** | 17.6p | + 10% |

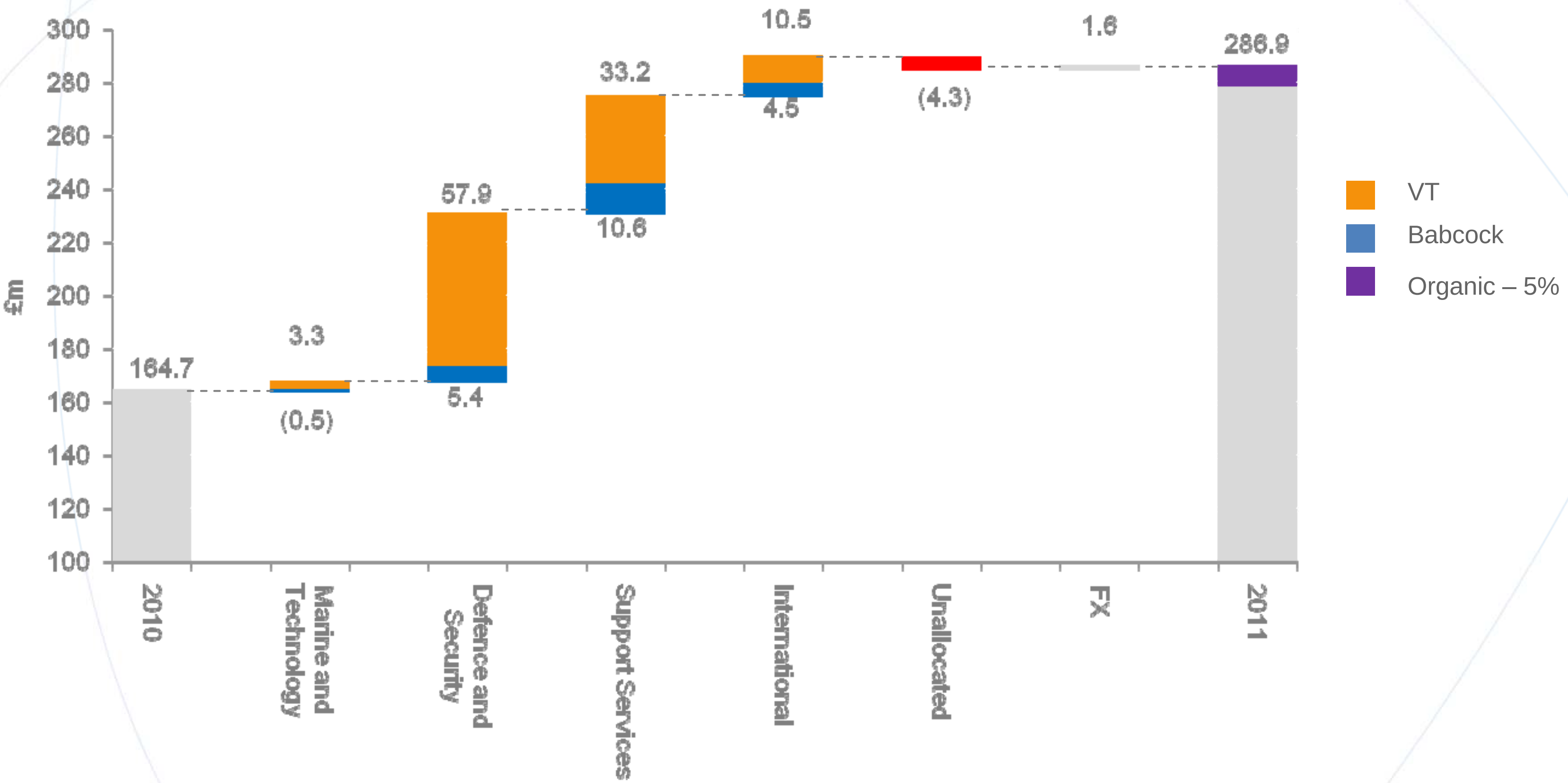
* Underlying – see Appendix

# Bridging analysis
## Revenue*




* Underlying – see Appendix

# Bridging analysis
## Operating profit*




* Underlying – see Appendix

# Marine and Technology

- Revenue growth mid single digit despite completion of £55m Jackal programme
  - £27m contribution from incoming former VT activities
- Aircraft carrier programme delivered c £118m revenue in year
  - total programme likely to be in excess of £1.25bn
- Strong growth in overseas markets
  - revenue approaching £90m
  - drives Intec growth of over 20% organic
- Submarine programmes on track
  - conclusion of T Class refit and some programme re-phasing
  - first Astute in-service maintenance package completed
- Equipment business had good successes, notably MET
  - end of Jackal programme removed significant revenue and margin

| | **2011 £m** | **2010 £m** | ***Change %*** |
|---|---|---|---|
| Revenue | 1,019.5 | 973.8 | 4.7 |
| Operating profit | 119.3 | 116.5 | 2.4 |
| Operating margin | 11.7% | 12.0% | |

# Defence and Security

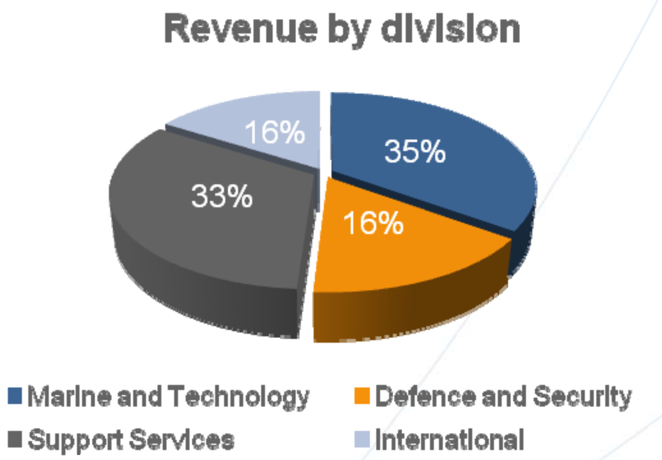
- Headline growth includes:
  - organic revenue growth c 22%
  - further scope increase in RSME
  - revenue contribution from VT operations £362m
- FSTA and MFTS £84.5m, achieved handover milestones
  - re-iterating margin step down in 11/12 as service delivery phase commences
- Vehicle fleet management operations c £108m
  - delivered further savings to the customer and performed strongly
  - scope increased with inclusion of RAF vehicles
- Good progress on realisation of acquisition synergies further enhanced margin

| | 2011 £m | 2010 £m | *Change %* |
|---|---|---|---|
| Revenue | 469.2 | 87.9 | 434 |
| Operating profit | 73.2 | 9.9 | 639 |
| Operating margin | 15.6% | 11.3% | |

# Support Services

- Total revenue increase of 38% although no organic growth
  - Rail year on year affected by loss of High Output in 2009
  - Infrastructure - lower ‘extra to contract’ spend in Regional Primes
  - revenue contribution from VT operations £269m
- Operating profit and margin up significantly, including c 30% organic profit increase
- Nuclear contract successes (B41, BEPPS) contributed positively
  - margin remained strong
- Education and Training
  - extended presence in automotive sector apprentice training
- Acquisition synergies delivering margin improvement

| | 2011 £m | 2010 £m | *Change %* |
|---|---|---|---|
| Revenue | 946.6 | 687.5 | 38 |
| Operating profit | 79.6 | 35.8 | 122 |
| Operating margin | 8.4% | 5.2% | |



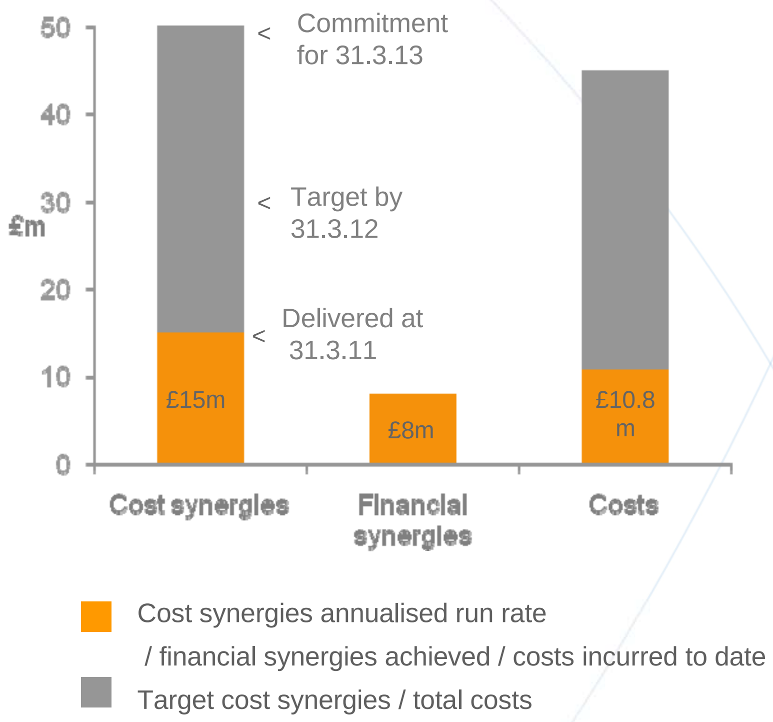
# International

- Divisional revenue increase includes 51% organic growth
- Revenue from South Africa £250m up 51% on 09/10
  - significant step-up in equipment volume in South Africa during Q4
  - extractive industries remain buoyant; as does the competition
  - new DAF franchise started strongly in Q4
  - Eskom power generation outage support recovering and power transmission strong
- VT US contributed revenue of c £190m
  - competition remains difficult at lower-tech end of the DoD supply chain
  - operating margin improved to 5.5%
  - lower margin BOS contracts still dominate
  - limited growth in Integrated Solutions

| | 2011 £m | 2010 £m | *Change %* |
|---|---|---|---|
| Revenue | 459.2 | 174.2 | 164 |
| Operating profit | 27.4 | 10.8 | 154 |
| Operating margin | 6% | 6.2% | |

# Acquisition of VT
# Cost synergies on track

- £15m annualised run rate achieved by 31.3.11
- Major IT transformation project on track to deliver
  - robust, integrated and secure network
  - rationalised organisational and physical structure with related savings
- Group-wide procurement project set to deliver target savings
  - IT, vehicle fleet, communications
- Cost of realisation at 31.3.11 £10.8m
  - total outturn costs estimated at £45m by March 2013



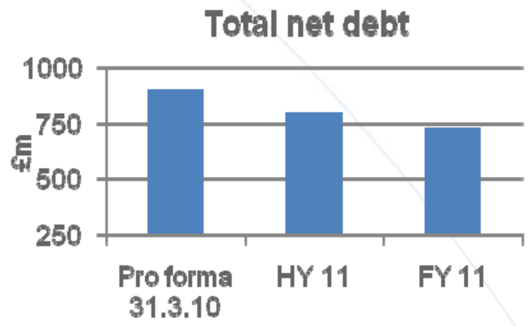
# Cash flow

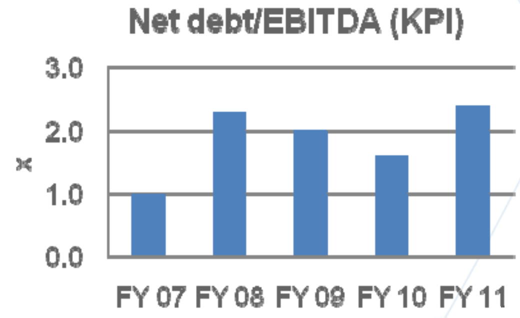
- Cash conversion 146% up from 121% last year
  - working capital tightly managed but also benefited from cash received ahead of revenue
  - pre-paid £30m of 11/12 pension fund contributions
  - capital expenditure on Marine and Technology infrastructure and Group IT main drivers of £33.2m spend
- Anticipated spend in 11/12 c £50m of which c £20m is IT related
- Cash interest reflects increased net debt post VT
  - excludes interest paid by JVs

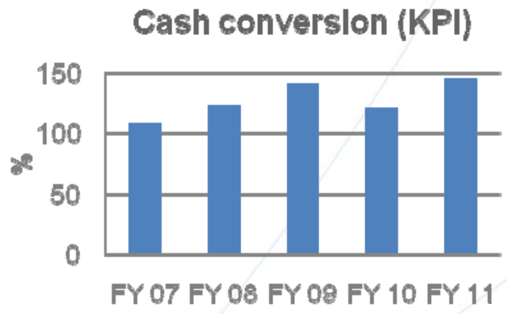
| | **FY 2011 £m** | FY 2010 £m |
|---|---|---|
| Operating profit | **178.2** | 148.1 |
| Non-cash items/ exceptionals | **103.5** | 43.5 |
| Working capital | **26.8** | (21.3) |
| **Cash from operations** | **308.5** | **170.3** |
| *Cash conversion* | ***146%*** | *121%* |
| Net capital expenditure | **(33.2)** | (23.7) |
| Interest | **(50.0)** | (18.5) |
| Tax | **(19.3)** | (1.7) |
| **Free cash flow** | **206.0** | **126.4** |
| Acquisitions/disposals | **(574.3)** | (37.9) |
| Dividends | **(51.5)** | (34.7) |
| Other | **(6.9)** | (4.6) |
| **Net cash flow** | **(426.7)** | **49.2** |

# Deleveraging

- Total net debt closed at £729m down from
  - c £890m pro forma at 31.03.10
  - £796m at 30.09.10
- Net debt/ EBITDA 2.4x
  - tracking to below 2.0x by 31.03.12
- Cash conversion rate maintains > 100% track record

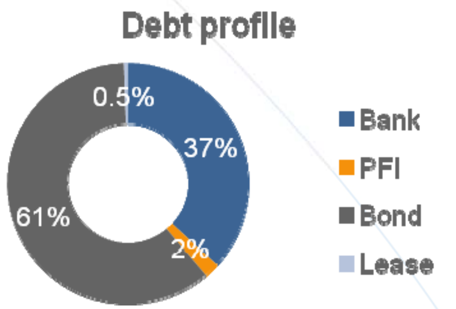


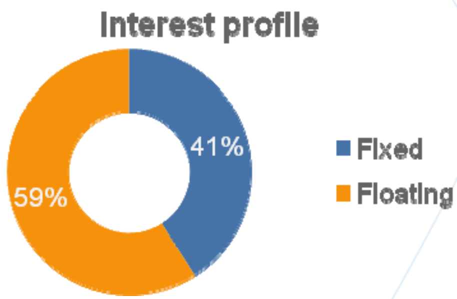



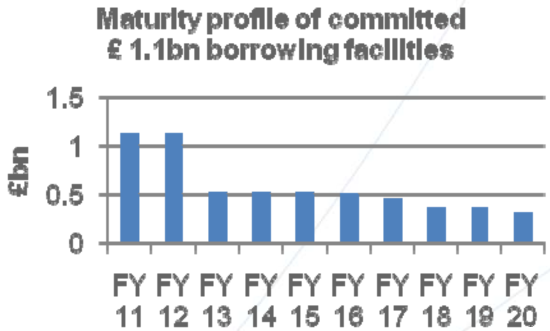



# Interest and refinancing

- £400m acquisition bridge facility refinanced in March via USPP market
  - $650m 7 and 10 year notes ($150m and $500m respectively)
  - swapped to Sterling
- Good progress with RCF refinancing
- New capital structure provides
  - spread of longer dated instruments
  - diversified sources of funding
- Interest rates reflect longer term maturities and rates available in the USPP market
- 2010/11 charge of £58.7m comprises group charge of £50.4m and share of JV interest of £8.3m



# Pensions summary

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- Ex VT schemes added c £470m to assets and liabilities at 31.03.11
- Deficit reduced due to
  - favourable investment market
  - change to CPI following government changes
  - marginal increase in discount rate from 5.5% to 5.6%
- 60% of charge funded through Marine and Technology contracts
- Investment structure and longevity hedging now in place

| Balance sheet | FY 2011 £m | HY 10/11 £m | FY 2010 £m |
|---|---|---|---|
| Assets | **2,579.9** | 2,471.6 | 1,979.8 |
| Liabilities | **(2,805.0)** | (2,828.0) | (2,303.8) |
| Surplus/ (deficit) | **(225.1)** | (356.4) | (324.0) |

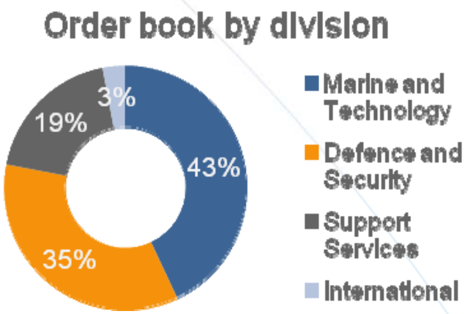
| Income statement | Est FY 2012 £m | FY 2011 £m |
|---|---|---|
| Service cost | (46.4) | **(46.0)** |
| Expected return on assets | 172.1 | **152.6** |
| Interest on obligations | (145.7) | **(135.6)** |
| Net charge to operating profit | (20.0) | **(29.0)** |

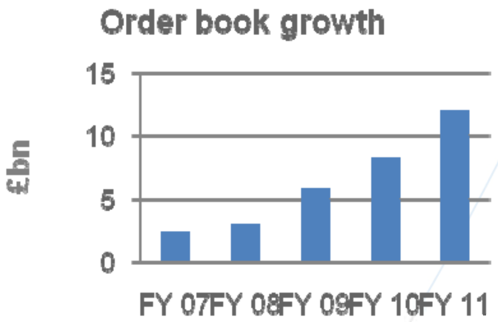
# Order book - £12 billion

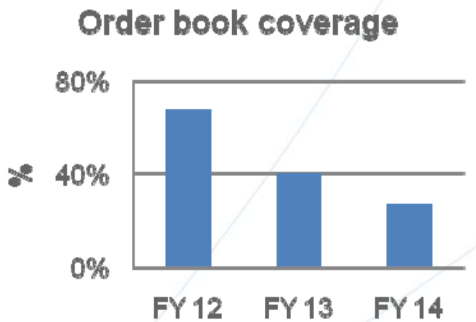
- Order book c £12bn at 31.3.11
  - excludes sole source forward programmes for submarines and warships c £3bn
  - excludes VT US ‘ IDIQ’ contracts

- Key contracts include
  - activities under ToBA £2.4bn
  - QEC carriers £1.0bn
  - Canada £480m
  - Defence infrastructure primes £490m
  - Emergency services £460m
  - FSTA £1.2bn
  - RSME £2.1bn

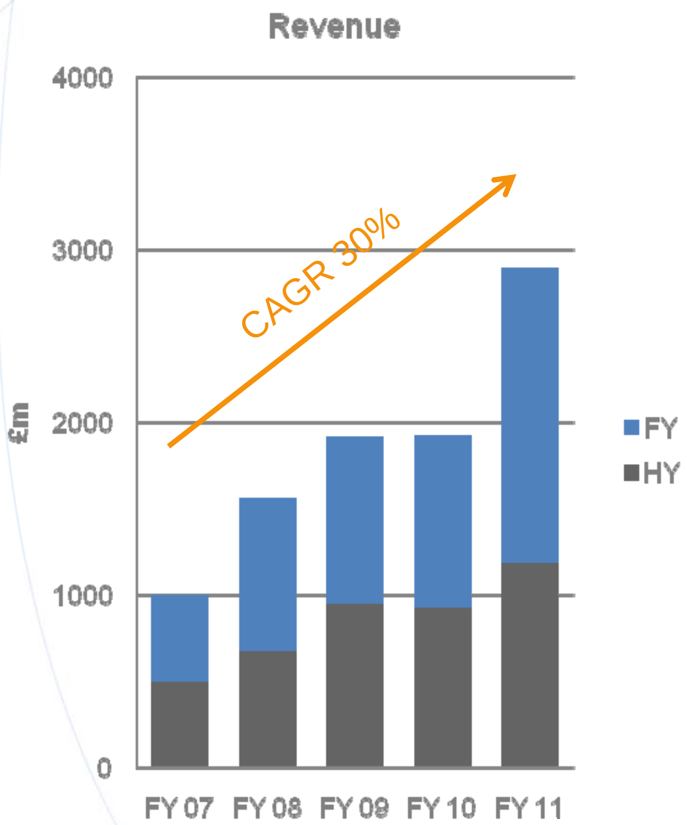
- Revenue coverage for 2011/12 68%
  - excludes Marine and Technology forward programmes as above
  - excludes ‘IDIQ’ contracts

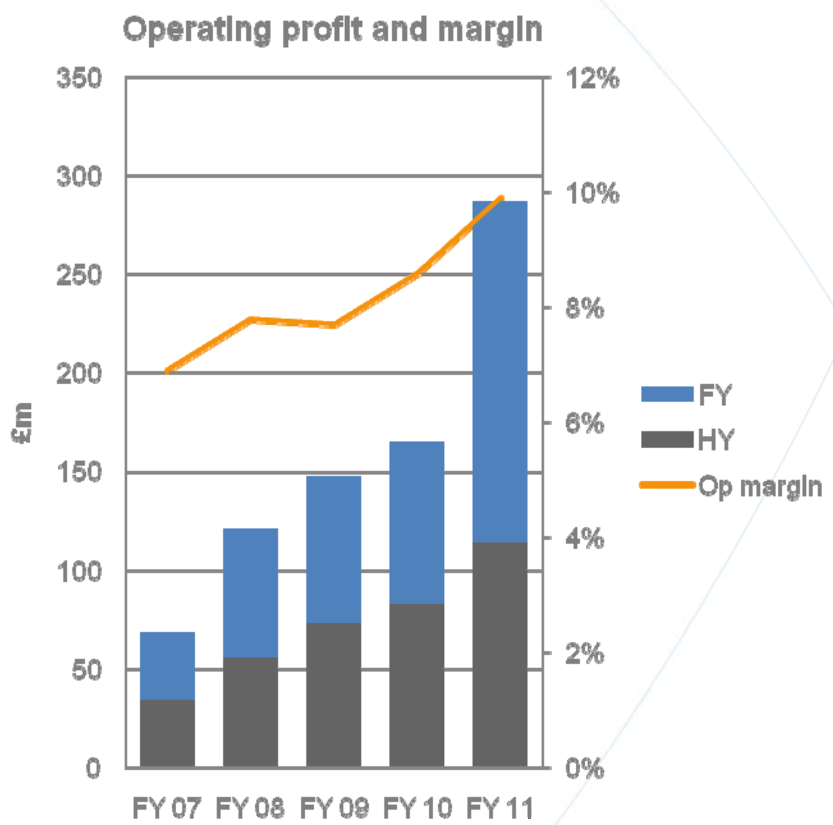


# Sustained track record of growth
## Revenue and operating profit



# Financial summary

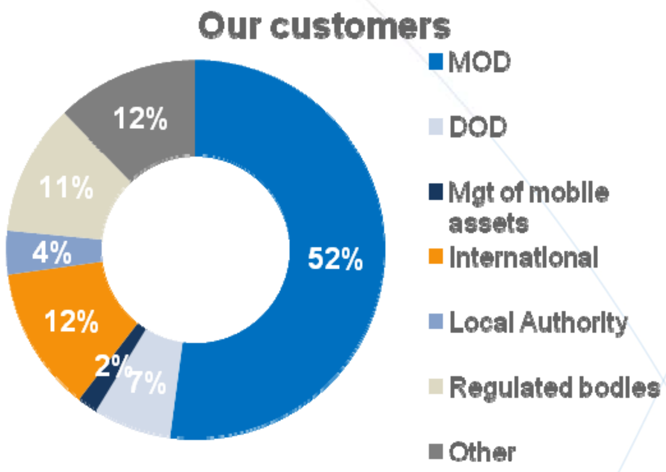
- Track record of delivery
- Organic growth in revenue and operating profit
- Improving operating margins
  – benefiting from synergies as well as improved business performance
- Debt paying down rapidly
  – significantly faster than anticipated at time of acquisition
  – refinancing going smoothly
- Order book strong
  – excellent visibility
- Well positioned for good progress in 2011/12

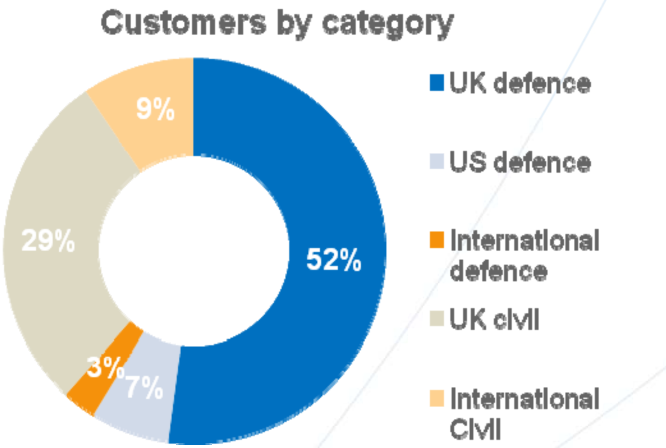

# Supporting future growth

Peter Rogers
Chief Executive

# Strategy for growth

- We are the UK's leading engineering support services company, our objective is to grow from this position in both the UK and overseas thus delivering superior and sustainable value for our shareholders
- Post VT
  - enhanced capabilities and skills
  - strengthened positions in long-term growth markets
- We have
  - developed the right business model for our preferred customers
  - the right people to deliver our strategy



# What sets us apart

**A combination of our**

- Key differentiators
- Core business principles
  - light touch corporate centre
  - devolved power to customer facing businesses
  - strong financial controls
  - consistent focus on cash to support growth
  - achieve operational excellence

Our key differentiators

# Positive trading environment

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## Economic environment
– financially constrained
– cost reductions required

## Options
– reduce output
– eliminate services
– find different delivery models

## Requirements
– work with partners to provide value for money and reduce inefficiency without reductions in service or quality
– outsource

## The Babcock solution - well positioned to deal with these market conditions
– detailed knowledge and understanding of our customers' businesses and operational requirements
– unrivalled scale of resource, experience and depth of knowledge

# Our selected growth routes

| | New services | Existing services | New geographies |
|---|---|---|---|
| Existing customers | ✓ | ✓ | ✓ |
| New customers | ✗ | ✓ | ✓ |
| New geographies | ✗ | ✓ | ✗ |

# Grow – existing contracts

- We have a number of large, long-term contracts
- We can use existing contract structures to offer a wider range of services and deliver more within each contract
- VT acquisition gives us a broader range of skills and capabilities
- Efficiencies generated by doing more within one contract
- Our understanding of outputs and availability is crucial

- ToBA – to 2025
  - contract contains mechanisms for add-on services to increase scope
  - these mechanisms also provide for gain share
- RSME – to 2037
  - capacity to deliver more tri-service training and training support
  - experience and track record of delivering high quality, comprehensive training solutions
  - opportunities to benefit from our role as integrator of training design, delivery, support and management
  - consolidation of REME and RSME
  - development of site capacities to add DTR fallout

# Grow – existing customers

- We have strong long-term relationships with our major customers
- VT has enhanced our core skills and capabilities

- Maritime Equipment Transformation (MET)- ability to shape market post SDSR
  - down-selected by the MoD as the sole industry bidder for the 10 year, c £300m
  - currently provide equipment support to MET however, this opportunity will allow us to utilise our extensive knowledge to drive further savings and efficiencies
- Nuclear decommissioning – leveraging capabilities
  - combined capabilities strengthen ability to support NDA
  - currently execute some of the most challenging decommissioning projects in UK
- Education and training – offering more
  - developing broader business training capabilities where we currently only offer engineering support
  - assisting local authorities who are seeking to outsource more

# Grow - new customers

- We seek to be leaders in our chosen markets
- We can use the success of our current operations to demonstrate benefits of outsourced operations to new customers in UK and overseas

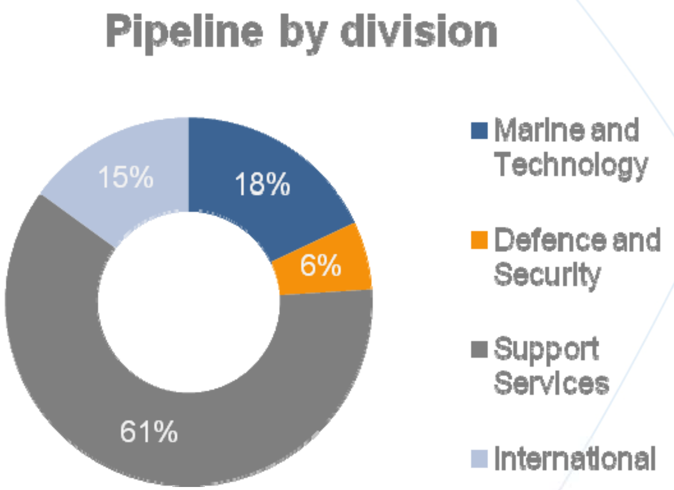
- Emergency Services – management of mobile assets
  - Metropolitan Police have achieved significant savings and improved availability
  - talking to a number of other large police forces, emergency service providers and other operators of large vehicle fleets
- International naval support
  - demonstrate capabilities in platform design, integration and management services to deliver through-life engineering support
- DAF Trucks
  - Building on our strong track record with Volvo, we have won the DAF Trucks franchise for South Africa
- International civil contracts
  - significant opportunities with multi-national companies for management of mobile asset support

# Future opportunities

| Opportunity | Estimated duration | Estimated start date | Estimated value |
|---|---|---|---|
| Nuclear decommissioning | 20 years | 2012 | c £4bn |
| Military training | 10 years | 2013 – 2015 | up to £3bn |
| Total fleet management | 10 years | 2013 – 2015 | up to £2bn |
| Defence infrastructure | 5 + 5 years | 2012 | c £5.5bn |
| Management of mobile assets | 10 years | 2011 | c £1bn |
| Submarine fleet support, refit, life extension and disposal | 15 years | 2012 - 2017 | c £3bn |
| Education and training | 5 years | 2012 | c £2bn |

# Bid pipeline

- Current bid pipeline (PQQ and ITT) stands at £8.5bn
  - target is £10bn for Nov 11
- New bids make up 68% of the pipeline
- Expect to see continued growth in the pipeline as tracking opportunities move into full bids
- Currently bidding 23 bids in excess of £100m comprising 71% of our pipeline
- Key bids include
  - Equipment support
  - London Fire Brigade training
  - MFTS Fixed Wing Support
  - Vengeance LOP (R)
- Key rebids include
  - Grid Alliance
  - BBC World Service
  - White fleet management
- Next big rebid is NGEC, 2014



# A strong platform for the future

- Current market environment is an opportunity not a threat
- Strong positions in long-term growth markets
- Enhanced capability post VT acquisition
- The right business model
  - demonstrable track record of delivering financial and operational efficiencies
  - strong long-term relationships with key customers
- Excellent financial track record
- The right people to deliver success

# Outlook

- Our markets continue to provide excellent long-term growth prospects with potential for significant further outsourcing opportunities
- Strong platform for growth due to
  - strengthened position post VT
  - the scale of our operations
  - the breadth of our expertise
  - track record of delivering both operational and financial efficiencies
- The Board remains confident in the outlook for the Group
  - excellent long-term visibility through our order book and our bid pipeline
  - involvement in long-term programmes delivering critical support for our customers
- We look forward to making further good progress this year and thereafter


# Questions?

# Appendix

# Statutory to underlying reconciliation

| | Statutory | jv | jv tax | IFRIC 12 | Amortisation of acquired intangibles | Change in tax rate | Exceptional | Underlying |
|---|---|---|---|---|---|---|---|---|
| **2010/11** | | | | | | | | |
| Revenue | **2,755.8** | 138.7 | | | | | | **2,894.5** |
| Operating profit | **157.5** | 9.3 | | 16.0 | 83.4 | | 20.7 | **286.9** |
| Share of profit from jv | **6.1** | (1.0) | 4.1 | (13.8) | 4.6 | | | **0** |
| Investment income | **2.2** | | | (2.2) | | | | **0** |
| Net finance cost | **(50.4)** | (8.3) | | | | | | **(58.7)** |
| Profit before tax | **115.4** | 0 | 4.1 | 0 | 88.0 | 0 | 20.7 | **228.2** |
| Tax | **(10.7)** | | (4.1) | | (25.4) | (2.7) | (3.9) | **(46.8)** |
| Profit after tax | **104.7** | 0 | 0 | 0 | 62.6 | (2.7) | 16.8 | **181.4** |
| | | | | | | | | |
| 2009/10 | | | | | | | | |
| Revenue | **1,895.5** | 27.9 | | | | | | **1,923.4** |
| Operating profit | **148.1** | 0.5 | | | 16.1 | | | **164.7** |
| Share of profit from jv | **(0.5)** | 0.6 | **(0.1)** | | | | | **0** |
| Investment income | **0** | | | | | | | **0** |
| Net finance cost | **(18.4)** | (1.1) | | | | | | **(19.5)** |
| Profit before tax | **129.2** | 0 | **(0.1)** | 0 | 16.1 | 0 | 0 | **145.2** |
| Tax | **(20.8)** | | **0.1** | | (4.5) | | | **(25.2)** |
| Profit after tax | **108.4** | 0 | **0** | 0 | 11.6 | 0 | 0 | **120.0** |

# Segmental analysis

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| | Revenue | | Operating profit | | Operating margin | |
|---|---|---|---|---|---|---|
| | **FY 2010/11 £m** | Pro forma FY 2009/10 £m | **FY 2010/11 £m** | Pro forma FY 2009/10 £m | **FY 2010/11 %** | Pro forma FY 2009/10 % |
| **Marine** | **1,019.5** | 1,014.6 | **119.3** | 119.1 | **11.7** | 11.7 |
| **Defence and Security** | | | | | | |
| group | **381.9** | 505.8 | **54.4** | 68.3 | **14.2** | 13.5 |
| Jv | **87.3** | 109.8 | **18.8** | 18.3 | **21.5** | 16.7 |
| total | **469.2** | 615.6 | **73.2** | 86.6 | **15.6** | 14.1 |
| **Support Services** | | | | | | |
| group | **895.2** | 1,004.7 | **75.3** | 65.4 | **8.4** | 6.5 |
| jv | **51.4** | 40.7 | **4.3** | 0.5 | **8.4** | 1.2 |
| Total | **946.6** | 1,045.4 | **79.6** | 65.9 | **8.4** | 6.3 |
| **International *** | **459.2** | 499.3 | **27.4** | 26.6 | **6.0** | 5.3 |
| Unallocated | **-** | - | **(12.6)** | (16.5) | **-** | - |
| **Total** | | | | | | |
| group | **2,755.8** | 3,024.4 | **263.8** | 262.9 | **9.6** | 8.7 |
| jv | **138.7** | 150.5 | **23.1** | 18.8 | **16.7** | 12.5 |
| total | **2,894.5** | 3,174.9 | **286.9** | 281.7 | **9.9** | 8.9 |
| **Pre acquisition** | **324.2** | | **13.7** | | | |
| **Pro forma 2010/11** | **3,218.7** | | **300.6** | | 9.3 | |

# Defined benefit pensions
## Triennial valuations

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| | Devonport | BIG | Rosyth | VT SIPS | Others |
|---|---|---|---|---|---|
| Last valuation date | 31 March 2008 | 31 March 2010 | 31 March 2009 | 31 March 2010 | Various |
| Next valuation date | 31 March 2011 | 31 March 2013 | 31 March 2012 | 31 March 2013 | Various |
| Surplus/(deficit) £m | (43.0) | (44.0) | (37.0) | (86.0) | (44.0) |
| Level of funding % | 95% | 92% | 90% | 79% | 90% |
| Annual cash contribution from | | | | | |
| • formal valuation £m | 27.0 | 14.0 | 11.9 | 23.6 | 13.2 |
| • longevity swap funding £m | 4.8 | 0.7 | 2.5 | | |
| • prepayment £m | (16.0) | (10.0) | (4.0) | | |
| **Total annual cash contribution £m** | 15.8 | 4.7 | 10.4 | 23.6 | 13.2 |

# Defined benefit pensions IAS 19 sensitivities

| | Balance sheet £m | Income statement £m |
|---|---|---|
| Discount rate<br>0.1% decrease | (43) | (1.2) |
| RPI<br>0.1% increase | (41) | (3.6) |
| Life expectancy<br>1 year increase | (32) | (2.4) |
| Real salaries<br>0.25% increase | (33) | (3.7) |

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